State of California

Accounting Standards and Procedures for Counties

2020 Edition

BETTY T. YEE

California State Controller’s Office

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Accounting Standards and Procedures for Counties
2020 Edition

Published by:

Local Government Policy Unit

California State Controller's Office
Local Government Programs and Services Division

Chapters in keeping with GASB pronouncements in effect for fiscal years beginning 12/15/2019

Appendices providing preliminary guidance on new GASB pronouncements in effect for fiscal years beginning 06/15/2021

Publication date 05/08/2020

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FOREWORD

California Government Code section 30200 requires the State Controller to prescribe uniform accounting procedures for counties. Pursuant to this code section, *the Accounting Standards and Procedures for Counties* (ASP) manual was first issued in 1961.

This manual provides uniform accounting and reporting procedures that conform to Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). Guidance for specific account structure (e.g., account numbers, names, etc.) is left to the discretion of the individual local government as long as the statutory reporting requirements (e.g., Financial Transactions Reports, Apportionments) of the State Controller's Office (SCO) and the requirements within this manual are sufficiently met and satisfied.

The SCO is the legal authority for prescribing uniform accounting and reporting procedures for all local agencies, with the exception of cities, school districts, and those local agencies that follow a system prescribed by the Public Utilities Commission of the State of California or the Federal Energy Regulatory Commission. These are generally referred to as "local government" throughout the manual. While the guidance and examples found in this manual may correlate with SCO Financial Transaction Reporting (FTR) instructions, this manual is not intended as a guide for FTR forms and is not all-inclusive. For detailed FTR guidance, users should refer to the SCO's Local Government Reporting Forms and Instructions, which can be accessed using the following link:

https://www.sco.ca.gov/ard_local_reporting_forms.html

This edition of the manual has been updated to be consistent with the GASB Codification as of November 2019. At that time, the GASB Codification included all GASB Statements up to and including GASB Statement No. 90, *Majority Equity Interests*, with the exceptions of GASB Statement No. 87, *Leases*, and GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. Some preliminary guidance regarding pronouncements or statutes that are not yet effective is presented in Appendix A, *Upcoming Changes*, to assist in preparing for further changes. Additional materials published after GASB Statement No. 90 will be incorporated into future editions of the manual.

Since that time, GASB has issued Statement No. 95 postponing the effective dates for the GASB Pronouncements listed below. Details of this Statement can be found at the GASB website at https://www.gasb.org.

- GASB Statements 83, 84, and 87-92
- Implementation Guides No. 2017-3, 2018-1, 2019-1, 2019-2, and 2019-3

While this manual provides guidance on accounting and reporting procedures, it also contains instances in which legal provisions are cited for reference purposes only. It is up to the local government to determine the applicability of each law for its individual reports. Refer to Chapter 3.05, *Conflicts Between Legal Provisions and GAAP*, for guidance concerning this topic.

The manual provides guidance on uniform charts of accounts, fund structures, functions, activities, and specific accounting procedures for specialized fields. The intent of the manual is to:

- ensure conformance to generally accepted accounting principles (GAAP);
- promote transparency and consistency in financial reporting; and
- facilitate comparison and analysis of financial reports on a statewide basis by minimizing differences between local governments' philosophies, methods, and terminologies.

The manual serves as a guide to aid local governments in the development of accounting and financial systems, provide continuity and consistency with State reporting requirements, answer questions on authority and procedures, provide accounting guidance to meet GAAP reporting and auditing requirements, and assist in accounting evaluations.

The task of revising and/or updating the ASP manual is a cooperative effort between the SCO, the Advisory Committee on County Accounting Procedures, and the State Association of County Auditors Accounting Standards and Procedures Committee. The result of this collaborative effort is a manual that provides counties with current information that is consistent with generally accepted accounting principles.

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Chapter 1: Introduction to County Government

Introduction

The State of California is comprised of 58 counties. According to section 1of Article XI of the California State Constitution, the State is divided into counties, which are legal subdivisions of the State. The counties are generally responsible for elections, property tax collection, and the maintenance of public records (e.g., deeds, etc.). County governments may also provide other services such as property assessment, building inspections, public health, social services, fire protection, and animal control. Refer to additional provisions of Article XI of the California State Constitution and Government Code sections 23000–33205, et al., for more information concerning county responsibilities.

Types of Counties

The California Constitution recognizes two types of counties: general law counties and charter counties. California counties are general law counties by default, but may be chartered according to the provisions in Article XI, Section 3, of the California State Constitution. According to the California State Association of Counties there are 14 counties governed by a charter and 44 general law counties. For more information refer to the California State Association website at https://www.counties.org.

1.01 General Law Counties

General Law counties must adhere to the “general laws” approved by the State Legislature and the governor. These State statutes dictate the number, appointment, duties, and election procedures for county officials. Over time, the Legislature has granted general law counties more structural autonomy, making the adoption of a county charter less attractive and/or advantageous.

1.02 Charter Counties

Charter counties have a limited degree of authority that may provide for, among other things, the:

- election, compensation, terms, removal and salary of the governing board;
- election or appointment, compensation, terms and removal of all county officers (exceptions apply);
- powers and duties of all officers; and
- consolidation and segregation of county offices.

A charter does not give county officials extra authority over local regulations, revenue-raising abilities, budgetary decisions, or intergovernmental relations.

A county may initiate proceedings to enact or revise a charter by ordinance adopted by a majority vote of the members of the governing body or it can be initiated by a petition of qualified electors. Either the elected charter commission, which is required by the ordinance, or the governing body prepare and propose the charter or charter revision.

The proposal is then submitted by the governing body for public vote at either a general or special election. The voter-ratified charter does not take effect until accepted and filed by the Secretary of State.

County Authority

1.03 County Powers

Article XI of the California State Constitution authorizes a county to make and enforce local ordinances that do not conflict with general laws. Among other authorities, a county has the power to sue and be sued, purchase and hold land, manage or dispose of its properties, and levy and collect taxes authorized by law.

Counties must follow State laws that require open meetings, due process, and other procedural requirements, or their actions could be invalidated. On the other hand, where the law does not specifically prescribe a method for how a task must be completed, the county may adopt reasonably suitable procedures.

Many additional powers have been granted to counties by the State Legislature as found in Government Code sections 23000 - 33205. The powers of a county can be exercised only by their board of supervisors or through officers acting under the authority of the Board or other authority that has been conferred by law.

1.04 Board of Supervisors

Under the provisions of Government Code section 25000, each county is required to have a board of supervisors consisting of five members. This statute is applicable to both general law and charter counties, except where the charter provides otherwise; for instance, the City and County of San Francisco has 11 members.

An official act of the board of supervisors can be performed only in a regularly or specially convened meeting. The individual members have no power to act independently for the county merely because they are members of the board of supervisors. Meetings of the board of supervisors are subject to the restrictions and provisions of the Ralph M. Brown Act (Gov. Code, §54950 et seq.). With limited exceptions, the Ralph M. Brown Act requires that all board of supervisors meetings are open to the public and a record of its decisions and the proceedings of all regular and special meetings must be kept. The county clerk, whose duty it is to record all proceedings of the board of supervisors, is the “ex officio” clerk of the board, unless the board appoints its own separate clerk.

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Chapter 2: Governing Standards and Reporting

Introduction

Through the passage of principal acts and special acts, as amended by California legislation, the following statements are applicable to local governments:

- Financial reporting is an essential requirement by law;
- Local governments exist to serve a public purpose and must be held to certain minimum standards of accountability to keep the public, general-purpose local governments, and California State agencies informed of their statuses and activities;
- A function of the reporting requirements is to improve communication and coordination among California State agencies, general-purpose local governments, counties, and special districts; and
- When local governments fail to comply with minimum disclosure requirements, the State of California has the authority to take action to assist the noncomplying local governments to come into compliance. If necessary, legal action may be required to enforce compliance (refer to Gov. Code, §12464).

Statutorily Required Reporting

2.01 Local Government Financial Reporting

Local government financial reporting helps to provide for the timely, accurate, uniform, and cost-effective accumulation of financial and other information. Counties, special districts, municipalities, and California State agencies have vital roles and responsibilities in this system. Members of the Legislature and other officials rely on this information to:

- enhance citizen participation in local government;
- improve the financial condition of local governments;
- provide essential government services in an efficient and effective manner; and
- improve decision-making on the part of the Legislature, California State agencies, and local government officials on matters relating to local government.

Local governments are primarily accountable to the voters who elect their governing bodies and the citizenry who use their services. Additionally, the State of California provides critical oversight to special district operations.

Pursuant to Government Code section 53891, local governments are required to submit annual financial reports to the State Controller consistent with generally accepted accounting principles. Local governments must also follow California State laws pertaining to public meetings, bonded debt, record keeping, and elections. While local governments may maintain accounts best suited to their operations, they should maintain a system that is consistent with the guidelines in this manual.

They are also advised to keep records that readily correlate to the requirements needed to prepare the various State Controller's Office (SCO) required financial reports.

2.02 Legal Disclosures

Listed below are just a few of the statutes that are applicable to all local governments:

- The *Ralph M. Brown Act*: most commonly referred to as The Brown Act, mandates that all meetings of the legislative body of a local government (such as the board of directors/supervisors) shall be open and public, and any member of the public is permitted to attend (refer to Gov. Code, §54950 et seq.);
- The *California Public Records Act*: gives the public the right to access public information in the possession of public agencies, subject to privacy laws (refer to Gov. Code, §6250 et seq.); and
- The *Political Reform Act of 1974*: *the California Fair Political Practices Commission*, formed through the enactment of the Political Reform Act of 1974, requires disclosure of receipts and expenditures (such as gifts, money, or services) by public officials and employees and the filing of reports or statements. The annual filing of Statements of Economic Interest is one such statement to ensure government serves the needs of citizens equally without regard to wealth (refer to Gov. Code, §81000 et seq.).

2.03 Reporting to California State Agencies

California State agencies are responsible for reviewing, interpreting, and summarizing financial information for the public, the Legislature, and other officials. Therefore, each local government must submit the following reports to California State agencies, as applicable:

- The Annual Financial Audit Report
- Financial Transactions Reports
- Bond Reports
- Retirement System Reports
- Government Compensation Report

The California State Controller's Office—Pursuant to Government Code section 12463, every local government in California must report its financial information, as well as the salary and compensation of all staff and board members, to the State Controller every year. The financial information is then published on the State Controller's website for public use.

The County Auditor-Controller's Office—California State law (Gov. Code, §26909) requires special districts to submit to regular audits that are performed by a county auditor or a certified public accountant. These audits are public documents and must be filed with the State Controller's Office, and the County Auditor-Controller.

The California State Treasurer's Office—every local government in California must report its bond sales, and must include a statement indicating the specific purposes of the bond and an annual report to the Public Finance Division of the California State Treasurer pursuant to Government Code section 53410 et seq.

2.04 Reporting between Local Governments

Local governments need certain information to coordinate activities. Therefore, each special district must submit the following to each county government in which it is located:

- Public facilities report;
- Designation of registered office and agent; and
- Regular public meeting schedule.

2.05 LAFCo Reporting Requirements

The Local Agency Formation Commission (LAFCo) is responsible for conducting mandatory reviews to ensure that special districts do not over-step their boundaries by providing services without prior approval, and for recommending the dissolution of any special district that no longer serves its intended purpose.

Special district information must properly classify each district and provide required information to certain California State agencies, all general-purpose local governments, and LAFCo. Each special district must file the following information:

- Creation document (including amendments, if any);
- A written statement referencing the basis for its independent or dependent status (from newly formed special districts); and
- Boundary map (including amendments, if any).

In addition, Government Code section 26909 also requires special districts to submit their audited financial statements to the LAFCo of the county in which the special district is located in. If the special district is located in two or more counties, then the audited financial statement must be provided to each LAFCO within each county in which the district is located.

2.06 Noncomplying Local Governments

A local government that fails, or refuses, to make and file its report(s) within 20 days after receipt of a written notice of the failure from the State Controller's Office, shall receive a penalty in accordance with Government Code section 53895.

When the Attorney General receives notice that a local government has failed to comply with statutorily required reporting, the State Controller's Office will provide technical assistance and, if necessary, initiate enforcement. Upon a satisfactory showing of good cause, the State Controller's Office may waive the penalties for late filing.

In the case of a local government that did not file its required reports or information on time, the State Controller's Office will send a certified letter that summarizes the requirements. The letter will encourage the local government to take steps to prevent the noncompliance from recurring.

In the case of a special district, the State Controller's Office will also send a certified letter to the special district's registered agent and a copy of the letter to the chair of the governing body of the local government; the letter will include the following:

- description of the required report;
- statutory submission deadlines;
- contact telephone number for technical assistance;
- address where the report must be filed; and
- consequences of failing to comply with the requirements.

2.07 Enforcement

The State Controller's Office (SCO) will notify the Attorney General of any local government that failed or refused to file the required reports within 20 days after receiving the SCO's written notice of the failure. At the request of the SCO, the Attorney General will impose one of the following penalties pursuant to Government Code section 53895 et al.:

- One thousand dollars ($1,000), when the local government's total prior year revenue is less than one hundred thousand dollars ($100,000), as reported in the Controller's annual financial reports;
- Two thousand five hundred dollars ($2,500), when the local government's total prior year revenue is at least one hundred thousand dollars ($100,000) but less than two hundred fifty thousand dollars ($250,000), as reported in the Controller's annual financial reports; or
- Five thousand dollars ($5,000), when the local government's total prior year revenue is at least two hundred fifty thousand dollars ($250,000), as reported in the Controller's annual financial reports.

Upon a satisfactory showing of good cause, the State Controller's Office may waive the penalties for late filing.

2.08 Inactive Special Districts

According to Government Code section 56042, a special district is deemed to be inactive if it meets all of the following criteria:

- The special district is as defined in Government Code section 56036;
- The special district has had no financial transactions in the previous fiscal year;
- The special district has no assets and liabilities; and
- The special district has no outstanding debts, judgments, litigation, contracts, liens or claims.

Pursuant to Government Code section 56879.5, if a special district was formed by special legislation that is required by its enabling statute to obtain funding within a specified period of time or be dissolved, the special district shall not be regarded as an inactive special district during that specified period of time. For more information on inactive special districts, refer to Government Code section 56879.

2.09 Minimum Requirements for Special Districts

Special districts should maintain a carefully kept, readable checkbook that has been reconciled to the bank statements. The following checkbook tasks should be performed:

- All money coming into the special district should be deposited into the special district bank account and recorded in the accounting records.
- Payments should not be made using cash on hand unless the cash is part of a properly established petty cash fund.
- A running checkbook balance should be kept and all entries made in the checkbook should be immediate so nothing is forgotten, clearly documented, and well explained (e.g.; it is not necessary to write "Deposit" because that is obvious from the column it is placed in, but it is necessary to explain where it came from and what it was for).
- The checkbook should be reconciled monthly to the bank statement.

The legislative body of the special district may adopt a resolution for the destruction or disposition of its categorized records or adopt and comply with a record retention schedule that complies with guidelines provided by the California Secretary of State (refer to section 2.12, *Documentation and Retention* for more information).

For special districts in which the checkbook may be the official financial record, the checkbook should be kept in a secure location.

2.10 Other Uniform Systems of Accounts

In the preparation of financial statements, local governments must determine if other guidance (accounting or statutory) supersedes the guidance found in this manual. Local governments should maintain their accounting systems on a legal compliance basis, but they should also maintain sufficient additional reports to permit reporting according to the GAAP guidelines.

The discussion provided in this chapter section is for guidance only and contains general recommendations. This chapter section is not an all-inclusive list of other accounting or statutory provisions that may be applicable to local governments.

Public Utility Districts

Pursuant to Government Code section 53891(b), local governments that substantially follow a system of accounting prescribed by the Public Utilities Commission of the State of California (CPUC) or the Federal Energy Regulatory Commission are not required to follow the accounting procedures prescribed in this manual.

According to Public Utilities Code section 216(a), a *public utility* "includes every common carrier, toll bridge corporation, pipeline corporation, gas corporation, electrical corporation, telephone corporation, telegraph corporation, water corporation, sewer system corporation and heat corporation, where the service is performed for, or the commodity is delivered to, the public or any portion thereof."

To review accounting guidance prescribed by the CPUC, refer to its website at https://www.cpuc.ca.gov/

To review accounting guidance prescribed by the Federal Energy Regulatory Commission, refer to their website at: https://www.ferc.gov.

Transit Districts

Pursuant to Public Utilities Code section 99243, special districts engaged in transit operations (transit districts) should refer to the *State Controller's Uniform System of Accounts for Public Transit Operators* (Transit Operators) manual, which can be found on the California State Controller's website at https://www.sco.ca.gov, for guidance on accounting and reporting procedures.

Local governments may also refer to the Federal Transit Administration's (FTA)—*Uniform Systems of Accounts* publication on the FTA website at https://www.transit.dot.gov, for supplemental guidance on their accounting procedures.

Hospital Districts

California Health and Safety Code section 128675, et seq., provides legal guidance for handling health data and requires local governments that operate health facilities to follow the uniform system of accounting and reporting prescribed by the California Office of Statewide Health Planning and Development (OSPHD).

Refer to the OSHPD's website, at https://oshpd.ca.gov, to view the *Accounting and Reporting Manual for California Hospitals*.

Municipal Utility District Act California Law

Pursuant to Public Utilities Code section 11881 et seq., water and electric distribution districts formed under the California Municipal Utility District Act may follow the appropriate Uniform System of Accounts prescribed by the California Public Utilities Commission (CPUC). For more information refer to the CPUC's website at https://www.cpuc.ca.gov/.

2.11 Internal Controls

All accounting systems should contain appropriate internal controls for both the system function and all elements of accounting. Development of either manual or automated financial systems should provide for a methodology for review by qualified auditing personnel to verify the adequacy of the accounting procedures, internal controls, and audit trails. Refer to the internal control guidelines for local agencies (governments) available at the SCO's website at https://sco.ca.gov/pubs_guides.html (scroll down to the "Other" section).

The systems covered should not only include financial accounting systems, but also non-accounting systems with financial accounting elements.

2.12 Documentation and Retention

All financial transactions and records are subject to audit and should be well documented to provide a complete audit trail. Expenditures, for example, should be adequately supported by purchase agreements (purchase order, contract), invoices, bills of lading, inventory records, or similar support.

The purchase agreement should be properly authorized and approved, verifying that it is supported by both budget requirements and legal authority for the expenditure. It should also identify an agreed-upon price and other expectations for a deliverable. The invoice should then match the amount on the purchase agreement before payment is made. Payment should also be supported with a bill of lading, showing the delivery was made and correctly charged, and the inventory receipt record should further support that the delivery was properly controlled on site.

Records should be maintained and disposed of as required by applicable laws and regulations, with internal controls and transparency in mind. According to Government Code section 12236, the Secretary of State administers the Local Government Records Program, which provides the minimum guidelines for local government records maintenance and retention. These guidelines can be found in the California State Archives section of the Secretary of State's (SOS) website at https://www.sos.ca.gov/archives/ (click on the link on the SOS page for "Local Government Records Management").

Federal, State, and local agencies may have additional specific guidelines for documentation and retention (e.g., grants, etc.). It is the responsibility of each local government to ensure that they are in compliance with any applicable requirements.

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ACCOUNTING PRINCIPLES

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Chapter 3: Governmental Accounting Principles

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Chapter 3: Governmental Accounting Principles

Introduction

The guidelines in this manual are consistent with and in accordance to governmental Generally Accepted Accounting Principles (GAAP). The Governmental Accounting Standards Board (GASB), established as an arm of the Financial Accounting Foundation in April 1984, was created to promulgate standards of financial accounting and reporting on activities and transactions of governments and is the source of authoritative governmental GAAP for California local governments. Refer to Chapter 3.04, *Generally Accepted Accounting Principles* (GAAP) for specific information on this topic.

The standards established by GASB provide guidance in accounting and reporting for governmental operations. Government operations that are similar to business enterprises closely parallel commercial accounting and reporting.

The GASB provides governmental accounting and reporting standards through the issuance of GASB Pronouncements. These pronouncements have required numerous changes to the manual. A complete listing of all GASB Pronouncements is located on the GASB website, which can be accessed using the following link: http://www.gasb.org

Legal provisions sometimes conflict with GAAP; however, such conflicts do not require maintaining two accounting systems. The accounting system may be maintained on a legal compliance basis, but should include sufficient additional records to permit GAAP-based reporting.

A government accounting system should make it possible to both:

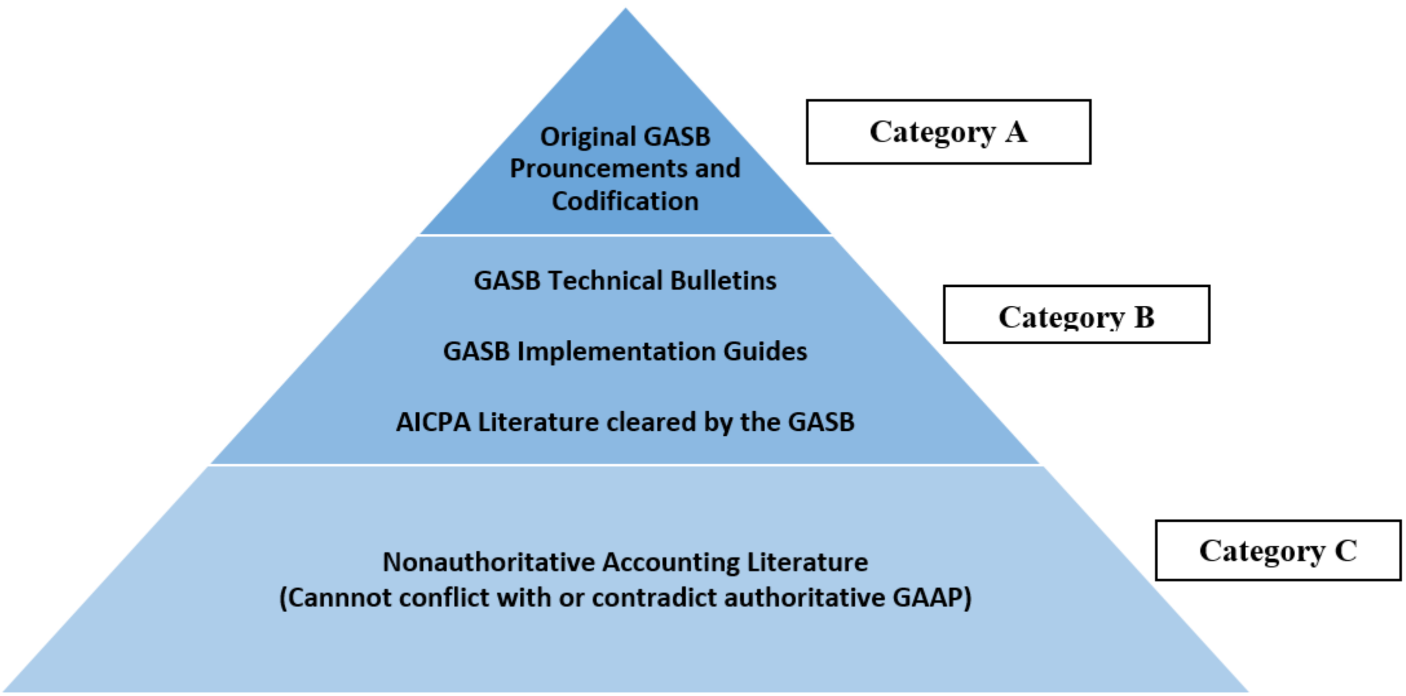
A) present fairly and with full disclosure the funds and activities of the governmental unit in conformity with generally accepted accounting principles; and
B) determine and demonstrate compliance with finance-related legal and contractual provisions.

In California, there are few, if any, provisions of general statutory law that conflict with GAAP. However, if a conflict does exist, financial statements should still be prepared in conformance with GAAP. In situations where legal provisions conflict with GAAP, legal basis data is typically reflected in the accounts and in the budgetary statements, and are used as the starting point for deriving statements prepared in conformity with GAAP. Refer to Chapter 3.05, *Conflicts between Legal Provisions and GAAP*, for specific information on this topic.

Basic Governmental Accounting Principles

3.01 GAAP Hierarchy

The hierarchy levels of authoritative GAAP guidance are displayed in the following pyramid and table.



Legend Table—GAAP Hierarchy

Legend	**Definition**
Category A	Accounting literature officially established by the Governmental Accounting Standards Board (GASB), including original GASB Pronouncements and Codification.
Category B	GASB Technical Bulletins, Implementation Guides, and American Institute of Certified Public Accountants (AICPA) literature cleared by the GASB.
Category C	Nonauthoritative literature that does not conflict with or contradict authoritative GAAP listed in the above categories. This would include GASB literature that is outside of categories A and B.

3.02 Fundamental Principles

Below is a list of basic and fundamental principles of accounting and reporting that are applicable for local governments when choosing to apply fund-based accounting as integrated into the GASB Codification of Governmental Accounting and Financial Reporting Standards. These principals are covered in detail throughout the manual:

- Accounting and Reporting Capabilities
- Fund Types
- Fund Accounting Systems
- Number of Funds
- Reporting Capital Assets
- Valuation of Capital Assets
- Depreciation of Capital Assets
- Reporting Long-Term Liabilities
- Measurement Focus and Basis of Accounting
- Government-Wide Financial Statements
- Fund Financial Statements
- Budgeting, Budgetary Control, and Budgetary Reporting
- Transfer, Revenue, and Expenditure Account Classification
- Common Terminology and Classification
- Interim and Annual Financial Reports

Financial statements and other reports should be prepared as needed to facilitate management control of financial operations, legislative oversight, and, where necessary or desired, for external reporting purposes.

3.03 Use of Accounts

There is no generic set of accounts that is applicable to all local governments. Organizations should structure accounts (accounting systems) according to their own internal reporting needs and requirements. Where appropriate, local governments may supplement the suggested classifications in this manual with additional account titles in order to meet the needs of their management and reporting requirements. Additionally, local governments do not need to incorporate all of the accounts prescribed in this manual when designing their accounting systems. The numbering system used in this manual is for illustrative purposes only and each local government should devise its own account coding system consistent with its accounting needs.

A local government should keep in mind its individual purpose and the legislation that directs its functions when designing its chart of accounts. For example, a police district will have accounts related to public safety; a cemetery district would not use the same chart of accounts, as its primary function does not involve public protection.

3.04 Generally Accepted Accounting Principles

Generally Accepted Accounting Principles (GAAP) are uniform minimum standards and guidelines for financial accounting and reporting. They provide a foundation for recording and reporting financial transactions. The resulting standardization of financial statements allow comparability and consistency between governmental entities across reporting periods, making them more reliable for end users.

The Governmental Accounting Standards Board (GASB) Codification and original pronouncements, as amended, are the authoritative sources of U.S. GAAP. According to the Financial Accounting Foundation (FAF), "The GASB establishes accounting and financial reporting standards for U.S. state and local governments that follow GAAP." The FAF also states that "GAAP-based financial information enables rating agencies to compare governments, while helping investors obtain more comprehensive and reliable information on a government's finances."

3.05 Conflicts between Legal Provisions and GAAP

As stated previously, legal provisions sometimes conflict with GAAP. For example, the law may require that both operating and capital expenditures for a designated general governmental function be paid from and accounted for through the general fund, even though long-term borrowing is being used to finance the capital expenditures. A legal provision of this type violates the GAAP principle that capital outlays of this nature, which are being financed from general obligation bond proceeds, should be accounted for through a capital projects fund. When these types of conflicts occur, the basic financial statements should be prepared in conformity with GAAP.

Additional schedules and narrative explanations should be included in the Comprehensive Annual Financial Report (CAFR) to identify and explain any differences between GAAP and the legal requirements. The accounting system may be maintained on a legal compliance basis if sufficient records are included to permit reporting in accordance with GAAP.

3.06 Legal and Contractual Restrictions

The entire pattern of governmental organizational structure, operations, accounting, auditing, and financial reporting is dictated by a combination of federal, state, and local laws and other legislative, administrative, and judicial determinations. A thorough working knowledge of the legal requirements to which a local government is subject is a prerequisite for understanding its operation and financial affairs.

3.07 The Accounting Cycle

Accounting fundamentals are part of the process for recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events of the financial character of a local government. The recording and processing of accounting data follows the cycle indicated in the following diagram:

Uniformity

In order to ensure comparability from year to year and between governments, the systems and procedures prescribed in this manual provide uniformity and are applicable to all California local governments.

Materiality

An item may be considered material if the improper recording of the item would have a noticeable impact on the financial statements. For example, a common measure for determining whether a misstatement was material to the statement of activity (operations) is to determine whether the amount of the misstatement was more than an established percentage of the net increase or decrease in the net assets.

Source Documents

Transactions are first evidenced by a source document, such as a deposit permit, purchase order, invoice, warrant, or journal voucher, along with any other supporting documentation. Source documents are the first record of a financial transaction; they serve to initiate the accounting cycle.

Journals

A *journal* (or register) is a book or form in which financial transactions are recorded. A single journal is usually limited to recording the transactions represented by a specific type of source document, such as a:

- check register records all checks;
- deposit register records all deposit; and
- general journal records all general journal entries.

Today, local governments can use accounting systems that have the ability to record multiple journal entries. In order to ensure completeness of the record and to assist in its audit, source documents should be either pre-numbered or numbered as prepared. It is also helpful if the source documents being journalized are recorded in numerical order. Some journals may also serve as a means of classification. For example, a check register may classify checks according to the fund or fund group against which they are drawn.

General Ledgers

A *general ledger* receives postings from the general journals, along with summarized totals from subsidiary ledgers. The general ledger summarizes all transactions of a given organization or operating unit for presentation in the financial statements. Funds in the general ledger are a subset of financial books and have their own assets, liabilities, revenue, expenses, and fund balances.

Subsidiary Ledgers

As the general ledger holds all the historical journal entries, some key general ledger accounts become so complex that a separate ledger, or subsidiary ledger, is needed to keep track of its transactions. A subsidiary ledger is any group of accounts, the sum of the balances of which is equal to the balance of the control account. Ledgers may be subsidiary to a general ledger control account or they may be subsidiary to an accounting in another subsidiary ledger.

For example, the general ledger for a local government entity, such as the Sacramento Municipal Utility District (SMUD), might include only one accounts receivable account for purposes of recording utility bills not paid, yet it may have thousands of customers. It would be necessary for SMUD to create a subsidiary ledger to hold each customer's account and include the grand total of that ledger in the general ledger.

Control Account	Subsidiary Ledger
Expenditures	Expenditure Ledger
Revenues	Revenue Ledger
Taxes Receivable—Current—Secured	Current Secured Tax Roll
Fixed Assets	Fixed Assets—Building and Fixed Assets—Motor Vehicles

Trial Balance

A *trial balance* is a comparison of the debit balances in a general ledger, with a similar listing of the credit balances. If the two are equal, the accounts are said to be in balance. This process substantiates that both the debit and the credit effects of all recorded transactions have been posted to the general ledger. The term trial balance is also used to designate the act of totaling all balances in a subsidiary ledger and comparing the sum with the balance of the related control account.

Journal Entries

A *journal entry* is a logging of transactions into an account record keeping system. It is a concise method of expressing the accounting effect of a transaction. The journal entry can consist of several recordings, each of which is either a debit or credit. Account names and the amounts to be posted are shown to be either debits or credits by their relative position, rather than by a written designation. The total of the debits should equal the total of the credits or the general journal entry is said to be "out of balance".

The standard journal entry format used in this manual is shown below:

Example—Sales journal entry:

Account Names	**Debits**	**Credits**	**Debits**	**Credits**
	Subsidiary Ledger		General Ledger	
General ledger accounts debited			X	
General ledger accounts credited				X
Subsidiary ledger accounts debited	X			
Subsidiary ledger accounts credited		X		

Description	**Sales Credit (DR)**	**Sales (CR)**	**Balance**	**Debits**	**Credits**
Sales Journal Entries:	Sales Journal, December			General Ledger	
12/10 Johnson Sale, Lot		60,000			
12/15 Singh Sale, Condominium		345,000			
12/15 Singh Sales Credit, Condo 10% promo	34,500				
Total Monthly Sales Journal	34,500	405,000	370,500		
Post Monthly Journal to Ledger:					
Debit Accounts Receivable, Dec Sales				370,500	
Credit Sales Account, Dec Sales					370,500

Examples—Subsidiary ledger journal entries:

If subsidiary accounts are involved, the total of their debit or credit postings should roll up to the related general ledger control account. The following entry shows that the general ledger Cash account is debited $40,000, and the Revenues control account is credited $40,000.

In the subsidiary revenue ledger, the accounts Revenues—Property Taxes—Prior Year—Secured and Revenues—Property Taxes—Prior Year—Unsecured are credited $39,000 and $1,000, respectively.

Account Names	Debits	Credits	Debits	Credits
	Subsidiary Ledger		General Ledger	
Cash	$ 40,000		$ 40,000	
Revenues—Property Taxes				$ 40,000
Revenues—Property Taxes—Prior Year—Secured		$ 39,000		
Revenues—Property Taxes—Prior Year—Unsecured		1,000		
(Receipt of Apportioned Taxes)				

The following journal entry example shows that the general ledger account Office Supplies and Non-Capitalized Equipment is debited $470 and the Cash account is credited $470. In the subsidiary ledger, the Office Supplies account is debited $150, and the Surveyor's Minor Equipment account is debited $320. In actual practice, the journal entry will probably be used in this form only in the general ledger.

Account Names	Debits	Credits	Debits	Credits
	Subsidiary Ledger		General Ledger	
Office Supplies and Non Capitalized Equipment			$ 470	
Cash		$ 470		$ 470
Office Supplies	$ 150			
Surveyor—Minor Equipment	320			
(Purchases by Treasurer and Surveyor)				

Electronic Methods

The formal journals and ledgers associated with manual processing are often unseen by the user in computer-posted records. Transactions are updated and stored in data tables in the background of the accounting system rather than physical books of original entry. Even though the journal transactions are performed electronically, the details of the accounting cycle remain unchanged.

Chapter 4: Basis of Accounting

Chapter Contents

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Chapter 4: Basis of Accounting

Introduction

The *basis of accounting*, according to GASB Cod. Sec. 1600.101 (Section 1600, paragraph .101), "refers to when revenues, expenditures, expenses, and transfers—and assets, deferred outflows of resources, liabilities, and deferred inflows of resources—are recognized in the accounts and reported in the financial statements."

Simply put, the *basis of accounting* is related to the timing of the measurement made, regardless of the nature of the measurement. The types are:

- modified accrual basis;
- full accrual basis; and
- cash basis.

The accounting basis most used by local governments is the modified accrual basis. Under this accounting basis, revenues are recognized when they become available and measurable, and expenditures are recognized when liabilities are incurred and due in the measurement period.

In contrast, the full accrual basis of accounting recognizes revenues when they are earned, regardless of when they are received. Unlike the modified accrual basis, expenses are recorded at the time the liability is incurred, regardless of when it is due. Under the cash basis of accounting, transactions are recognized only upon the exchange of cash. Revenues are not recognized until cash is received and expenses are not recognized until they are paid.

In fund financial statements, governmental funds should be accounted for using the modified accrual basis. Proprietary and fiduciary funds should be accounted for using full accrual basis. In government-wide financial statements, all fund types are reported on the full accrual basis. The following sections will discuss both the full accrual basis and the modified accrual basis in more detail.

Accrual Basis and Measurement Focus

4.01 Modified Accrual Basis

The modified accrual basis differs from the full accrual basis in that revenues are recognized when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized when incurred, except:

- Inventories may be expenditures when either purchased or used; however, significant inventories should be reported.
- Principal and interest on long-term debt are usually recognized when due.
- Prepaid expenditures extending over more than one accounting period may be accounted for as expenditures when acquired instead of being allocated between accounting periods.

As previously stated, the modified basis of accrual recognizes revenues and other financial resources (e.g., bond issue proceeds) in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. The term *available* means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The term *measurable* refers to the ability to reasonably, and with some certainty, compute the actual revenue or expenditure.

Revenues and other increases in governmental fund financial resources that usually can and should be recorded on the modified accrual basis include property taxes, regularly billed charges for inspection or other routinely provided services, most grants from other governments, interfund transfers, and other reasonably estimated transactions. Fines and forfeitures, golf and swimming fees, inspection charges, parking fees and parking meter receipts, and the vast multitude of miscellaneous revenues are best recognized when cash is received.

Property taxes or other imposed revenues may be collected in advance of the fiscal year to which they apply. Such prepayments of imposed nonexchange revenues should initially be recorded as a deferred inflow of resources and recognized as revenue in the period for which they are levied.

4.02 Full Accrual Basis

The full accrual basis of accounting is used for preparing non-governmental (proprietary and fiduciary) fund statements and the government-wide statements. Under the full accrual basis of accounting, most transactions are recorded when they occur, regardless of when cash is received or disbursed.

Governmental Fund Financial Statements	Non-governmental and Government-Wide Financial Statements
Cash flow should occur within a short enough period(s) to affect current spendable resources. Revenues should be both measurable and available, and expenditures are generally recognized when they are expected to draw upon current spendable resources.	Revenue/gain or expense/loss recognized when they affect economic resources, regardless of cash flow.

4.03 Measurement Focus

Economic Focus: Operational accounting focuses on reporting economic activity, which includes both capital and financial resources. It recognizes economic transactions as events occur rather than when outflows of cash and other financial resources take place. This focus is referred to as the *economic resources measurement focus*, which utilizes the full accrual basis of accounting. Operations are charged in the period when goods and services are used or consumed, referred to as the *consumption method* in accounting. The economic measurement focus provides for a more comparable and objective view of governments costs.

Fiscal Focus: Governmental accounting, on the other hand, focuses more on fiscal accountability, compliance, and budgetary controls. Operational accounting is incompatible with fiscal accountability and the reporting of existing funds and current expenditures is necessary for the management and control of limited budgets. In order to facilitate that control and public information, the receipt and uses of current resources are recognized. This focus is referred to as the *current financial resources measurement focus*, which utilizes the modified accrual basis of accounting.

Reporting: Governmental fund revenues and expenditures should be recognized using the current financial resources measurement focus (modified accrual basis) in order to provide the appropriate indicators of fiscal responsibility regarding public moneys in the financial statements. Non-governmental funds (proprietary and fiduciary funds) should be recognized using the economic resources measurement focus (full accrual basis) since these entities are self-supporting through operational activities and not public moneys. The government as a whole is represented on an operational basis in the government-wide statements, using the economic resources measurement focus (full accrual basis). This provides overall comparability to both commercial and public operations worldwide.

Governmental Fund Financial Statements	Non-governmental and Government-Wide Financial Statements
Flow of current financial resources—Modified Accrual	Flow of economic resources—Full Accrual
Are there more or less resources that can will be spent or received in the near future as a result of events and transactions of the current period?	Will the local government be better or worse off economically as a result of events and transactions of the period?
Increase in spendable resources—revenue or other financing sources	Events and transactions that improve the economic position—revenues or gains
Decrease in spendable resources—expenditures and other financing uses	Events and transactions that diminish economic position—expenses or losses

Following are situations that illustrate the differences between the two types of measurement focus described above:

Receipt of Long-Term Bond Proceeds	
Governmental Fund Financial Statements	**Non-governmental and Government-Wide Financial Statements**
Increase in spendable resources DR Cash CR Other Financing Sources	Economic position not improved DR Cash CR Bonds Payable (Activity Statement only)

Repayment of Long-Term Bond Debt	
Governmental Fund Financial Statements	**Non-governmental and Government-Wide Financial Statements**
Decrease in spendable resources DR Expenditure CR Cash	Economic position not diminished DR Bonds Payable CR Cash

Capital Acquisition	
Governmental Fund Financial Statements	**Non-governmental and Government-Wide Financial Statements**
Decrease in spendable resources DR Capital Outlay Expenditure CR Cash	Economic position not diminished DR Equipment CR Cash

Depreciation of Capital Assets	
Governmental Fund Financial Statements	**Non-governmental and Government-Wide Financial Statements**
No effect on spendable resources Depreciation is not recognized	Economic position diminished DR Depreciation Expense CR Accumulated Depreciation

Amortization of Deferred Outflows	
Governmental Fund Financial Statements	**Non-governmental and Government-Wide Financial Statements**
No effect on spendable resources Entire outflow is recognized in the prior period	Economic position diminished only by the expense for the benefited period DR Amortization Expense CR Deferred Outflows *Expenses allocated over the entire period of benefit.*

Chapter 5: Fund Accounting

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Chapter 5: Fund Accounting

Introduction

Governmental accounting systems should be organized and operated on a fund basis. According to GASB Cod. Section 1300, *Statements of Principle*, a *fund* is defined as:

> An independent fiscal and accounting entity with a self-balancing set of accounts which record cash and other financial resources, together with all related liabilities and transfers or balances, and changes therein. Funds are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Unlike private business, which is accounted for as a single entity, a governmental unit is accounted for through several separate fund entities as discussed in GASB Cod. Sec. 1300.101 (Section 1300, paragraph .101). Each of these funds accounts for assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position or fund balance within each fund. Fund accounting systems not only need to be capable of recording the day-to-day transactions in the appropriate funds, but should also facilitate the preparation of the basic financial statements. These basic financial statements require both government-wide and fund reporting for government entities.

Additionally, fund financial statements should be used to report additional and detailed information with regard to the primary government entity, including its blended component units. The focus of fund financial statements is on major funds.

Fund Accounting Systems

5.01 Fund Types

Local governments should report governmental, proprietary, and fiduciary funds to the extent that they have activities that meet the criteria for using those types of funds.

Funds	Definition
Governmental Funds account for most governmental functions. Reporting for governmental funds focuses primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation.	
General	To account for all financial resources under the control of the local government except those required to be accounted for in another fund. Only used if no other fund is applicable and/or appropriate.
Special Revenue	To account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditure for specified purposes.
Capital Projects	To account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).
Debt Service	To account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Funds	Definition
Permanent	To account for received resources from other parties, whereby the use of the resources is restricted to the extent that only earnings, and not principal, may be used for purposes that support the local government's programs.
Proprietary Funds account for a government's ongoing activities that are similar to those found in the private sector. Reporting for proprietary funds focuses on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows.	
Enterprise	To account for operations (a) that are financed and operated in a manner similar to private business enterprises—where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.
Internal Service	To account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis.
Fiduciary Funds account for assets held by a governmental unit in a trustee or agent capacity. Reporting for fiduciary funds focuses on net position and changes in net position and should also be used to report fiduciary activities, as discussed in GASB Cod. Sec. 1300.102c (Section 1300, paragraph .102c) and GASB Cod. Sec. 1300.138 - .134 (Section 1300, paragraph .128 - .134).	
Trust(s) and Custodial	To account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations other governmental units, or other funds. These funds include: • Pension (and Other Employee Benefit) Trust Funds; • Investment Trust Funds; • Private Purpose Trust Funds; and • Custodial Funds.

5.02 Number of Funds

As discussed in GASB Cod. Section 1300, *Statements of Principle*, governmental units should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds or accounts necessary to be consistent with legal and operating requirements should be established. The use of unnecessary funds or accounts may result in inflexibility, undue complexity, and inefficient economical financial administration.

Governmental accounting and financial reporting requirements are intended to provide assurance that available governmental resources are controlled and spent in accordance with the organization's spending, product and service delivery decisions, and a variety of legal and contractual provisions. The general rule is to establish the minimum number of separate funds consistent with legal specifications, operational requirements, and the principles of fund classification."

As described in GASB Cod. Sec. 1300.101 (Section 1300, paragraph .101):

> The diverse nature of governmental operations and the necessity of assuring legal compliance preclude recording and summarizing all governmental financial transactions and balances in a single accounting entity. Unlike a private business, which is accounted for as a single entity, a governmental unit is accounted for through several separate fund entities, each accounting for designated assets, liabilities, and equity or other balances. Thus, from an accounting and financial management viewpoint, a governmental unit is a combination of several distinctly different fiscal and accounting entities, each having a separate set of accounts and functioning independently.

Governmental Environment

5.03 Fund Categories

Governmental funds, as discussed in GASB Cod. Sec. 1300.102a (Section 1300, paragraph .102a), are primarily focused on the sources, uses, and balances of current financial resources and often have a budgetary orientation. Current financial resources are those assets that are expendable during a budgetary period and they are often segregated into a specific governmental fund based on restrictions imposed by outside authorities or parties, or strategies established by internal management. Liabilities of a governmental fund are obligations that will be paid from the current period resources held by that particular fund.

According to GASB Cod. Sec. 1300.102a (Section 1300, paragraph .102a), financial statements for governmental funds should be presented using the current financial resources measurement focus and the modified accrual basis of accounting. The governmental fund category includes the general fund, special revenue funds, capital projects funds, debt service funds, and permanent funds.

Proprietary funds, as discussed in GASB Cod. Sec. 1300.102b (Section 1300, paragraph .102b), are primarily focused on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. They are used to account for local government activities similar to those that may be performed by commercial enterprise-type organizations.

According to the provisions of GASB Cod. Section 1300.102b (Section 1300, paragraph .102b), the required financial statements for proprietary funds are a statement of net position; a statement of revenues, expenses, and changes in fund net position; and a statement of cash flows. These financial statements should be reported using the full accrual basis of accounting and the economic resources measurement focus. The proprietary fund category includes enterprise and internal service funds.

Fiduciary funds, as discussed in GASB Cod. Sec. 1300.102c (Section 1300, paragraph .102c), are primarily focused on net position and changes in net position. They are used to account for assets held by a local government for other parties (either as a trustee or as an agent) and that cannot be used to finance the local government's own operating programs.

According to the provisions of GASB Cod. Section 1300.102c (Section 1300, paragraph .102c), the required financial statements for fiduciary funds are the statement of fiduciary net position and the statement of changes in fiduciary net position. These financial statements should include information about all fiduciary funds of the primary government, including fiduciary component units.

As stated in GASB Cod. Section 1300.102c (Section 1300, paragraph .102c), fiduciary funds should be reported using the full accrual basis of accounting and the economic resources measurement focus. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and custodial funds. Custodial funds are distinguished from the three types of trust funds by the existence of a trust agreement or equivalent arrangement that has certain characteristics.

Fund Balance, as discussed in GASB Cod. Sec. 1300.102a (Section 1300, paragraph .102a), is the fund equity. It is the difference between governmental fund assets and deferred outflows of resources, and liabilities and deferred inflows of resources.

Governmental Funds

Governmental funds are based on the following accounting relationship:

Assets + Deferred Outflows of Resources = Liabilities + Deferred Inflows of Resources + Fund Balance

As previously discussed, the Governmental Fund category includes the General Fund, Special Revenue Funds, Capital Projects Funds, Debt Service Funds, and Permanent Funds and account for the current operating expenditures of the local government. The guidelines for the five types of governmental funds are stated in GASB Cod. Sec. 1300.104 - .108 (Section 1300, paragraphs .104 - .108).

The **general fund** is used to account for and report all financial resources not accounted for and reported in another fund. There is only one general fund and it should only be used if no other fund is applicable and/or appropriate.

Special revenue funds are used to account for and report proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Finally, Permanent Funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that are for the benefit of the reporting government or its citizenry.

Permanent funds are used to account for and report financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs—that is, for the benefit of the government or its citizenry. Permanent funds do not include private-purpose trust funds.

Proprietary Funds

Proprietary funds include enterprise funds and internal service funds. Funds in this category are considered self-supporting in that the services they render are generally financed through user charges or on a cost reimbursement basis. Proprietary funds (as well as fiduciary and government-wide financial statements) are based on the following accounting relationship:

(Assets + Deferred Outflows of Resources) – (Liabilities + Deferred Inflows of Resources) = Net Position

This accounting relationship can also be displayed in a balance sheet format as:

Assets + Deferred Outflows of Resources = Liabilities + Deferred Inflows of Resources + Net Position

According to the provisions of GASB Cod. Sec. 1300.109 - .110 (Section 1300, paragraphs .109 - .110), the *enterprise fund* category is used to report any activity for which a fee is charged to external users for goods or services. According to GASB activities are required to be reported as enterprise funds if any one of the GASB criteria below for an enterprise activity is met.

> Governments should apply each of following criteria in the context of the activity's principal revenue sources:
>
> a) The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)
> b) Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
> c) The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Internal service fund category is used to report any activity that provides goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis. Internal service funds should be used only if the reporting government is the predominant participant in the activity.

Fiduciary Funds

Fiduciary funds focus on net position and changes in net position. These funds are used to report assets held in a trust or agency capacity for others and, therefore, cannot be used to support the government's own programs. Fiduciary funds include pension (and other employee benefits) trust funds, investment trust funds, private-purpose trust funds, and custodial funds.

Fiduciary funds (as well as proprietary and government-wide financial statements) are based on the following accounting relationship:

(Assets + Deferred Outflows of Resources) – (Liabilities + Deferred Inflows of Resources) = Net Position

This accounting relationship can also be displayed in a balance sheet format as:

Assets + Deferred Outflows of Resources = Liabilities + Deferred Inflows of Resources + Net Position

Resources held in trust for the benefit of the agency's own programs, taxes, or individuals are accounted for in a governmental or proprietary fund rather than a fiduciary fund. Fiduciary funds are required to report net position as the difference between assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources. The three components of net position (restricted, net investment in capital assets, and unrestricted) are not required to be presented in the statement of fiduciary net position.

According to GASB Cod. Sec. 1300.115 (Section 1300, paragraph .115), the *custodial fund category* is used to "report fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds."

The three categories of trust funds should be used to report resources held and administered by the reporting government when it is acting in a fiduciary capacity for individuals, private organizations, or other governments. As stated earlier in this section, the trust funds are distinguished from custodial funds by the existence of a trust agreement that affects the degree of management involvement and the length of time that the resources are held. The three categories of trust funds are:

- *Pension (and Other Employee Benefit) Trust Funds*—used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans, or other employee benefit plans.

- *Investment Trust Funds*—used to report the external portion of investment pools reported by the sponsoring government, as required by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended, paragraph 18.

- *Private-Purpose Trust Funds*—used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments (such as a fund used to report escheat property).

The following table presents a description and examples for the fiduciary fund classification:

Classification	Includes	Examples
Pension (and other employee benefit) Trust Funds	Funds accounting for locally-administered retirement systems.	• 1937 Act Retirement Funds • Defined Contribution Plans • Defined Benefit Plans
Investment Trust Funds	Amounts managed by the local government treasury for the external pool participants.	• School Districts • Other Local Government Entities • Trial Courts
Private-Purpose Trust Funds	Amounts held by a local government entity under which the principal and income benefit individuals, private organizations, or other governments.	• When legally mandated or under a formal trust agreement
Custodial Funds	Only assets held for specific persons or entities.	• Taxes withheld • Interest • Tax-defaulted Land Rentals • In-lieu Monies • Payroll Clearing Funds • Tax Redemption Fees • Inheritance Taxes • Fines, Forfeits, and Penalties • Sales and Use Tax Clearing Fund • Withholding Tax • Credit Union Deduction • State Retirement System

5.04 Fund Category Tables and Examples

General Fund

Category	Governmental
Purpose	To account for and report all financial resources under the control of the local government except those required to be accounted for in another fund. Only used if no other fund is applicable and/or appropriate.
Basis of Accounting	Modified Accrual Basis.
Primary Means of Spending Control	Annual budget appropriation limitations.
Usual Financing Sources	All sources except bonds.
Measurement Focus	Flow of current financial resources.
Specific Accounting Treatment	Capital asset purchases are expenditures. Capital assets and long-term liabilities are not recorded in the general fund.

Special Revenue Funds

Category	Governmental
Purpose	To account for and report the proceeds of specific revenue sources (other than an expendable trust or for major capital projects) that are legally restricted to expenditure for specified purposes.
Basis of Accounting	Modified Accrual Basis.
Primary Means of Spending Control	Annual budget appropriation limitations.
Usual Financing Sources	Legally or contractually identified revenues.
Measurement Focus	Flow of current financial resources.
Specific Accounting Treatment	Capital asset purchases are expenditures. Capital assets and long-term liabilities are not recorded in this fund. Special revenue funds are not required unless legally or contractually mandated. Accounting for funds of insignificant amounts may be consolidated as long as the expenditures, revenues, and balance sheet or statement of net position accounts can be identified with the specific revenues, respectively.

Capital Projects Funds

Category	Governmental
Purpose	Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.
Basis of Accounting	Modified Accrual Basis.
Primary Means of Spending Control	Grant provisions and annual/multi-year budget appropriation limitation and bond indentures.
Usual Financing Sources	Grants, contributions from other funds, bonds.
Measurement Focus	Flow of current financial resources.
Specific Accounting Treatment	The capital projects funds does not account for the capital activities of proprietary funds or assets that will be held in trust for others—those activities that are accounted within the proprietary funds, or trust funds where appropriate. The capital project funds would account only for capital activities of those projects that are considered to be governmental rather than proprietary. In practice, a separate Capital Projects Fund is often established when the acquisition or construction of a capital project extends beyond a single fiscal year and the financing sources are provided by more than one fund, or a capital asset is financed by specifically designated resources. Capital outlays financed from general obligation bond proceeds should be accounted for through a capital projects fund.

Debt Service Funds

Category	Governmental
Purpose	To account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should be used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in debt service funds.
Basis of Accounting	Modified Accrual Basis.
Primary Means of Spending Control	A government should determine whether it is legally obligated to establish debt service funds. If not, the government should decide from a managerial perspective whether it is useful to establish a debt service fund. Where resources are being accumulated for principal and interest maturing in future years, those financial resources should be reported in a debt service fund.
Usual Financing Sources	Special taxes or contributions from the general fund.
Measurement Focus	Flow of current financial resources.
Specific Accounting Treatment	The proceeds from the issuance of long-term debt are recorded in governmental funds as other financing sources in governmental funds and is not reported as debt of the governmental funds, instead it is reported as an obligation in the governmental-wide financial statements. Principal and interest payments due should be recorded as a payable from the debt service fund servicing the debt payments. Generally speaking, under the modified accrual basis of accounting, expenditures of a governmental fund are recognized when the related liability is incurred.

Accounting for Debt Service Funds

A local government may create a debt service fund to account for resources that will be accumulated and used to service general long-term debt, which are obligations of the government. Debt service transactions for which the district is <u>not</u> obligated in any manner should be reported in a custodial fund rather than in a debt service fund, to reflect the fact that the local government duties are limited. Although the long-term debts are not reported in the governmental financial statements at the fund level, assets set aside for future payment of the debt are reported at the fund level.

Only the minimum number of debt service funds consistent with legal and operating requirements should be established. While most indenture agreements require the creation of a separate debt service fund for each bond issue, it is desirable, when possible; to account for general obligation bonds serviced by restricted components of the general property tax in a single debt service fund.

Debt service spending usually requires the approval of the operating budget and governing board approval of bond documents. Such spending is controlled primarily through bond indenture provisions. Debt service payments are usually accounted for as expenditures in the year of payment. Revenues such as property taxes or sales taxes that are restricted to debt service on general long-term debt are generally reported in the debt service fund, but legal statutes may require tax revenues to be recorded in the general fund before being transferred to the debt service fund.

Accounting for Debt Repayments in Governmental Funds

As no liability for long-term debt is recorded in governmental fund statements, repayment of the debt is not recorded as a reduction of the liability. Instead, such payments are recorded as financing uses. This also applies to current and advance refundings. Payments due within one month after year-end may be accrued if financial resources are transferred to a debt service fund. Accounting entries related to debt service funds are illustrated below.

Debt Service Funds—Examples

Debt Accounting

a) On January 15, 2000, the voters authorized an addition to the civic auditorium and the issuance of bonds aggregating $2,000,000. No formal accounting entry is necessary.

b) In October 2000, bonds with a face value of $2,000,000 are sold, at 10% annual interest, for $2,050,000, with issuance cost of $22,500 and interest payable semi-annually on April 1 and October 1. The bond payments are to be paid from property tax levies:

Governmental Fund		
Account	Debit	Credit
Cash	$ 2,027,500	
Debt Issuance Expenditure	22,500	
Other Financing Sources—Bonds Issued		$ 2,000,000
Other Financing Sources—Premium on Bonds Issued		50,000

NOTE: Although no long-term debt is recorded in the governmental fund, the debt is reported in the government-wide financial statements.

c) On December 15, the first installment of 2Y0–2Y02 secured taxes is apportioned (note that the tax revenues may be required to pass through the general fund prior to transfer to the debt service fund):

Debt Service Fund		
Account	Debit	Credit
Cash—Debt Service Reserve	$ 125,000	
Tax Revenues		$ 125,000

d) On April 1, the first semi-annual interest installment of $100,000 and 5% of the bond's principal payment of $100,000 are due:

Debt Service Fund		
Account	Debit	Credit
Expenditures—Interest	$ 100,000	
Expenditures—Bond Principal	100,000	
Cash—Debt Service Reserve		$ 200,000

NOTE: The related reduction in the balance of the long-term debt is reported in the government-wide financial statements only.

e) On April 15, the second installment of 2Y01–2Y02 secured taxes is apportioned.

Debt Service Fund		
Account	Debit	Credit
Cash	$ 130,000	
Tax Revenue		$ 130,000

Permanent Funds

Category	Governmental
Purpose	To account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs—that is, for the benefit of the government or its citizenry.
Basis of Accounting	Modified Accrual Basis.
Primary Means of Spending Control	Trust agreement and laws.
Usual Financing Sources	Donations.
Measurement Focus	Flow of current financial resources.
Specific Accounting Treatment	Permanent funds should be used to report situations in which the government is required to use the principal or earnings for the benefit of individuals, private organizations, or other governments.

Enterprise Funds

Category	Proprietary
Purpose	To account for the provision of supplies and tangible services to the general public that are similar to services provided by business enterprises; includes only services financed primarily by user charges.
Basis of Accounting	Full Accrual Basis.
Primary Means of Spending Control	For supplies and services provided, matching the total cost (including noncash expense and overhead) with the service charge revenues generated; if bonds are issued, the bond indenture; the annual budget (operating plan), to the extent that it is required by the governing body.
Usual Financing Sources	Revenues, expenses, debt issue, capital contributions, and operating subsidies.
Measurement Focus	Flow of economic resources.
Specific Accounting Treatment	Accounting practices of similar commercial enterprises are followed. Long-term liabilities directly related to and expected to be paid by the fund, as well as its capital assets, are included in its accounts. All expenses (including noncash and overhead) are charged to the fund.
Rates	Service charges should recover the full cost (including noncash expenses and overhead), less any authorized subsidy.

For purposes of uniformity, enterprise funds include:

- Airports
- Harbors
- Recreation facilities and services, such as:
    - Marinas
    - Golf courses
    - Stadiums
    - Tennis centers
    - Parks
    - Swimming Pools
- Parking facilities
- Transit systems
- Public housing
- Toll bridges
- Health services and facilities, such as:
    - Hospitals
    - Medical facilities
- Public utilities, such as:
    - Water
    - Electricity
    - Gas
    - Waste Collection and disposal
    - Cable TV

Internal Service Funds

Category	Proprietary
Purpose	To account for supplies and tangible services provided to other units of the same government or different governments on a cost reimbursement basis.
Basis of Accounting	Full Accrual Basis.
Primary Means of Spending Control	The total cost for the supplies and services provided (including noncash expenses and overhead) should be matched with the service charge reimbursements generated. Other controls include the annual budget, to the extent required by the governing body, and indirectly through other department's annual budget receiving the product or service.
Usual Financing Sources	Reimbursements
Measurement Focus	Flow of economic resources.
Specific Accounting Treatment	Accounting practices of similar commercial enterprises are followed. Long-term liabilities directly related to and expected to be paid by the fund, and capital assets, are included in the accounts. All expenses (including noncash and overhead) are charged to the fund. Cost reimbursement entries would be recorded as revenues in the internal service fund.
Rates	Service charges should recover the full cost (including noncash expenses and overhead). Subsidizing internal service fund activities should not be required.

Examples of central services appropriate for Internal Service Fund accounting include:

- Equipment, vehicle, and office machine maintenance and rental
- Stores
- Information technology
- Mailing services
- Printing and duplicating
- Communications
- Purchasing
- Carpentry and repair shops
- Risk management

Fiduciary Funds (including Fiduciary Component Units)

Fund financial statements should include information about all fiduciary funds of the primary government, including fiduciary component units. Local government entities should report fiduciary activities in the fiduciary fund financial statements. Fiduciary funds are comprised of the following categories:

- Pension (and Other Post-Employment Benefits) Trust Funds
- Investment Trust Funds
- Private Purpose Trust Funds
- Custodial Funds

Pension (and Other Post-Employment Benefits) Trust Funds

Category	Fiduciary
Purpose	To account for assets held by a government in a trustee capacity for public employee retirement system and other employee benefits in the public employee retirement system. Refer to GASB Cod. Sec. 1300.112 (Section 1300, paragraph .112) for more details.
Basis of Accounting	Full Accrual Basis.
Primary Means of Spending Control	Contractual arrangements, legislative requirements (e.g., pension and OPEB provisions of the law), etc.
Usual Financing Sources	Contributions by private entities, employee/employer contributions, investment earnings, etc.
Measurement Focus	Flow of economic resources.
Specific Accounting Treatment	• Capital assets and long-term liabilities are included in the funds' accounts. • Plan assets used in plan operations (for example, buildings, equipment, furniture and fixtures, and leasehold improvements) should be reported at historical cost less accumulated depreciation or amortization.

Investment Trust Funds

Category	Fiduciary
Purpose	To account for cash held in the local government entity's external reporting pool. This is cash in the local governments treasury that belongs to other governments, other private organizations, and individuals.
Basis of Accounting	Full Accrual Basis.
Primary Means of Spending Control	Cash receipts and disbursements at the direction of other entities with cash in the local governments treasury.
Usual Financing Sources	Deposits from external pool participants and investment earnings.
Measurement Focus	Flow of economic resources.
Specific Accounting Treatment	Funds that are maintained by other entities to account for the external entities' activities.

Private Purpose Trust Funds

Category	Fiduciary
Purpose	To account for assets held by a government in a trustee capacity for specified purposes, where the principal and interest may be expended during the operations for the benefit of individuals, private organizations, and other governments. As fiduciary funds account for "other people's money," their assets, liabilities, revenues, and expenses are not included in the government-wide financial statements.
Basis of Accounting	Full Accrual Basis.
Primary Means of Spending Control	Trust agreements and laws.
Usual Financing Sources	Donations and earnings of private-purpose trust funds.
Measurement Focus	Flow of economic resources.
Specific Accounting Treatment	Private-purpose trust funds generally should be used when legally mandated or a formal trust agreement exists. Capital assets and long-term liabilities are included in the funds' accounts.

Custodial Funds

Category	Fiduciary
Purpose	Custodial funds are used to report those fiduciary activities that are not required to be reported in pension and OPEB trust funds, investment trust funds, or private-purpose trust funds.
Basis of Accounting	Full Accrual Basis.
Primary Means of Spending Control	Fiduciary agreements and laws.
Usual Financing Sources	Custodial funds financing sources typically include resources held in a custodial capacity. This includes resources such as receipt, temporary investment, and remittance of fiduciary resources to their respective owners.
Measurement Focus	Flow of economic resources.
Specific Accounting Treatment	Custodial funds are reported in a column on the statement of fiduciary net position and the statement of changes in fiduciary net position. The components of net position (net investment in capital assets, restricted, and unrestricted) are not required to be presented in the statement of fiduciary net position. A government may report a single aggregated total for additions and a single aggregated total for deductions of custodial funds in which resources, upon receipt, are normally expected to be held for three months or less.

Identification of Fiduciary Activities

A local government entity or its component units maybe engaged in fiduciary activities. Refer to Chapter Section 8.02, *Financial Reporting Entity Structure* to get more information about what constitutes a component unit.

5.05 Fiduciary Component Units

A component unit is a fiduciary activity if it is one of the following arrangements:

1. A defined benefit or defined contribution pension or OPEB plan administered through a trust where plan contributions and earnings are irrevocable, plan assets are dedicated to providing pensions to plan members, and plan assets are legally protected from creditors.

2. A pension or OPEB plan not administered through a trust (custodial fund) where plan contributions and earnings are irrevocable, plan assets are dedicated to providing pensions to plan members, and plan assets are legally protected from creditors.

3. An activity that does not meet one of the previous arrangements but the assets of the activity have one or more of the following characteristics:
    a. The assets are
        i. administered through a trust in which the government itself is not a beneficiary,
        ii. dedicated to providing benefits to recipients according to benefit terms; and
        iii. legally protected from the creditors of the government.
    b. The assets are for the benefit of individuals and the government does not have administrative involvement with the assets or direct financial involvement.
    c. The assets are for the benefit of organizations or other governments that are not part of the financial reporting entity.

Control of the asset by the primary government is not a factor in determining whether a component unit is fiduciary, but it is a factor in determining whether activities other than component units are fiduciary.

5.06 Pension and OPEB Arrangements That Are Not Component Units

Pension and OPEB arrangements that are not component units are fiduciary activities if the government controls the assets of the arrangement and they are one of the following arrangements:

1. A pension or OPEB plan administered through a trust where plan contributions and earnings are irrevocable, plan assets are dedicated to providing pensions to plan members, and plan assets are legally protected from creditors.

2. Accumulated assets not administered through a trust (custodial fund) where assets are designated for pension or OPEB purposes, plan contributions and earnings are irrevocable, plan assets are dedicated to providing pensions to plan members, and plan assets are legally protected from creditors.

5.07 Other Fiduciary Activities

Other activities are fiduciary if <u>all</u> three of the following criteria is met:

1. The assets associated with the activity are controlled by the government.

2. The assets are not derived solely from the either government's own source revenues or from government-mandated and voluntary nonexchange transactions other than pass-through grants.

3. The assets associated with the activity have one or more of the following characteristics:

    a. The assets are administered through a trust in which the government itself is not a beneficiary, dedicated to providing benefits to recipients in accordance with the benefit terms, and legally protected from the creditors of the government.
    b. The assets are for the benefit of individuals and the government does not have administrative or direct financial involvement with the assets.
    c. The assets are for the benefit of organizations or other governments that are not part of the financial reporting entity.

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Chapter 6: Budgetary Accounting

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Chapter 6: Budgetary Accounting

Introduction

One of the fundamental principles of governmental accounting is that the accounting system should provide the basis for appropriate budgetary control. This chapter describes the accounts and procedures by which such control may be established. It does not deal with budget forms, presentation, or procedure, which are governed by State law and administrative directive and separately published in the State Controller's Office *County Budget Guide*. This chapter is concerned with accounting for actual transactions within the framework of the adopted (final) budget. An accurate comparison of transactions with budget estimates shows compliance with legal provisions and assists in the preparation of future budgets.

The State Controller's *County Budget Guide* (which includes the County Budget Act) can be found on the California State Controller's website at https://www.sco.ca.gov/pubs_guides.html.

Budgetary Accounting

6.01 Budgetary Accounts

Budgeting is an important component of the financial planning, control, and evaluation processes of governments. According to GASB Cod. Sec. 1700.101 (Section 1700, paragraph .101), every local government should prepare a comprehensive budget covering all governmental, proprietary, and fiduciary funds for each annual (or, in some cases, biennial) fiscal period.

As discussed in GASB Cod. Sec. 1700.106 - .108 (Section 1700, paragraph .106 - .108), a budget is a plan of financial operation for a given period of time. There are typically two types of budgets:

Annual Budget: authorizes and provides the basis for control of financial operations during a fiscal year.

Long-Term Budgets: presents estimates of revenues and expenditures or expenses for a period of several years—usually four to six—and the proposed means of financing them. The long-term budget is a planning document that typically emphasizes major program or capital outlay (capital budget) plans.

According to GASB Cod. Sec. 1700.118 - .119 (Section 1700, paragraph .118 - .119), formal budgetary integration is generally necessary for any capital projects fund that is used to account for multiple projects. Local governments sometimes employ formal budgetary integration to protect against capital projects cost overruns and to ensure that sufficient resources are available on a timely basis to meet expenditure requirements during the course of the year.

Amounts encumbered for specific purposes should be classified as restricted, committed, or assigned fund balance, depending upon the spending limitations of the funding source. Local governments should not report an amount if it is going to cause a deficit in the unassigned fund balance within the general fund.

Budgetary accounts are those necessary to reflect budget operations and conditions. Budgetary accounts are generally used as a control mechanism for general, special revenue and similar governmental funds because the annual budget is a legal requirement for some local governments (counties and dependent special districts). This does not mean that independent special districts are prohibited from using budgetary accounting as a control mechanism. For example, a community services district may adopt a budget pursuant to Government Code section 61110 et seq.

Although largely based on estimates, budgetary accounts are used exclusively for control purposes and therefore do not affect actual revenues and expenditures. Government Code section 29000 et al. (County Budget Act) specifies the content of the budget, budget adoption procedures, and dates by which actions must be taken. Special districts whose affairs and finances are under the supervision and control of a county board of supervisors are subject to the same rules and regulations. Government Code section 53901 requires every local agency, including every special purpose assessing or taxing district, to file their adopted budget with the county in which it conducts its principal operation.

Flexible budgets, as discussed in GASB Cod. Sec. 1700.109 (Section 1700, paragraph .109), embody estimates based on fluctuating demands for goods and services, while fixed budgets typically contain estimates of fixed dollar amounts. In proprietary funds, according to GASB Cod. Sec. 1700.120 (Section 1700, paragraph .120), the demand for goods and services typically drives revenues and expenses—therefore they are better suited for proprietary fund planning, control, and evaluation purposes than are fixed budgets.

Local governments have the option to use encumbrances. As discussed in GASB Cod. Sec. 1700.127 (Section 1700, paragraph .127), encumbrance accounting should be used to the extent necessary to assure effective budgetary control and accountability and facilitate effective cash planning and control.

Any encumbrances at year-end do not constitute expenditures or liabilities. They represent the estimated amount of expenditures that will result if unperformed contracts in process at year-end are completed. Local governments that use encumbrance accounting should disclose significant encumbrances in the notes to the financial statements section by major funds and nonmajor funds taken together in conjunction with any required disclosures about other significant commitments.

A contingency appropriation is an appropriation established for unforeseen requirements. No specific purpose is designated for this appropriation. No expenditures may be made against a contingency appropriation; they are available only for transfer to a specific-purpose appropriation by the governing body. This must be accomplished through the legally specified process. These are not restricted for reporting purposes if the contingency is internal.

6.02 Government Spending Limitation

The California State Constitution added Article XIII B as a result of the Proposition 4 (1979) "Gann Limit" Initiative to put a limit on government spending for all levels of California government (state and local). Article XIII B provides the guidelines for calculating this legislated appropriation limit and the total annual appropriations subject to the limit. To effectively implement the provisions of Article XIII B, the Legislature added Government (Gov.) Code sections 7900 to 7914 regarding expenditure limitations in 1980. Both resources should be carefully referenced when calculating these two reporting items.

The County Budget Act (Gov. Code section 29000–29144) applies to counties, dependent special districts, and other agencies under the supervision of the county board.

The following two Gann Limit items, as defined in Article XIIIB, are required to be included in the budget reports under the provisions of Government Code section 29006 (f). They are to be reported on Schedule 2 of the State Controller's Office County Budget Guide schedules and are also to be reported in the State Controller's Office Financial Transaction Reports summary.

Total annual appropriations subject to limitation (ASL)
Appropriation limit (AL)

ASL = authorization to expend within a fiscal year the proceeds of taxes levied by or for the government entity.

Includes:

- Subventions from the State, with exceptions (see Section 6 of Article XIII B).
- Contributions derived from taxes applied to a rainy day or similar fund in the year of contribution, excluding related withdrawals, expenditures, or transfers from the fund.

Excludes:

- Appropriations for debt service.
- Appropriations required to comply with mandates of the courts or federal government.
- Appropriations of any special district which existed 1/1/1978 that meets criteria in Section 9 of Article XIII B.
- Appropriation for all qualified capital outlay projects, as defined by the Legislature.
- Appropriations of revenue from the Cigarette and Tobacco Products Surtax Fund.
- Appropriations of revenue from the California Children and Families First Trust Fund.
- Appropriations of revenue from the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 Fund.
- Appropriations of revenues from the Road Maintenance and Rehabilitation Account.

AL = Prior year AL* + Δ COL + Δ Population +/- Adjustments

(Δ = change in; COL = Cost of Living)

Adjustments include those from:

- Returns of revenues appropriated in excess of AL
- Transfers of Services
- Changes in financial sources

***The base year for AL calculations was in 1978-79, and the formula applies to each subsequent year. The base AL for newly created entities is to be established by electors.*

Pursuant to the provisions of Article XIII B, Section 3(c)(1), if an emergency is declared by the legislative body of an entity government, then "…the appropriations limit of the affected entity of government may be exceeded provided that the appropriations limits in the following three years are reduced accordingly to prevent an aggregate increase in appropriations resulting from the emergency."

Should an emergency be declared by the Governor, the provisions of Article XIII B, Section 3(c)(2) state that the, "…appropriations approved by a two-thirds vote of the legislative body of an affected entity of government to an emergency account for expenditures relating to that emergency shall not constitute appropriations subject to limitation."

Article XIII B Definitions

According to Article XIIIB of the California State Constitution, the following terminology applies to government spending limitation:

> *Appropriations subject to limitation* of an entity of local government means any authorization to expend during a fiscal year the proceeds of taxes levied by or for that entity and the proceeds of State subvention (other than subventions made pursuant to State mandated reimbursements and tax refunds). With some exception, it does not include local agency loan funds or indebtedness funds, or investment in accounts at banks or savings and loan associations or in liquid securities. [Article XIII B, Sections 8(b) and (i)]
>
> *Proceeds of taxes* include but are not restricted to all tax revenues and proceeds from (1) regulatory licenses, user charges, and user fees, to the extent the proceeds exceed reasonable costs of the related service or product, and (2) the investment of tax revenues. They include receipts of subventions from the State other than mandated reimbursements. [Article XIII B, Section 8(c)]
>
> *Local government* means any city, county, city and county, school district, special district, authority, or other political subdivision of the State. [Article XIII B, Section 8(d)]
>
> *Change in the cost of living* for the State, a school district, or a community college district means the percentage change in California per capita personal income from the preceding year. For an entity of local government, other than a school district or a community college district, it shall be either (A) the percentage change in California per capita personal income from the preceding year, or (B) the percentage change in the local assessment roll from the preceding year for the jurisdiction due to the addition of local nonresidential new construction. Each entity of local government shall select its change in the cost of living pursuant to this paragraph annually by a recorded vote of the entity's governing body. [Article XIII B, Section 8(e)]
>
> *Change in population* of any entity of government, other than the State, a school district, or a community college district, shall be determined by a method prescribed by the Legislature. For a school district or a community college district it shall be the percentage change in the average daily attendance of the school district or community college district from the preceding fiscal year, as determined by a method prescribed by the Legislature. [Article XIII B, Section 8(f); see Article XXX B for specifics of calculation]
>
> *Debt service* means appropriations required for the cost of interest and redemption charges on indebtedness approved according to law. [Article XIII B, Section 8(g)]

> *Appropriations limit* of each entity of government for each fiscal year is that amount which total annual appropriations subject to limitation shall not exceed. It shall not exceed the appropriations limit of the entity of government for the prior year adjusted for the change in the cost of living and the change in population, with legally necessary adjustments). [Article XIII B, Section 8(h)]

Additional resources:
For determining the change in population and the change in the California per capita personal income, refer to RTC Code section 2227 and the Department of Finance website posting of "Price and Population Factors Used for Appropriation Limit Calculations" at its website (bottom of the webpage) http://www.dof.ca.gov/Forecasting/Demographics/Estimates/

For further guidance from the California State Legislature, refer to Chapter 5 of its publication, *Revenue and Taxation Reference Book*, available at its website https://arev.assembly.ca.gov/reports

6.03 Budgetary Classification and Terminology

Governmental Funds and Terminology

Common language and uniform classification can enhance effective management control and accountability. The established terminology and classifications should be used consistently in all phases of budgeting, accounting, and reporting.

Proprietary Funds Terminology

The accounts and financial reports of proprietary funds should be maintained and prepared in essentially the same manner as those of similar business enterprises. The terminology and classifications of the flexible budgets (operating plans) should be consistent with those used in financial reports.

The Budgetary Accounts

Estimated Revenues. Amounts of revenue estimated to accrue or to be collected during a given period.

Appropriations. Authorizations granted by the legislative body to make expenditures and incur obligations for specific purposes during the fiscal year.

Encumbrances. Commitments related to open purchase orders, contracts or other obligations that are chargeable to an appropriation and for which a part of an appropriation is reserved. The encumbrances account should never have a credit balance and should always agree with the Reserve for Encumbrance account. Encumbrances outstanding at fiscal year-end do not constitute expenditures.

Estimated Transfers. Estimated transfers between funds within the local government, for example, the capital project fund returns all or part of the funds borrowed from the general fund. (Applicable to governmental funds only.)

Budgetary Fund Balance. This budgetary account is used to account for differences between estimated revenue and appropriations. The use of a budgetary fund balance account simplifies the integration of budgetary accounts into the general ledger and permits the periodic testing of budgetary account balances with a budgetary trial balance. (Applicable to governmental funds only.)

At all times during the year: (1) total general ledger budgetary account debits and credits should be equal, (2) total general ledger debits and credits should be equal, and (3) total integrated general ledger (including both budgetary and actual account balances) debits and credits should be equal. The equality of these relationships should be tested periodically.

Reserve for Encumbrances. The Reserve for Encumbrances account is used to offset an encumbrance entry and identify the encumbrance commitments in the budgetary fund balance. For example, a local government issues a purchase order expressing the intent to buy a motor vehicle. An encumbrance is debited against the appropriation with the offsetting credit posted to the Reserve for Encumbrances. The amount in the Reserve for Encumbrances account is required to be disclosed in the footnotes of the financial statements by major and nonmajor funds in conjunction with other significant commitments.

The budgetary control exerted by these accounts consists of a comparison of their balances with those of their operating account counterparts. Such a comparison indicates the degree to which operations deviate from the original plan. Both budgetary and operating accounts are often placed on the same subsidiary ledger page to facilitate this comparison.

Balances of budgetary accounts are always opposite in effect (debit, credit) to those of the accounts controlled.

Budgetary Account	Account or Balance Controlled	Difference Indicates
Estimated Revenues (debit)	Revenues (credit)	Over-realized or under-realized revenues
Appropriations (credit)	Expenditures (debit)	Unexpended or over-expended appropriations
Encumbrances (debit)	Unexpended Appropriations (credit)	Unexpended or over-expended unencumbered
Estimated Transfers (debit/credit)	Transfers (in/out)	Unrealized transfers between funds
Budgetary Fund Balance (debit/credit)	Estimated Revenues and Appropriations (planned expenditures)	Available fund balance

Budgetary Account Definitions

Code	Accounts	Definition
602	Estimated Revenues and Estimated Other Financing Sources	The amount of revenues estimated to accrue or be collected (depending on accounting basis) during a fiscal period.
603	Unanticipated Revenues and Other Financing Sources	The amount of revenues which had not been estimated in the budget and which are appropriated for expenditure or applied to the increase of specific fund balance classifications during the current fiscal period.
604	Unrealized Estimated Revenues and Estimated Other Financing Sources	The amount of appropriations and segregated fund balance provisions which are canceled because of failure to realize budgeted estimated revenues.
605	Appropriations and Estimated Other Financing Uses	The authorizations by the governing body to make expenditures and incur obligations for specific purposes.
606	Budgetary Nonspendable Fund Balance—_______________	This account shows those budgetary allocations that are either not in a spendable form or there is a legal/contractual restriction on the use of these funds.
607	Budgetary Restricted Fund Balance—_______________	This account shows those budgetary allocations that have restrictions placed on them by creditors or enabling legislation.
608	Budgetary Committed Fund Balance—_______________	This account contain budgetary allocations that represent commitments imposed by the governing authority of the local government entity.
609	Budgetary Assigned Fund Balance—_______________	This account contains those budgetary allocations that the local government entity intends to use for specific purposes. These allocations not restricted, committed or nonspendable.
610	Budgetary Unassigned Fund Balance—_______________	This account represents budgetary allocations with no specific allocations or restrictions (internal or external) on the use of funds.
611	Encumbrances	Obligations in the form of purchase orders, contracts or other commitments that recorded for budgetary control purposes.
612	Budgetary Fund Balance—Reserve for Encumbrances	The segregation of a portion of the fund balance for expenditure to offset the Encumbrances account. It should always match the balance in the Encumbrance account.

6.04 Control and Subsidiary Ledger Accounts

Budgetary accounts in the general ledger are also referred to as control accounts, including their subsidiary ledger accounts. Detailed appropriations by budget unit and sub-object can be summarized in the general ledger appropriations control account in the same manner detailed expenditure sub-objects of a fund are summarized in a single general ledger expenditures account.

Note: The use of budgetary control accounts in the general ledger does not affect the actual revenues and expenditures recognized during the accounting period. This is accomplished by simply reversing, at the end of the reporting period, the budgetary control accounts created when the budget was initially recorded.

Combined Subsidiary Ledgers

A subsidiary ledger could be established for estimated revenues and another for appropriations, which are both budgetary accounts. However, as both estimated revenues and expenses are expressed in terms of the same accounts, their subsidiary ledgers are often combined. Combining ledgers facilitates the budgetary control function and adds little, if anything, to the size of the resulting ledger, as the recording of estimated revenue seldom requires more than one entry for each account on an annual basis. Encumbrances may be set up in a separate subsidiary ledger; however, it is usually more convenient and useful to include them in the combined appropriation-expenditure ledger.

An illustrative example of a combined Revenue Ledger is shown below. For example purposes, assume that a local government expects to receive $900,000 in property taxes in fiscal year 2Y01-2Y02 and on 08/06/2Y01, the local government received $400,000 worth of July property taxes.

Fund: General		2Y01–2Y02	Account: Recreation Services		
			Revenues		
Date	Posting Reference	Description	Revenue Estimate (Debit)	Actual Revenues (Credit)	Unrealized Balance
7-1	J 1	Budget	$ 900,000		$ 900,000 (Debit)
8-6	DP 161	July Property Taxes		$ 400,000	$ 500,000 (Debit)

The credit of $400,000 to Revenues is posted to the Actual Revenues column if the revenues ledger; the resulting $500,000 balance indicates that this amount of property tax revenue remains to be realized to meet the budget estimate.

Similarly, Appropriations and Expenditures are both expressed in terms of the expenditure accounts and may be readily combined in a single appropriations/expenditure ledger. For example, assume that a local government estimated salaries to be $100,000 in fiscal year 2Y01–2Y02. On 07/31/2Y01, the local government paid $10,000 in salaries.

Fund: General		2Y01–2Y02	Account: Recreation Office Expense		
			Expenditures		
Date	Posting Reference	Description	Appropriations (Credit)	Expenditures (Debit)	Unrealized Balance
7-1	J 1	Budget	$ 100,000		$ 100,000 (Credit)
7-5	W 98	July Salaries		$ 10,000	$ 90,000 (Credit)

The debit of $10,000 to expenditures is posted to the actual salaries expenditure account in the salaries ledger, resulting in a $90,000 remaining appropriation balance, which indicates that this amount of salary expenditures remains to be realized to meet the budget estimate.

6.05 The Encumbrance System

When appropriations are restricted on the basis of commitments, an encumbrance system is in effect. Under this system, the encumbrances are debited and the Budgetary Fund Balance—Reserve for Encumbrances is credited at the time a commitment is issued. The appropriation remains encumbered until payment is made or a cancellation occurs, at which time the encumbering entry is reversed.

Example:

1. A purchase order is issued for a laptop for a manger within the local government. The estimated cost is $2,500.

Account Name	Debit	Credit
Encumbrances—Manager—Equipment	$ 2,500	
Budgetary Fund Balance— Reserved for Encumbrances		$ 2,500
To record encumbrance for manager's laptop		

2. The laptop is received along with a statement for $2,530. The statement is paid.

Account Name	Debit	Credit
Budgetary fund balance reserved for encumbrances	$ 2,500	
Encumbrances—Manager—Equipment		$ 2,500
To reverse the encumbrance for managers laptop		

Account Name	Debit	Credit
Expenditures—Manager— Equipment	$ 2,530	
Cash		$ 2,530
To record the payment for manager's laptop		

Encumbrances represent commitments (e.g., contracts and purchase orders). While doing so is not compulsory, governments often use encumbrance accounting to control expenditures. According to GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as amended, governments that use encumbrance accounting should disclose significant encumbrances in their notes to the financial statements by major funds and nonmajor funds in conjunction with required disclosures about other significant commitments.

Note**:** The encumbrance transaction is always reversed in the same amount for which it was placed, regardless of the amount of the related expenditure. An encumbrance system reduces the possibility of commitments in excess of appropriations that may arise from a delay in the receipt of billings.
If a difference exists between the estimate and the actual cost of an item, an additional appropriation might still be required.

Need for Encumbrance System

Generally, the need for the type of control provided by encumbrance accounting increases as the size of the local government increases. No exact rule can be stated as to what size a local government should be to use an encumbrance system. Encumbrance accounting should be used to the extent necessary to assure effective budgetary control and accountability, and to facilitate effective cash planning and control.

An alternative, to facilitate appropriate budgetary control is through the use of a simple file of unfilled purchase orders. When a particular purchase is proposed, this file is reviewed to determine whether any encumbrances are outstanding against the relevant appropriation.
If so, no commitment should be made unless the unencumbered balance is sufficient to cover the proposed purchase or there are transferrable funds in another account.

It is not necessary for a local government to have a purchasing agent in order to use the encumbrance system. However, purchase orders should be reviewed by the chief fiscal officer or his or her designee to determine the adequacy of unencumbered appropriations prior to approval and issuance to vendors. A purchasing policy should be established to provide guidelines.

Adopted Budget

6.06 Recording the Adopted Budget

The adopted budget must be balanced, in other words, the available financing should be sufficient to cover the total expenditure requirements.

Example
On June 30, the *General Fund* has a fund balance of $60,000. The adopted budget has estimated revenues of $1,000,000 and appropriations of $1,060,000.

The budgetary entry would be:

Account	**Debit**	**Credit**
Estimated Revenues	1,000,000	
Budgetary Unassigned Fund Balance	60,000	
Appropriations for Expenditures		1,060,000
(To record the 20X1-X2 budget adopted by the board 7-25-XX)		

If the legally adopted budget is not amended, the budgetary account balances will remain unchanged until the end of the accounting period. If the budget is amended, appropriate revisions are posted to the affected budgetary accounts.

6.07 Year-End Budgetary Accounting

At fiscal year-end, after reports are complete, the balances of the Appropriation and Estimated Revenue accounts are reversed in the same amount for which they were initially entered for the year.

Encumbrances are also reversed at year-end in the same amount entered, regardless of the actual amount of the related expenditure, along with the offset to the Reserve for Encumbrance account. The Budgetary Fund Balance account, with the approval of the governing body, should be re-established, as applicable, in the new fiscal year. If prior year commitments are not re-established in the new fiscal year, they should be canceled.

Encumbrances outstanding at year-end represent the estimated amount of the expenditures; they do not constitute expenditures or liabilities. There is no detailed presentation of the encumbrance system in the financial statements.

Example:

1. At fiscal year-end when the books are closed.

Account Name	Debit	Credit
Revenues	$ 1,000,000	
Appropriations	1,200,000	
Reserve for Encumbrances	50,000	
Fund Balance	100,000	
Estimated Revenues		$ 900,000
Expenditures		1,100,000
Encumbrances		50,000
Budgetary Fund Balance		300,000

2. As of day one of the new fiscal year, the new budget is recorded.

Account Name	Debit	Credit
Estimated Revenue	$ 950,000	
Budgetary Fund Balance	150,000	
Appropriations		$ 1,100,000

3. Encumbrances outstanding at the end of the preceding year are re-established, along with their encumbered appropriations.

Budgetary Accounts		
Account Name	**Debit**	**Credit**
Encumbrances	$ 50,000	
Reserve for Encumbrances		$ 50,000

Deposit with Others

With respect to amounts on deposit with others, all or part of which are expected to become expenditures, an encumbrance should be placed on the appropriation at the time the deposit is made. In this case, the deposit is considered the equivalent of a commitment.
The encumbrance remains until the amount of expenditure is determined, at which time the encumbrance is lifted and the appropriate part of the deposit is charged to expenditures.

Example:

1. A deposit is made for the project.

Account Name	Debit	Credit
Encumbrances	$ 50,000	
Reserve for Encumbrances		$ 50,000
(Professional and special services)		

Account Name	Debit	Credit
Deposits with Others	$ 50,000	
Cash		$ 50,000

2. Upon completion of the project, the local governments' share of the cost is $46,000. The remaining $4,000 on deposit is refunded.

Account Name	Debit	Credit
Reserve for Encumbrances	$ 50,000	
Encumbrances		$ 50,000
(Professional and special services)		

Account Name	Debit	Credit
Cash	$ 4,000	
Expenditures	46,000	
Deposits with Other		$ 50,000
(Professional and special services)		

Payments will be expensed when the check is written.

Chapter 7: Classification and Terminology

Chapter Contents

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Chapter 7: Classification and Terminology

Introduction

The use of proper terminology and appropriate classification is essential throughout the budgeting, accounting, and reporting processes, according to GASB Cod. Sec. 1800.101 (Section 1800, paragraph .101). Common terminology and classification should be used consistently throughout the budget, the accounts, and the financial reports of each fund or activity. Among other benefits, doing so will help to provide a reasonable degree of comparability among the financial reports of governmental units.

As stated in GASB Cod. Sec. 1800.101 (Section 1800, paragraph .101):

> It is especially important that:
>
> a) transfers be distinguished from revenues and expenditures or expenses in the basic financial statements;
> b) proceeds of general long-term debt issues be distinguished from governmental fund revenues and expenditures; and
> c) the terms revenues and expenses, as used in the government-wide financial statements and in proprietary and trust fund financial statements, be distinguished from the terms revenues and expenditures as used in the governmental fund financial statements and that their distinctive meaning be understood by all concerned with governmental budgeting, accounting, and reporting.

Balance Sheet

7.01 Fund Balance Reporting

For governmental fund types, the *fund balance* is the equity section of the balance sheet. The fund balance is classified into five segments: Nonspendable, Restricted, Committed, Assigned, and Unassigned. As discussed in GASB Cod. Sec. 1800.165 (Section 1800, paragraph .165), these classifications provide a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts can be spent. Depending on the type of fund, each organization should choose the appropriate fund balance classification that meets its needs. Fund balance classifications should be reported in the fund level financial statements.

The guidance in the following sections cover only governmental-type funds (General Fund, Special Revenue Funds, Capital Projects Funds, Debt Service Funds, and Permanent Funds). Nonspendable, Restricted, Committed, and Assigned Fund Balances indicate those portions of the total fund balance that are not available for appropriation, until some action has occurred internally or externally, and as defined in the following chart.

Fund Balance Reporting		
Classification	**Definition**	**Examples**
Nonspendable	Amounts that cannot be spent because they are either: (a) Not in spendable form; or (b) Legally or contractually required to be maintained intact.	• Inventories • Prepaid items • Long-term receivables in the General Fund • Permanent principal of permanent funds
Restricted	Fund balances should be reported as restricted when constraints placed on the use of resources are either: (a) Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) Imposed by law through constitutional provisions or enabling legislation.	• Restricted by State statute • Unspent bond proceeds • Grants earned but not spent • Debt covenants • Taxes dedicated to a specific purpose • Revenues restricted by enabling legislation • Long-term receivables in the General Fund • Property Taxes
Committed	Used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority.	• The governing board has decided to spend $1M for a new city hall (self-imposed restriction) • Property tax levies set for a specific purpose by resolution
Assigned	Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.	• Governing board of a local government entity has set aside $2M for a hospital. Executive management of the local government entity may amend this amount up to $10M • Governing body delegates the authority to assign fund balances to the finance officer • Governing board has appropriated fund balance to balance next year's budget • Positive residual balances in governmental funds other than the general fund
Unassigned	Unassigned fund balance is the residual classification for the General Fund. This is a fund balance that has not been reported in any other classification. The General Fund is the only fund that can report a positive unassigned fund balance. Other governmental funds would report deficit fund balances as unassigned.	

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Nonspendable Fund Balance

According to GASB Cod. Sec. 1800.166 (Section 1800, paragraph .166), the "nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact." The not spendable-in-form amounts include items that are not expected to be converted to cash (e.g., inventories and prepaid amounts).

This classification also includes long-term loans and notes receivables, as well as property held for resale. If the use of proceeds from the collection of the receivables or from the sale of the properties is restricted, committed, or assigned, then the proceeds should be included in the appropriate fund balance classification, rather than the nonspendable fund balance. The principal component of a permanent fund is an example of an amount that is statutorily or contractually required to be maintained intact.

Budgetary fund balance may be inadequate to meet the anticipated actual nonspendable fund balance requirements. In such cases, the budgetary fund balance should be increased by transfers from other financing requirements or, if possible, be augmented by the unanticipated financing provisions.

Example:
A five-year, $10,000 loan is to be made to a county service area. The budget contains no provision for this item.

a) To provide for the loan:

Account	Debit	Credit
Budgetary Committed Fund Balance—Contingencies	10,000	
Budgetary Nonspendable Fund Balance—Advances to CSA		10,000
Unassigned Fund Balance	10,000	
Nonspendable Fund Balance—Advances to CSA		10,000
(To record provisions for loaning $10,000 to CSA XYZ)		

b) To make the loan:

Account	Debit	Credit
Advances Receivable	10,000	
Cash		10,000
(To record a loan to CSA XYZ)		

Restricted Fund Balance

Restricted fund balance should be used when constraints placed on the use of resources are either imposed by external parties, constitutional provisions, or enabling legislation. This classification is established to offset those balance sheet assets that are not available to meet expenditure requirements during the year. Restricted fund balance classifications include limitations imposed externally by creditors, grantors, contributors, or laws or regulations of other governments.

Budgetary fund balance may be inadequate to meet the anticipated actual restricted requirements. In such cases, the budgetary fund balance should either be increased by transfers from other financing requirements or, if possible, be augmented by the unanticipated financing provisions.

Example:

To record a budgeted increase in the Debt Service Fund:

Account	Debit	Credit
Budgetary Restricted fund balance—Debt Service	100,000	
Budgetary Assigned fund balance		100,000
Assigned fund balance	100,000	
Restricted fund balance—Debt Service		100,000
(To record an increase to Debt Service Fund)		

Committed Fund Balance

Amounts that are constrained for a specific purpose by a local government using its highest level of decision-making authority should be classified as committed fund balance. The formal action of the local governments' highest level of decision-making authority that commits fund balance should occur prior to the end of the reporting period, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period.

Committed fund balance classifications are established to offset those balance sheet assets that are not available to meet expenditure requirements during the year. These classifications may include limitations internally imposed, such as those approved by the Board of Supervisors.

The budgetary fund balance may be inadequate to meet the anticipated actual committed requirements. Unless the decision-making authority changes the commitment, the budgetary fund balance should either be increased by transfers from other financing requirements or, if possible, be augmented by the unanticipated financing provisions.

Assigned Fund Balance

The *assigned fund balance* is the amount that is constrained by a local government's intent to be used for specific purposes, but is neither restricted nor committed, with the exception of stabilization arrangements that meet the GASB criteria to be considered as assigned fund balance. This amount may include the aggregation of resources for equipment replacement, capital projects, and capital asset acquisition not subject to accrual, which are expected to develop in future periods.

When there is no longer a need or intent to use the assigned fund balance, the local government may make all or a portion of the remaining assigned fund balance available for unassigned fund balance.

Unassigned Fund Balance

The unassigned fund balance is the residual amount not classified as nonspendable, restricted, committed, or assigned in the general fund. The general fund should only report a positive amount in the unassigned fund balance. For other governmental funds, unassigned fund balance is the amount expended in excess of resources.

Example:

As a result of an audit, it was determined that the expenditures for 20X1 were understated by $100,000. The expenditures used amounts that had been classified as assigned fund balance. The actual accounts for 20X1 are adjusted and the correction is reflected in the financial statement.

The entry in the 20X2 books would be:

Account	Debit	Credit
Assigned Fund Balance	100,000	
Unassigned Fund Balance		100,000
(To record 20X1 audit adjustments affecting the available fund balance)		

If the changes resulted in a material increase in the available fund balance, the estimated financing requirements could be increased using the provisions for unanticipated available financing.

7.02 Reporting Interfund Activity

As discussed in GASB Cod. Sec. 1800.102 (Section 1800, paragraph .102), activity that takes place between funds or blended component units within the same local government—such as transfers and their associated due to and due from, and revenues and expenses/expenditures with their associated receivable and payable—is called *interfund activity*.

Interfund activity within the fund statements should be analyzed, reclassified, and eliminated in the government-wide statement of net assets and statement of activities. Such activity is reported in the fund statements and can be either reciprocal or nonreciprocal.

Interfund activity should be classified and reported as reciprocal or nonreciprocal. *Reciprocal interfund activity* is related to exchange and exchange-like transactions. It includes interfund loans and interfund services. *Nonreciprocal interfund activity* is related to nonexchange transactions. It includes interfund transfers and interfund reimbursements.

It is important to carefully handle transactions and transfers between funds, in order to ensure that the proper financing sources and uses are reflected in each fund. This same level of care should also be exercised when handling intrafund transfers (transfers of costs between budget units in the same governmental type fund).

When preparing consolidated financial statements and reports such as the State Controller's Financial Transactions Report, it may be necessary to eliminate interfund transactions to remove the doubling-up effects, as is done with the government-wide financial statements. Interfund transfers should net to zero on the government-wide financial statements, since the primary government cannot owe funds to itself or expect a reimbursement from itself.

Interfund Transactions			
Transaction	**Fund Statement**	**Statement of Net Position**	**Statement of Activities**
Interfund Loans (Reciprocal)	Interfund Receivables/Payables	1. Within governmental or business-type activities: eliminating receivables and payables so that both sides have a zero balance. 2. In governmental and business-type activities: present as internal balances between the funds; in the government-wide financial statements, these should have a zero balance.	Not Applicable
Interfund Services provided and used (Reciprocal)	Interfund Receivables/Payables Revenues/Expenses or Expenditures	1. Within governmental or business-type activities: receivables/payables: should not be eliminated and should be reported in the fund balance sheet or statement of net position. 2. Between governmental and business-type activities: should not be eliminated	1. Within governmental or business-type activities: revenues/expenses should not be eliminated 2. Between governmental or business-type activities: present as internal activity
Interfund Transfers (Nonreciprocal)	Governmental Funds should report these transactions as other financing uses and other financial sources of funds. Proprietary Funds should report this type of transfer in their activity statements	1. Within the government or business-type activities: should not be eliminated 2. Between governmental and business-type activities: present as internal balances	1. Within governmental or business-type activities: should not be eliminated 2. Between governmental or business-type activities: present as internal activity

Interfund Transactions			
Transaction	**Fund Statement**	**Statement of Net Position**	**Statement of Activities**
Reimbursements (Reciprocal)	1. Expenditures/Expenses in reimbursing fund 2. Reduction of expenditures/expenses in fund that is reimbursed	Not Applicable	1. Expense in reimbursing entity 2. Reduction of expenses in entity that is reimbursed
Transfers between a local government and fiduciary funds (Non-Reciprocal)	Governmental Funds should report these transactions as other financing uses and other financial sources of funds. Proprietary Funds should report this type of transfers in their activity statements	Receivables/Payables from external parties	Revenues/Expenses from external parties
Transfers between a local government and discrete component units (Reciprocal)	Receivables/Payables Revenues/Expenses or Expenditures	Receivables/Payables shown as separate line item (receivable from state, payable to component units)	Revenues/Expenses from external parties,

Balance Sheet and Statement of Net Position Accounts

7.03 Chart of Accounts Terminology

The numbering systems used throughout this manual are intended for reference purposes only. Common terminology and classifications should be used throughout the budgeting, accounting, and financial reporting activities for California counties, and should align with the annual State Controller's Office *Counties Financial Transactions Report*. Similar classifications enhance the comparability of governmental financial statements and improve their usefulness for comparative analysis purposes.

Where appropriate, counties may supplement these classifications with additional ones in light of local circumstances. Some counties will not need all of the accounts included in this chapter. Only the necessary accounts should be used.

The accounts used in this chapter are numbered consecutively. The 100 series is for Assets, the 200 series is for Deferred Outflows of Resources, the 300 series is for Liabilities, the 400 series is for Deferred Inflows of Resources, the 500 series is for Fund Balance and Net Position, and the 600 series is for Financing Sources/Uses and Budgetary accounts. A county may develop its own numbering system as long as the system allows the county to comply with statutory reporting requirements. Each county should develop an account coding system consistent with its own accounting needs.

An account coding system permits the identification of individual accounts without reporting the full titles in each instance. It also facilitates the referencing of entries on documents and records and aids in reflecting account relationships. Additionally, all modern financial accounting software requires a unique alphanumeric code for each specific account.

Current Assets

According to GASB Cod. Sec. 1800.109 (Section 1800, paragraph .109):

> For accounting and financial reporting purposes, the term *current assets* is used to designate cash and other assets or resources commonly identified as those that are reasonably expected to be realized in cash or sold or consumed within a year. Therefore, current assets generally include such resources as:
>
> > a) cash available for current operations and cash equivalents;
> >
> > b) inventories of merchandise, raw materials, goods in process, finished goods, operating supplies, and ordinary maintenance material and parts;
> >
> > c) trade accounts, notes, and acceptances receivable;
> >
> > d) receivables from taxpayers, other governments, vendors, customers, beneficiaries, and employees, if collectible within a year;
> >
> > e) installment or accounts and notes receivable if they conform generally to normal trade practices and terms within the business-type activity;
> >
> > f) marketable securities representing the investment of cash available for current operations; and
> >
> > g) prepayments such as insurance, interest, rents, unused royalties, current paid advertising service not yet received, and operating supplies.

Note that prepayments are not current assets in the sense that they will be converted into cash, but in the sense that, if not paid in advance, they would require the use of current assets within a year. As discussed in GASB Cod. Sec. 1800.111 (Section 1800, paragraph .111), unearned discounts (other than cash, quantity discounts, etc.), finance charges, and interest included in the face amount of receivables should be shown as a deduction from the related receivables.

Other Assets

In some instances, restriction of assets, primarily cash, is required or prudent. Such action ensures that the resources are available when needed. The restriction of cash or other assets could be mandated, as in the case of loan requirements, or optional, as in the case of a capital asset replacement reserve.

Restricted assets have external enforceable limitations and include money or other items of value received by or promised to an organization, the use of which is legally or contractually restricted. The restrictions generally arise from externally imposed requirements, such as those imposed by law. Some examples include:

- Cash with fiscal agent
- Customer deposits
- Revenue bond construction account
- Capital asset replacement

Noncurrent assets are expected either to be liquidated or consumed beyond one year or are restricted from being liquidated in the current year. Assets under this classification would include restricted assets (noncurrent), capital assets (not being depreciated), capital assets (being depreciated), and other noncurrent assets.

General capital assets, such as land, easements, buildings, infrastructure, intangible assets (e.g. software, trademarks, etc.) and equipment purchases used by governmental funds should be recorded as a capital outlay expenditure in the governmental funds and not represented as a fund asset. However, the capital asset is removed from expenditures and shown in the balance sheet when reported in the local governments' government-wide financial statements.

Inexhaustible capital assets should be presented in the proprietary and fiduciary funds and government-wide financial statements of net position.
Refer to Chapter 9, *Reporting Assets*, for additional information.

Current Liabilities

As stated in GASB Cod. Sec. 1800.113 (Section 1800, paragraph .113), the term current liabilities "is primarily used to designate obligations whose liquidation is reasonably expected to require the use of existing resources properly classified as current assets, or the creation of other current liabilities." The term is intended to include obligations the government expects to liquidate within one year.

This includes liabilities such as:

- payables incurred to acquire materials and supplies for current services;
- collections received in advance of services;
- debts that arise from operations of the operating cycle, such as accruals for wages, salaries, commissions, rentals, and royalties;
- short-term debts arising from the acquisition of capital assets;
- maturities of long-term obligations;
- amounts required to be expended within one year under sinking fund provisions; and
- collections or acceptance of cash or other assets on behalf of third parties.

The current liability classification also includes obligations that are either due on demand or will be due on demand within one year from the date of the financial statements.

Refer to Chapter 10, *Reporting Liabilities,* for additional information.

Deferred Resources (Outflows/Inflows)

Inflows of resources (such as accounts receivable from revenues) are an acquisition of net assets applicable to the current reporting period. *Outflows of resources* are a consumption of net assets applicable to the current reporting period, for example (e.g., salaries and wages paid for work performed). When outflows or inflows of resources are applicable to future periods, they are deferred for reporting and shown in the financial statements separately as <u>deferred outflows of resources</u> or <u>deferred inflows of resources</u>.

In governmental funds, deferred outflows of resources and deferred inflows of resources represent certain defined transactions related to future periods that do not qualify for treatment as either assets or liabilities (e.g., property taxes levied in the current year to finance the subsequent year's budget).

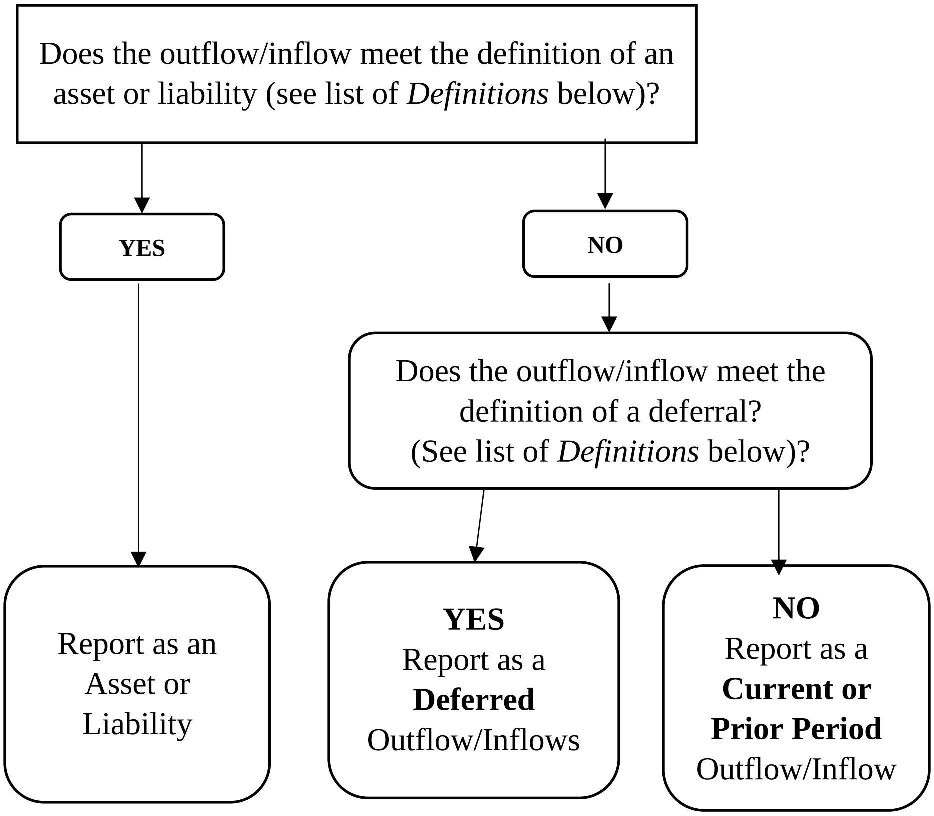
Amounts that are required to be reported as deferred outflows of resources should be reported in a separate section following assets in the Statement of Net Position. Similarly, amounts that are required to be reported as deferred inflows of resources should be reported in a separate section following liabilities in the Statement of Net Position.

A deferred outflow of resources has a positive effect on the current reporting period's net position, similar to assets, deferred inflows of resources has a negative effect on the current reporting period's net position, similar to liabilities. Notwithstanding those similarities, deferred outflows of resources are not assets, and deferred inflows of resources are not liabilities and, therefore should not be included in those sections of a statement of financial position. Additionally, the use of the term "deferred" is limited to items reported as deferred outflows of resources or deferred inflows of resources and should not be used in connection with any other account title.

The primary differences between <u>current</u> outflows/inflows of resources and <u>deferred</u> outflows/inflows of resources is the timing of when expenses and revenues are recognized, and the financial statements on which they are reported.

Current outflows/inflows of resources (expenses/revenues) are recognized when incurred/received and are reported on the income statements. Deferred outflows/Deferred inflows of resources (deferred expenses/revenues), on the other hand, are "deferred" (delayed) until a future period and are reported on the Statement of Net Position following Assets/Liabilities.

The following flowchart can be used to determine whether or not an outflow or inflow meets the definition of an asset, liability, a current outflow/inflow, or a deferred outflow/inflow.



Outflows/Inflows Flowchart Instructions

- Use the flowchart at left to determine whether a transaction is an asset/liability, current/prior outflow/inflow, or a deferred outflow/inflow.
- Refer to the list below for transaction types that may be classified as an asset/liability, current/prior outflow/inflow, or a deferred outflow/inflow

- ***Assets*** are resources with present service capacity that the government presently controls.
- ***Liabilities*** are present obligations to sacrifice resources that the government has little or no discretion to avoid.
- A ***deferred outflow of resources*** is a consumption of net position by the government that is applicable to a future reporting period.
- A ***deferred inflow of resources*** is an acquisition of net position by the government that is applicable to a future reporting period.

Common Outflows/Inflows

Items That May Be Classified As Outflows/Inflows

Items listed in the following chart should first be filtered through the Outflows/Inflows Flowchart in the prior section to determine whether the item is an asset/liability, a current outflow/inflow, or a deferred outflow/inflow. The following list is not all-inclusive.

Term	Definition
Charges for Current Services (Governmental Fund)	Charges for current services exclusive of revenues of proprietary funds.
Contributions and Donations From Private Sources	Financial resources provided by private contributors.
Escheat (Property)	The State as legal "sovereign" typically takes custody of private property when the owner cannot be found. Examples would include estates without an heir or an abandoned bank account.
Extraordinary Items	Transactions or other events that are both unusual in nature and infrequent in occurrence.
Fines	Includes money exacted as a penalty by a court or other authority. Examples include fines imposed by a commission for statutory offenses, violation of lawful administrative rules and regulations, and neglect of official duty.
Forfeitures	Includes money derived from confiscating deposits held as performance guarantees.
Insurance Other Than Employee Benefits	Expenditures for all types of insurance coverage, including property, liability, and fidelity, exclusive of employee benefits.
Intergovernmental Expenditures	Includes expenditures made by one level or unit of government to another in support of government activities administered by the recipient. Excluded from this classification are matching employer contributions by a government to a pension or retirement system administered by another government.
Intergovernmental Payable	Amounts owed by one government entity to another. For example, the City of Elk Grove owes money to a Special District in Sacramento County for providing garbage disposal services.
Intergovernmental Receivable	Represents balance of amounts due to the reporting agency from another government. The amounts may represent intergovernmental grants, entitlements, or shared revenues. May also represent taxes collected for the reporting government by an intermediary collecting government, loans, and charges for goods or services rendered by the reporting government to another government.
Intergovernmental Revenues	Revenues collected from one government on behalf of another. Examples include operating grants, entitlements, shared revenues, or payments in lieu of taxes.
Issuance Cost (specify debt)	Costs associated with underwriting and bond issuance. Generally, these costs include legal fees, and other costs associated with bond issuance.

Term	Definition
Official/Administrative Fees	Services in support of the government's various policy-making and managerial activities. Includes management consulting activities directed toward general governance or business and financial management of the government, election, and tax assessing and collecting services.
Other Financing Uses	Includes financial outflows classified separately from expenditures.
Penalties and Interest on Delinquent Taxes	Amount assessed as penalties for the payment of taxes after their due date, and the interest charge on delinquent taxes from their due date to the date of actual payment. Separate accounts should be used for penalties and interest on each type of tax (e.g., general property tax, general and selective sales, and use taxes).
Printing and Binding Fees	Expenditures for printing and binding, usually according to specifications of the government. Includes designing and printing forms and posters, as well as printing and binding government publications.
Proceeds of General Capital Asset Dispositions	Financial inflows provided from the disposition of general capital assets (e.g., sales of buildings, compensation for loss of general capital assets).
Purchased Property Services	Services purchased to operate, repair, maintain, and rent property owned or used by the government. These services are performed by persons other than government employees.
Regulated Operations	Rate actions of a regulator can result in a deferred inflows of resources being imposed on a regulated business-type activity. For example, a regulator can establish current rates intended to recover costs that are expected to be incurred in the future with the understanding that if those costs are not incurred, future rates will be reduced by corresponding amounts. The regulated business-type activity should not recognize the amounts charged pursuant to such rates as revenue. Those amounts should be reported as deferred inflows of resources and recognized as revenue when the associated costs are incurred. A regulator can require that a gain or other reduction of net allowable costs be given to customers over future periods. If a gain or other reduction of net allowable costs is to be allocated over future periods for rate-making purposes, the regulated business-type activity should not recognize that gain or other reduction of net allowable costs in the current period. It should be reported as a deferred inflow of resources for future reductions of charges to customers that are expected to result.
Rentals	Costs for renting or leasing land, buildings, equipment, and vehicles.
Rents and Royalties	Financial resources derived from the use by others of the government's tangible and intangible assets.
Special Assessments	Amounts levied against certain properties to defray all or part of the cost of a specific capital improvement or service deemed to benefit those properties primarily.
Special Assessment Financing	Resources provided by the issuance of bond debt for which the government is obligated to defray all or part of the cost of a specific capital improvement.

Term	Definition
Special Items	Significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.
Travel	Expenditures for transportation, meals, hotel, and other expenses associated with staff travel for the government. Payments for per diem in lieu of reimbursements for subsistence (room and board) are also charged here.

Uncommon Outflows/Inflows

Items listed in the following chart are rarely deferrals; however, they should be first filtered through the Outflow/Inflow Flowchart in the prior section to determine whether the item is an asset/liability, a current outflow/inflow, or a deferred outflow/inflow. The list below is not all-inclusive.

Term	Definition
Advance to Other Funds (specify fund)	Long-term loans to other funds.
Advance from Other Funds (specify fund)	Long-term loans from other funds.
Due to Other Fund (specify fund)	Amounts due to other funds for goods and services normally transferred in the following fiscal year.
Due From Other Fund (specify fund)	Amounts due from other funds for goods and services normally transferred in the following fiscal year.
Due To Component Unit	Amounts owed by a primary government to a discretely presented component unit as a result of goods or services provided or loans made by the discretely presented component unit.
Due From Component Unit	Amounts owed by a discretely presented component unit to a primary government as a result of goods or services provided or loans made to the discretely presented component unit.

Examples of Deferred Outflows/Inflows of Resources

Most grants made and received by local governments are expenditure-driven. In other words, local governments first spend money on a program or function and then qualify to receive a grant reimbursing them. Sometimes a local government is required to meet certain conditions other than spending money before the grantor will provide the grant payment, even though grants are often paid before the recipient or receiving special district has met all of the eligibility requirements.

If a local government receives a $500 grant payment but has not yet met all of the requirements necessary to be eligible for the grant, it technically owes that grant payment back to the grantor until it meets the requirements. For that reason, the recipient should report a liability and the provider of the grant should report an asset until all of the eligibility requirements have been met (with the exception of time requirements).

(A)	Assets	+	Deferred Outflows	-	Liabilities	-	Deferred Inflows	=	Net Position
	$500 Cash			-	$500 Grants Received in Advance			=	No Change

Alternatively, if a cash grant is received and all of the eligibility requirements have been met (except for the time requirement), and the grant will not be not be used until the next fiscal year. The grant should be recognized as a deferred inflow of resources.

(B)	Assets	+	Deferred Outflows	-	Liabilities	-	Deferred Inflows	=	Net Position
	$500 Cash			-			$500 Grants With Time Requirements	=	No Change

There is no effect on net position in either case. In (A), the recipient local government has not yet done what is required in order to be eligible for the grant, and if it never meets the eligibility requirements, then the grant should be returned. In (B), however, the local government should wait for the next fiscal year; the inflow is related to a future period and, therefore, should be reported as a deferral.

7.04 Chart of Accounts—Balance Sheet

Current Assets

In some cases, the accounts Advances To/From and Due To/From may be current or deferred outflows/inflows of resources. Refer to the outflows/inflows flowchart and list of common/uncommon outflows/inflows of resources previously discussed in this section for additional guidance.

The definitions in the following chart of accounts act as a guide to show how the accounts may be used. In addition to the accounts listed, other accounts may be required in the preparation of financial statements.

Code	Accounts	Definition
100	Cash (including cash equivalents)	Currency, coin, checks, checking accounts, savings accounts, money orders, and bankers' drafts on hand or on deposit with the county treasurer.
101	Petty Cash	A sum of money set aside for making change or paying small obligations for which the issuance of a voucher or warrant would be too expensive and time-consuming.
102	Certificate of Deposit	A receipt given by a bank for the deposit of funds for a specific time. Certificates of deposit are usually negotiable and bear an interest rate greater than that for ordinary bank savings accounts.
103	Cash With Fiscal Agent (Restricted Asset)	Deposits with fiscal agents, such as commercial banks, for the payment of matured bonds and interest.
104	Deposits with Others	Amounts placed with others as a condition precedent to a contractual offer, a legal processing, or performance by a second party.
105	Temporary Investments	Securities and real estate held for the production of income in the form of interest, dividends, rentals, or lease payments. This account does not include real estate used in governmental operations.
106	Accounts Receivable	The uncollected portion of earned revenues and reimbursed projects for which a receivable account has not otherwise been provided.
107	Notes Receivable	The portion of the notes receivable which is to be received within one year of the balance sheet date.
108	Taxes Receivable	The uncollected portion of taxes that a government has levied.
109	Other Receivables	The current portion of other receivables not otherwise accounted for.
110	Inventory of Materials and Supplies	Materials and supplies on hand for future consumption.

Code	Accounts	Definition
111	Allowance for Uncollectible Taxes	That portion of taxes receivable which it is estimated will never be collected. The balance in this account is reported as a deduction from Taxes Receivable to indicate net taxes receivable.
112	Allowance for Uncollectible Accounts Receivables	That portion of Accounts Receivable which it is estimated will never be collected. The balance in this account is reported as a deduction from Accounts Receivable to indicate net accounts receivable.
113	Prepaid Items	Charges entered in the accounts for benefits not yet received. Examples of prepaid items are prepaid rent, prepaid interest, and unexpired insurance premiums.

Allowances for uncollectible accounts should be established, as appropriate. For all fund types, the offsetting entry is a reduction in the appropriate accounts. For example, with regard to property taxes, the accounts affected could be Property Tax Receivable and Allowance for Uncollectible Property Taxes.

Capital Assets

Capital assets owned by proprietary or fiduciary funds are accounted for through those funds. Other fund capital assets should be maintained in a capital assets accounting system and maintained in sufficient detail.

The definitions in the following chart of accounts act as a guide to show how the accounts may be used. In addition to the accounts listed, other accounts may be required in the preparation of financial statements.

Code	Accounts	Definition
116	Land	The cost of land purchased, or if acquired via gift or donation, the estimated acquisition value on the date received. Land that is part of the county road system or flood control districts is not included.
117	Buildings and Improvements	The cost of all permanent buildings, structures, monuments, fences, retaining walls, pavement sidewalks, bridges (not part of the county road system), grading and landscaping, docks and waterfront improvements, tunnels, viaducts, canals, and other feature that adds value to property. This includes the cost of fixtures attached to and forming a permanent part of buildings and improvements. It also includes the costs of improvements made by the county to leased property. If the items listed in the prior sentence are acquired by gift or donation, they are recorded at the estimated acquisition value on the date received.

Code	Accounts	Definition
118	Accumulated Depreciation—Buildings and Improvements	The accumulation of periodic credits made to record the expiration of the estimated service life of buildings or improvements.
119	Leasehold Improvements	Alterations made to rental premises in order to customize it for the specific needs of a tenant. Leasehold improvements include painting, installing partitions, changing the flooring, putting in customized light fixtures, etc.
120	Accumulated Depreciation—Leasehold Improvements	The accumulation of periodic credits made to record the expiration of the estimated service life of leasehold improvements.
121	Furniture and Fixtures	Movable furniture, fixtures, or other equipment that has no permanent connection to the structure of a building or utilities.
122	Accumulated Depreciation—Furniture and Fixtures	The accumulation of periodic credits made to record the expiration of the estimated service life of furniture and fixtures.
123	Equipment	The cost of all physical property of a permanent nature other than land, buildings, and improvements. If the items listed in the prior sentence are acquired by gift or donation, they are recorded at the estimated acquisition value on the date received.
124	Accumulated Depreciation—Equipment	The accumulation of periodic credits made to record the expiration of the estimated service life of the equipment.
125	Infrastructure	The cost or estimated historical cost of roads, bridges, tunnels, drainage systems water and sewer systems, dams, lighting systems, sidewalks, etc.
126	Accumulated Depreciation—Infrastructure	The accumulation of periodic credits that record the expiration of the estimated useful life of the infrastructure.
127	Construction in Progress	The cost of construction work undertaken but not yet completed.
128	Intangible Assets	The cost or historical cost of easements, land use rights (water rights, timber rights, etc.), computer software, patents, and trademarks.
129	Accumulated Amortization	The accumulation of periodic credits that record the expiration of the estimated useful life of intangible assets.

Deferred Outflows of Resources

In some cases, the accounts Advances To/From and Due To/From may be current or deferred outflows/inflows of resources. Refer to the outflow/inflow flowchart and list of common/uncommon outflows/inflows of resources previously discussed in this section for additional guidance.

The definitions in the following chart of accounts act as a guide to show how the accounts may be used. In addition to the accounts listed, other accounts may be required in the preparation of financial statements.

Code	Accounts	Definition
200	Grants (Provider)	Grant paid in advance of meeting the timing requirements.
201	Matured Bonds Payable	Deferred amounts from refunding of debt (debits). Examples include unpaid bonds that have reached or passed their maturity date.
202	Refundings of Debt (Loss)	Deferred loss from the difference between reacquisition price and net carrying amount of old debt.
203	Sale-Leaseback (Loss)	Loss on the sale of property that is accompanied by a leaseback of all or any part of the property for all or part of its remaining economic life.
204	Hedging Derivative Instruments	Accumulated decrease in fair value of hedging derivative instruments.
205	Government-Mandated Nonexchange Transactions (Provider)	Resources received before time requirements are met, but after all other eligibility requirements are met.
206	Intra-Entity Transfers of Future Revenues (Transferee Government)	Amount paid to be recognized over the duration of the sale agreement.
207	Voluntary Nonexchange Transactions (Provider)	Resources received before time requirements are met, but after all other eligibility requirements are met.

Current Liabilities

In some cases, the accounts Advances To/From and Due To/From may be current or deferred outflows/inflows of resources. Refer to the outflow/inflow flowchart and list of common/uncommon outflows/inflows of resources previously discussed in this section for additional guidance.

The definitions in the following chart of accounts act as a guide to show how the accounts may be used. In addition to the accounts listed, other accounts may be required in the preparation of financial statements.

Code	Accounts	Definition
300	Warrants Payable (Optional)	The amount of warrants issued that have not yet been paid.
301	Vouchers Payable	Liabilities for goods and services evidenced by vouchers that have bene pre-audited and approved for payment, but have not been paid.
302	Accounts Payable	Amounts owed on open account to private persons or organizations for goods and services furnished to the county (but not including amounts owed to other funds or to other governments).
303	Salaries and Benefits Payable	Amounts owed because of accrued salaries and benefits.
304	Compensated Absences Payable	Amounts owned to employees for unpaid vacation and sick leave liabilities.
305	Interest Payable	Unpaid interest on bonds that have reached or passed their maturity date.
306	Accrued Expenses	An accounting expense recognized in the books before it is paid for.
307	Short-term Loans	This account is comprised of any debt incurred by a county that is due within one year.
308	Current Maturities of Long-Term Debt	The total amount of long-term debt that should be paid within the next year.
309	Capitalized Lease Obligations	Current portions of the discounted present value of total future stipulated principal payments on lease-purchase agreements. See account number 316, *Other Long Term Liabilities* for the long-term position.
310	Other Current Liabilities	Current liabilities not included in the above categories.
311	Unearned Revenue	Unearned revenues arise when revenues are received in an exchange transaction prior to their normal time of receipt and should be recorded as liabilities. Revenues that are the result of imposed and other nonexchange transactions have separate recognition rules that apply and are generally recorded as deferred inflows of resources.

Long-Term Liabilities

Long-term liabilities of proprietary and fiduciary funds are accounted for through those funds. Governmental fund long-term liabilities should be maintained in sufficient detail in the debt accounting records to provide sufficient information for financial reporting.

The definitions in the following chart of accounts act as a guide to show how the accounts may be used. In addition to the accounts listed, other accounts may be required in the preparation of financial statements.

Code	Accounts	Definition
312	Loans	Long-Term principal portion.
313	Notes Payable	Long-Term principal portion (other than bank notes).
314	Bonds Outstanding	Long-Term principal portion of the unmatured portion of bonds sold.
315	Capitalized Lease Obligations	The non-current unpaid principal on capital leases.
316	Other Long-Term Liabilities	A number of other long-term liabilities that should be recorded, if appropriate, are below: • Total Pension liability or Net Pension Liability* • Other Post-Employment Benefits • Worker's Compensation liability • Other self-insurance liabilities • Compensated absences

* Net Pension liability is the difference between total pension liability and pension plan fiduciary net position

Deferred Inflows of Resources

In some cases, the accounts Advances To/From and Due To/From may be current or deferred outflows/inflows of resources. Refer to the outflow/inflow flowchart and list of common/uncommon outflows/inflows of resources previously discussed in this section for additional guidance.

The definitions in the following chart of accounts act as a guide to show how the accounts may be used. In addition to the accounts listed, other accounts may be required in the preparation of financial statements.

Code	Accounts	Definition
400	Deposits from Others	Amounts received from others as a condition precedent to a contractual offer, a legal proceeding, or performance by the county.
401	Unavailable Revenues	Resource inflows that do not qualify for recognition as revenue in a governmental fund because they are not yet considered to be available.

Code	Accounts	Definition
402	Property Taxes Receivable	Resources received or reported as a receivable before (a) the period for which property taxes are levied or (b) the period when resources are required to be used or when use is first permitted for all other imposed nonexchange revenues in which the enabling legislation includes time requirements.
403	Assessments Received in Advance	Derived tax revenues (e.g., sales tax, MVFT, hotel/motel tax, etc.), imposed nonexchange revenues, and/or any other assessments received in advance.
404	Hedging Derivative Instruments	Accumulated increase in fair value of hedging derivative instruments.
405	Service Concession Arrangements (Transferor)	Difference between any up-front payments or the present value of installment payments (asset) received from an operator and any contractual obligations (liabilities).
406	Regulatory Credits	Regulatory credits (gains or other reductions).
407	Sale-Leaseback (Gain)	Gain on the sale of property that is accompanied by a leaseback of all or any part of the property for all or part of its remaining economic life.
408	Securities Sold Under Agreement to Repurchase	Proceeds from sales of future revenues that have been added to Investments for “reverse repo” of the investment pool.
409	Refundings of Debt (Gain)	Deferred gain from the difference between reacquisition price and net carrying amount of old debt.
410	Tax Anticipation Notes Payable	Taxes received in advance for amounts owed on notes issued in anticipation of the collection of taxes.
411	Grants (Recipient)	Grants received in advance of meeting timing requirements.
412	Imposed Nonexchange Revenue Transactions	Resources associated with imposed nonexchange revenue transactions received or reported as a receivable before (a) the period for which property taxes are levied or (b) the period when resources are required to be used or when use is first permitted for all other imposed non-exchange revenues in which the enabling legislation includes time requirements.
413	Government-Mandated Nonexchange Transactions (Recipient)	Resources received before time requirements are met, but after all other eligibility requirements are met.
414	Voluntary Nonexchange Transactions (Recipient)	Resources received before time requirements are met, but after all other eligibility requirements are met.
415	Intra-Entity Transfers of Future Revenues (Transferor Government)	Amount received reported in the government-wide and fund financial statements and recognized as revenue over duration of the sale agreement.

Code	Accounts	Definition
416	Sales of Future Revenues (Transferor Government)	Proceeds should be reported in both the government-wide and fund financial statements, except for instances wherein recognition as revenue in the period of sale is appropriate. Revenue should be recognized at the time of the sale only if the revenue sold was recognized previously because of the uncertainty of realization or the inability to reliably measure the revenue.
417	Loan Origination Fees (Points)	Points received by a lender in relation to a loan origination should be reported as a deferred inflow of resources and recognized as revenue in a systematic and rational manner over the duration of the related loan.

Fund Balance and Net Position

Fund balance should be used only in connection with governmental funds and should not be used in government-wide financial statements or in funds that use the full accrual basis of accounting. Net position should be displayed in three components: net investment in capital assets; restricted; and unrestricted. The following chart illustrates the related terminology.

The definitions in the following chart of accounts act as a guide to show how the accounts may be used. In addition to the accounts listed, other accounts may be required in the preparation of financial statements.

Fund Balance

Code	Accounts	General Definition
500	Nonspendable Fund Balance—____	Fund balance amounts that are segregated and cannot be spent because they are (a) not in spendable form (not expected to be converted to cash) or (b) legally or contractually required to be maintained intact for specific purposes and not available for financing the budget requirements.
501	Restricted Fund Balance—____	The amount of fund balance that is segregated for specific purposes due to constraints placed by external creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation and is not available for financing the budget requirements.
502	Committed Fund Balance—___	The amount of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority and is not available for financing the budget requirements.
503	Assigned Fund Balance—____	The amount of fund balance that has been segregated to indicate the government's tentative plans for financial resource utilization in a future period, such as for equipment replacement. The tentative managerial plans or intent should be clearly distinguished from nonspendable, restricted, or committed fund balances.

Code	Accounts	General Definition
504	Unassigned Fund Balance	That portion of the fund balance that has not been restricted, committed, or assigned to specific purposes and is available to finance the budgetary requirements.
The following account is optional and may be used by counties to facilitate the accounting for encumbrances. However, for financial reporting purposes, this account should be reclassified to restricted, committed, or assigned fund balance depending on the county's spending prioritization policy.		
505	Fund Balance—Reserved for Encumbrances	The amount of actual fund balance reserved for outstanding contractual obligations for which goods and services have not yet been received.

Net Position

Code	Accounts	Definition
506	Net Position—Net Investment in Capital Assets	Component of net position consisting of capital assets (including restricted capital assets), net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
507	Net Position—Restricted For ______	Component of net position consisting of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. When constraints on its use are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or law or regulations of governments, or (b) imposed by law through constitutional provisions or enabling legislation.
508	Net Position—Unrestricted ______	Component of net position consisting of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the Net Investment in Capital Assets or the Restricted components of net position.

Financing Sources/Uses and Budgetary Accounts

The definitions in the following chart of accounts act as a guide to show how the accounts may be used. In addition to the accounts listed, other accounts may be required in the preparation of financial statements.

Code	Accounts	Definition
600	Other Financing Sources	Increases in the net position of a governmental fund other than revenues. Examples include proceeds from debt issuance, capital asset sales and transfers of resources (e.g., assets) from other funds.
601	Other Financing Uses	Decreases in the net position of a governmental fund other than expenditures. Examples include debt extinguishments, payments of lease transactions, and transfers of resources (e.g., assets) to other funds.

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7.05 Stabilization Arrangements

As discussed in GASB Cod. Sec. 1800.180 (Section 1800, paragraph .180), some local governments formally set aside part of their fund balance for emergencies, working capital, cash flows, revenue shortages, or other contingencies. The authority to set aside these amounts usually comes from statute, ordinance, resolution, charter, or constitution. These funds are known as *stabilization arrangements*.

For local governments to be able to set aside these types of funds as restricted or committed, the local government should define when these amounts may be used and specify a situation that is not expected to occur on a routine basis. For example, identifying funds to be accessed in an emergency does not sufficiently detail the circumstances or conditions that should be met to consider the funds committed. The local government entity should be more specific in defining an emergency to commit these funds. If the stabilization arrangement meets the criteria outlined in GASB Cod. Sec. 1800.180 (Section 1800, paragraph .180), it should be reported as either restricted or committed, depending on the source of the constraints. Stabilization arrangements that do not meet the criteria should be reported as part of unassigned fund balance in the general fund.

As discussed in GASB Cod. Sec. 1800.186 (Section1800, paragraph .186), governments that establish stabilization arrangements, even if an arrangement does not meet the criteria to be classified as restricted or committed, should disclose the following information in the notes to the financial statements:

- The authority for establishing stabilization arrangements (for example, by statute or ordinance);
- The requirements for the additions to the stabilization amount;
- The conditions under which stabilization amounts may be spent; and
- The stabilization balance, if not apparent on the face of the financial statements.

7.06 General Reserves

It is recommended that a general reserve be established in whatever fund might need such a reserve. For financial reporting purposes, the general reserve should be classified as either assigned or committed if the general reserve represents amounts that have been constrained for specific purposes. Classifying the general reserve to restricted is appropriate when the amounts are restricted to specific purposes and when constraints placed on those resources are either imposed by others external to the government or imposed by law through constitutional provisions or enabling legislation, including ordinances. The general reserve established in the general fund without specific purpose constraints should be classified as unassigned.

The general reserve is an appropriation of resources to cover potential cash flow shortfalls. The general reserve can only be established upon resolution adopted by the governing body of the local government. The following terms are commonly used when using a general reserve:

- *Establishment*—The general reserve is established during the budget process primarily to provide "dry period financing" (when financial resources are insufficient to meet obligations).
- *Adjustment*—The general reserve may be adjusted only during the annual budget adoption process, except during a legally declared emergency as defined in Government Code section 29127.
- *Use of Reserve*—The general reserve is only available for use only as defined by the governing body and may be committed, restricted, assigned, or unassigned.

For financial reporting purposes, the general reserves should be classified as restricted, committed, or assigned fund balance dependent upon the constraints placed on those resources.

Expenditures/Expenses

7.07 Expenditure and Expense Classifications

Whether transactions are considered to be an expenditure or an expense depends upon the nature of the fund in which it is recorded. Expenditures are the focus of governmental fund financial statements, while expenses are the focus of nongovernmental fund financial statements.

As discussed in GASB Cod. Sec. 1800.130 (Section 1800, paragraph .130), the term *expenditures* means decreases in (uses of) fund financial resources other than through interfund transfers and expirations of demand bond takeout agreements (refer to GASB Cod. Sec. D30 for additional information on demand bond takeout agreements). Because governmental funds operate on a budgetary basis rather than an operating basis, the term is more relevant to a reduction in a fixed amount.

Local governments should use multiple classifications (such as functions/programs, objects/object classes, activities, organization unit, location, and character) to meet the applicable reporting and budgetary requirements. As stated in GASB Cod. Sec. 1800.132 (Section 1800, paragraph .132):

> Multiple classification of governmental fund expenditure data is important from both internal and external management control and accountability standpoints. It facilitates the aggregation and analysis of data in different ways for different purposes and in manners that cross fund and organization lines, for internal evaluation, external reporting, and intergovernmental comparison purposes. The major accounting classifications of expenditures are by fund, function (or program), organization unit, activity, character, and object class.

Expenses are decreases in net position resulting from the outflow of resources in the course of operations for nongovernmental funds (includes providing goods and services) and represent the full costs associated with providing services. Expense accounts reflect changes in the net position as a result of operations during a specified time period.

As discussed in GASB Cod. Sec. 1800.141 (Section 1800, paragraph .141), local governments should report expenses by function (program), as well as by object, except for those that meet the definitions of special or extraordinary items. Direct expenses are those that are specifically associated with a particular service or program; they should be clearly identifiable to that function in the financial statements. Some functions, such as support services and administration, are indirect expenses of other functions. Local governments are not required to allocate these indirect expenses to other functions; however, they should do so if statutorily required.

Some local governments charge funds or programs (through internal service funds or the general fund) for indirect "centralized" expenses, which may include an administrative overhead component. Local governments are not required to identify and eliminate these administrative overhead charges, but the summary of significant accounting policies should disclose whether or not they are included in direct expenses.

Expenditures are usually related to their revenue stream, therefore direct expenditures may follow activity classifications. However, the use of multiple classifications, such as additional codes by object or by organizational unit often allows for better evaluation of operations and budgetary controls. Proprietary fund expenses should be classified in essentially the same manner as those found in similar business organizations, functions, or activities.

According to GASB Cod. Sec. 1800.140 (Section 1800, paragraph .140), governments should provide data in the statement of activities at a more detailed level if the additional detail provides more useful information without significantly reducing the readers' understanding of the statement. No specific level of detail is appropriate for all governments. While some governments will have hundreds of programs, others may have only a few. It is for that reason that reporting in greater detail than the minimum requirements (see the following paragraph) may be practical for some governments, but not for others.

The government-wide statement of activities, at a minimum, should present the following according to GASB Cod. Sec. 1800.139 (Section 180, paragraph .139):

- Activities accounted for in governmental funds by function to coincide with the level of detail required in the governmental fund statement of revenues, expenditures, and changes in fund balances.
- Activities accounted for in enterprise funds by different identifiable activities.

7.08 Use of Objects (Accounts) and Subobjects

Expenditures should be classified by *object classes*; that is, according to the types of items purchased or services obtained. Examples are "goods and services", "salaries and benefits", "capital outlays", and "special and extraordinary items". Use of object classes should be limited to a minimum to reduce creation of complex procedures and statement categories; their use depends on the reporting needs of the local government.

The use of subobjects, usually represented as accounts, is left to local choice. Samples of subobject accounts are listed in Section 7.09, *Chart of Objects (Accounts) and Subobjects*.

Cost analyses, statistical comparisons, and other reporting requirements may make a further segregation of subobjects desirable. In this event, the subobject listed on the chart may be segregated into the desired subaccount. For example, "Insurance" might be set up in the accounts as:

- Insurance—Public Liability
- Insurance—Fire and Burglary
- Insurance—Other

Used in this manner, the chart of accounts allow local governments to prepare financial reports for informational, statistical, and other statutory purposes, such as the State Controller's financial transactions report. Subobjects can be produced separately or merged, as needed, for reporting purposes.
A suggested chart of accounts is provided in the following section.

7.09 Chart of Objects (Accounts) and Subobjects

Accounts are numbered in sequence for reference purposes only.

Chart of Objects and Subobjects			
Salaries and Employee Benefits			
1	Salaries and Wages	**4**	Workers' Compensation Insurance
2	Retirement	**5**	FICA/Medicare/OASDI
3	Employee Group Insurance	**6**	Other Benefits
Services and Supplies			
10	Agricultural	**21**	Miscellaneous Expense
11	Clothing and Personal	**22**	Office Expense
12	Communications	**23**	Professional and Specialized Services
13	Food	**24**	Publications and Legal Notices
14	Household Expense	**25**	Rents and Leases—Equipment
15	Insurance	**26**	Rents and Leases—Buildings and Improvements
16	Jury and Witness Expense	**27**	Minor Equipment
17	Maintenance—Equipment	**28**	Special Departmental Expense
18	Maintenance—Buildings and Improvements	**29**	Transportation and Travel
19	Medical, Dental, and Laboratory Supplies	**30**	Utilities
20	Memberships		
Other Charges			
40	Support and Care of Persons	**48**	Taxes and Assessments
41	Bond Redemption	**49**	Depreciation
42	Retirement of Other Long-Term Debt	**50**	Bad Debts
43	Interest on Bonds	**51**	Income Allocation
44	Interest on Other Long-Term Debt	**52**	Contributions to Non-County Governmental Agencies
45	Interest on Notes and Warrants	**53**	Interfund Expenditure
46	Judgments and Damages	**54**	Debt Issuance Costs
47	Rights of Way		
Capital Assets			
60	Land	**63**	Infrastructure
61	Buildings and Improvements	**64**	Intangible Assets
62	Equipment		
Transfers Out			
70	Transfers-Out		
Special Items			
80	Special Items	**81**	Extraordinary Items
Intrafund Transfers			
90	Intrafund Transfers		
Appropriation For Contingencies			
100	Appropriations for Contingencies		

7.10 Explanation of Objects and Subobjects

The table in this section contains the account titles and the recommended use of each account. Use is indicated by an explanation, an example, or both. In some instances, the title alone is considered self-explanatory and indicative of use.

Many of the items of expenditures shown in the preceding index are coded with more than one subobject. The proper classification for each of these items is dependent on its use. For example, an air filter pad purchased for use on a portable air conditioning unit should be posted to Maintenance—Equipment (Account No. 17); an air filter pad used in a built-in air conditioner should be posted to Maintenance—Buildings and Improvements (Account No. 18).

When an item is purchased in quantity and will be used for more than one purpose, the expenditure should be posted to the account that properly reflects the major purpose for which the item is to be used. For example, a cylinder of acetylene gas may be purchased primarily for use in maintaining buildings. Although some of the gas may be used in the maintenance of equipment, the entry amount of the expenditures should be charged to Maintenance - Buildings and Improvements (Account No. 18).

Food, clothing, and related items purchased for indigent persons or others for whom the county has assumed the burden of support and who are not housed in county facilities should be charged to Support and Care of Persons (Account No. 40), rather than the subobject indicating the purpose of the expenditure.

Many items are coded as both Services and Supplies and Capital Assets. The determination as to the proper account classification should be made by applying the capital asset policy.

Expenditures for items not included in this index should be posted to one of the subobject accounts such as Special Departmental Expense (Account No. 28) or Miscellaneous Expense (Account No. 21).

Examples are of two category types and are grouped as follows:

- Under "Include" in the charts are examples of the types of expenditures that should be posted to this account.
- Under "Do Not Include" are examples of the types of expenditures that should not be posted to this account. This category also notes the type of account to which they should be posted. Examples are illustrated on the following pages.

Explanation of Objects and Subobjects		
SALARIES AND EMPLOYEE BENEFITS		
1	**Salaries and Wages**	
	Include • Elected officials • Permanent employees • Extra help • Suggestion awards • Overtime • Premium pay • Compensation to prisoners and inmates for services rendered • Vacation and sick leave pay	**Do Not Include** • Uniform allowances; post to "SERVICES AND SUPPLIES—Clothing and Personal Supplies" • Allowances for incidentals to prisoners and court wards; post to "OTHER CHARGES—Support and Care of Persons"
2	**Retirement**	
	Includes the county's share of the expense of employee retirement programs.	
	Include • Investment-related costs • Administrative • Investment management • Custodial fees • Employer pension contribution • Adjustments to deferred outflows of resources made in the current accounting period	**Do Not Include** • Not recognized employer pension contribution; post to Deferred Outflows of Resources • Contributions that are outside the measurement date
3	**Employee Group Insurance**	
	Includes the county's share of employee group insurance programs.	
	Include • Employer's share of health, dental, life, and accident insurance • Employer's share of unemployment insurance • Employer's share of State disability insurance	**Do Not Include**
4	**Workers Compensation Insurance**	
	Includes the Workers' Compensation premiums paid by the county.	
5	**Federal Insurance Contributions Act (FICA)/Medicare/Old Age Survivors Disability Insurance (OASDI)**	
	Employers share of OASDI and FICA/Medicare.	
6	**Other benefits**	
	Includes employee benefits not covered in the other subobjects.	

Explanation of Objects and Subobjects		
SERVICES AND SUPPLIES		
10	**Agricultural**	
	Include • Agricultural disinfecting and exterminating services • Animal medicines and serums • Custom farming services • Ear tags • Fertilizer • Forage • Insecticides • Livestock registration • Nursery stock • Peat moss • Pest abatement supplies • Seed • Topsoil • Weed killer	**Do Not Include** • Any of these used in building and grounds maintenance; post to “SERVICES AND SUPPLIES: Maintenance—Buildings and Improvements”
11	**Clothing and Personal**	
	Includes items for personal use, including safety appliances.	
	Include • Badges, chevrons • Belts • Buttons • Combs • Facial tissue • Gloves • Goggles, masks • Gowns • Helmets • Raincoats • Rubber boots • Safety clothing • Sewing supplies • Shoes • Slippers • Tobacco • Toilet articles • Uniforms, uniform allowances • Yardage	**Do Not Include**

Explanation of Objects and Subobjects		
SERVICES AND SUPPLIES (continued)		
12	**Communications**	
	Include • Telephone, telegraph and teletype services • Radio and microwave services • Messenger services • Fax machines, pagers, and cell phones	**Do Not Include** • Radio repair services and supplies; post to "SERVICES AND SUPPLIES: Maintenance—Equipment" • Rental of communication equipment; post to "SERVICES AND SUPPLIES: Rents and Leases— Equipment"
13	**Food**	
	Includes nutriments and beverages for human consumption, either (a) presently suitable for consumption or kitchen processing, or (b) not presently suitable, such as livestock and poultry, but intended for ultimate conversion and use as food by the purchasing budget unit.	
	Include • Candy, confectionery • Cereals, cereal products • Cocoa, cocoa products • Coffee substitute • Eggs, egg products • Live animals, poultry, fish, meat, and related by-products • Feed for live animals, poultry, and fish • Milk, milk products • Oleomargarine • Soft drinks • Spices, salt • Sugar, sugar products • Tea • Vegetables, vegetable products	**Do Not Include** • Draft, breeding, and dairy animals; post to "CAPITAL ASSETS—Equipment" • Dietary supplements; post to "SERVICES AND SUPPLIES—Medical, Dental, and Laboratory Supplies" • Spirituous, malt, or vinous liquors; post to "SERVICES AND SUPPLIES—Medical, Dental, and Laboratory Supplies" • Meals furnished jurors; post to "SERVICES AND SUPPLIES—Jury and Witness Expense" • Meals furnished indigents; post to "OTHER CHARGES—Support and Care of Persons"

<table>
<tr><th colspan="3">Explanation of Objects and Subobjects</th></tr>
<tr><th colspan="3">SERVICES AND SUPPLIES (continued)</th></tr>
<tr><td>14</td><td colspan="2">Household Expense</td></tr>
<tr><td></td><td>Include
▪ Kitchen and dining service:
o Chinaware, cooking supplies
o Baking, meat cutting utensils and supplies
o Glassware, napkins, tablecloths
▪ Bedding:
o Bedspreads, blankets, mattresses
o Pillows, pillowcases, sheets
▪ Laundry:
o Clothes pins
o Detergents, soaps, and washing compounds
o Laundry bags, marking ink
o Outside laundry, dry cleaning
▪ Other:
o Brooms, mops, wax and cleaners
o Clothes lockers
o Contractual maid and custodial services
o Curtains, drapes, rugs (when not capitalized)
o Disinfectants, drinking water
o Garbage cans, hot plates, small heaters
o Refuse disposal, soap
o Toilet tissue, towels, and towel service</td><td>Do Not Include
• Supplies issued to individuals for personal use; post to “SERVICES AND SUPPLIES—Clothing and Personal”</td></tr>
<tr><td>15</td><td colspan="2">Insurance</td></tr>
<tr><td></td><td>Include
• Fire
• Burglary
• Collision
• Public liability
• Property damage
• False arrest
• Malpractice
• Boiler
• Individual and blanket bonds
• Forgery
• Money and securities</td><td>Do Not Include
• County share of employee group insurance; post to “SALARIES AND EMPLOYEE BENEFITS—Employee Group Insurance”</td></tr>
</table>

<table>
<tr><th colspan="3">Explanation of Objects and Subobjects</th></tr>
<tr><th colspan="3">SERVICES AND SUPPLIES (continued)</th></tr>
<tr><td rowspan="2">16</td><td colspan="2">Jury and Witness Expense</td></tr>
<tr><td>Include
Fees and expenses of jurors, witnesses, and interpreters (criminal cases only)
Meals, transportation, and hotel accommodations for jurors
Fees and expenses of coroners’ juries</td><td>Do Not Include
Psychiatric services; post to “SERVICES AND SUPPLIES—Professional and Specialized Services”</td></tr>
<tr><td rowspan="3">17</td><td colspan="2">Maintenance—Equipment</td></tr>
<tr><td colspan="2">Includes expenditures for keeping equipment, whether capitalized or not, in efficient operating condition.</td></tr>
<tr><td>Include
Automotive supplies, such as lubricating oil, light bulbs, spark plugs, antifreeze, grease, polish, brake fluid, seat covers, skid chains, batteries, tires and tubes, fan belts, filters
Contractual repairs, overhauls
Gasoline, fuel for central garage vehicles
Communication and radio repair services and supplies
Repair parts
Service contracts for maintenance</td><td>Do Not Include</td></tr>
<tr><td rowspan="3">18</td><td colspan="2">Maintenance—Buildings and Improvements</td></tr>
<tr><td colspan="2">Includes expenditures for maintaining the useful life of buildings and improvements.</td></tr>
<tr><td>Include
Awnings
Boiler compounds
Electrical and plumbing supplies and services
Fire extinguisher refills
Gardening expense
Heating and cooling system repairs
Light globes, fuses
Minor alterations
Nursery stock
Painting supplies and services
Replacement parts that do not result in a betterment
Gardening expense, including weed and pest control supplies for buildings and grounds</td><td>Do Not Include
Lawnmowers, hedgers, shears ladders, etc.; post to “SERVICES AND SUPPLIES—Minor Equipment”
Water, electricity, gas, etc.; post to “SERVICES AND SUPPLIES—Utilities”
Road contractual services; post to SERVICES AND SUPPLIES—Professional and Specialized Services”
Road supplies; post to “SERVICES AND SUPPLIES—Special Department Expense”</td></tr>
</table>

Explanation of Objects and Subobjects		
SERVICES AND SUPPLIES (continued)		
19	**Medical, Dental, and Laboratory Supplies**	
	Includes all types of laboratory supplies.	
	Include • Alcohol • Animals, fish, insects for laboratory tests • Antiseptics • Antitoxins • Artificial limbs • Blood plasma • Crime laboratory supplies • Dentures • Dietary supplements • Drugs • Embalming supplies • Eyeglasses • Grinding compounds • Hypodermic needles • Laboratory enamelware, glassware • Laboratory scales • Medical and dental instruments • Medical gasses • Medicines • Medical soap ▪ Narcotics, pharmaceuticals • Road materials testing supplies • Rubber gloves, sheets • Spirituous, malt, or vinous liquors • Splints • Syringes • X-ray film	**Do Not Include** ▪ Any of the Objects and Subobjects given as part of the assistance program; post to “OTHER CHARGES—Support and Care of Persons”
20	**Memberships**	
	Includes Memberships in societies, associations of officials, trade associations, and other organizations that issue official publications.	

<table>
<tr><th colspan="3">Explanation of Objects and Subobjects</th></tr>
<tr><th colspan="3">SERVICES AND SUPPLIES (continued)</th></tr>
<tr><td rowspan="3">21</td><td colspan="2">Miscellaneous Expense</td></tr>
<tr><td colspan="2">Includes infrequent or minor expenditures, not limited in incidence to any particular department, which are not classified in any other subobject. Care should be exercised in that this account is not used for expenditures that may be properly posted to one of the other subjects.</td></tr>
<tr><td>Include
Cash shortages
Unidentifiable inventory overages and shortages</td><td>Do Not Include</td></tr>
</table>

<table>
<tr><th colspan="3">Explanation of Objects and Subobjects</th></tr>
<tr><th colspan="3">SERVICES AND SUPPLIES (continued)</th></tr>
<tr><td rowspan="3">22</td><td colspan="2">Office Expense</td></tr>
<tr><td colspan="2">Includes expenses for office-type supplies and services.</td></tr>
<tr><td>Include
• Accounting and report forms
• Binders, docket books
• Book binding and repair
• Books, manuals
• Bottled drinking water
• Dictaphone supplies
• Drafting paper
• Envelopes, stamped envelopes
• Filing supplies
• Letterheads
• Letter scales
• Metered postage
• Microfilm
• Office machine ribbons
• Paper
• Paper clips
• Parcel post
• Pencils, Pens
• Pencil sharpeners
• P.O. box rental
• Postcards
• Photography supplies
• Printing and binding
• Punch cards, tabulating forms
• Receipts, receipt books
• Registered mail and special delivery
• Reproductions and blueprints
• Rubber stamps
• Scissors
• Scotch tape
• Small staplers, dating and numbering machines
• Stamps
• Subscriptions for magazines, periodicals, clipping services
• Wastebaskets</td><td>Do Not Include
• Towel services; post to “SERVICES AND SUPPLIES—Household Expense”
• Film development supplies and expenses; post to “SERVICES AND SUPPLIES—Special Departmental Expense”
• Books and periodicals for circulating library use and their repair and bindings; post to “SERVICES AND SUPPLIES—Special Departmental Expense”</td></tr>
</table>

<table>
<tr><th colspan="3">Explanation of Objects and Subobjects</th></tr>
<tr><td colspan="3">SERVICES AND SUPPLIES (continued)</td></tr>
<tr><td>23</td><td colspan="2">Professional and Specialized Services</td></tr>
<tr><td></td><td colspan="2">Includes most professional and skilled services. In some cases, services of this type are excluded, being more properly included under subobject titles indicating the purpose of the expenditure. Any of the following incurred in connection with the acquisition of capital assets—e.g., appraisals, architectural services, etc.—are capitalized.</td></tr>
<tr><td></td><td>Include
• Actuarial studies
• Advertising and marketing
• Aerial surveys
• Ambulance service
• Appraisals
• Architectural services
• Armored car service
• Artists' fees
• Auditing and accounting
• Bounties
• Burial services
• Chemical analyses
• Clerical services
• Consultations
• Data processing services
• Engineering services
• Fees paid to the humane society
• Fiscal agents' fees
• Lecture and musical services
• Management, salary surveys
• Materials testing
• Medical and sobriety examinations
• Medical, dental, and laboratory services
• Microfilm services
• Outside animal boarding expense
• Outside defense counsel, legal services
• Psychiatric services
• Reporting and transcribing
• Road construction and maintenance contracts
• Technical identification services
• Weighing and measuring services</td><td>Do Not Include
• Messenger services; post to "SERVICES AND SUPPLIES—Communications"
• Radio technical services; post to "SERVICES AND SUPPLIES—Communications"
• Custodial services; post to "SERVICES AND SUPPLIES—Household Expense"
• Service contracts for equipment maintenance; post to "SERVICES AND SUPPLIES: Maintenance—Equipment"
• Service contracts for maintenance of buildings and improvements; post to "SERVICES AND SUPPLIES: Maintenance—Building and Improvements"
• Disinfecting and exterminating services; post to "SERVICES AND SUPPLIES—Household Expense or Agricultural"
• Time-lock inspection services; post to "SERVICES AND SUPPLIES: Maintenance—Building and Improvements"</td></tr>
</table>

Explanation of Objects and Subobjects		
SERVICES AND SUPPLIES (continued)		
24	**Publications and Legal Notices**	
	Includes expenses for the publication of legally required notices and reports.	
	Include • Tax-sale notices • Delinquent tax lists • Employment opportunities • Planning Commission hearings • Public administrator's semi-annual report • Transfer of unclaimed refundable taxes • Proceedings of Board of Supervisors (meetings, etc.) • Budgets • Crop reports • Financial reports • Ordinances • Bond sale notices • Bids for purchases • Advertising impounded animals	**Do Not Include** • Printing and binding lists of registered voters, printing ballots; post to "SERVICES AND SUPPLIES—Special Departmental Expense"
25	**Rents and Leases—Equipment**	
	Includes rents and leases paid for the use of equipment and other articles	
	Include • Amounts paid under operating lease agreements • Alarm system (tied to police, fire, or alarm service company) • Rent of communication equipment • Rent of films, exhibits, models • Cable TV rental	**Do Not Include** • Rent of lease of cars and trucks; post to "SERVICES AND SUPPLIES—Transportation and Travel" • Telephone service; post to "SERVICES AND SUPPLIES—Communications"
26	**Rents and Leases—Buildings and Improvements**	
	Includes rents and leases paid for the use of land, structures, and improvements.	
	Include • Amounts paid under operating lease agreements • Rent of polling places • Storage charges	**Do Not Include** • Non-removable leasehold improvements; post to CAPITAL ASSETS—Buildings and Improvements" • Amounts to be paid under capital lease agreements; post to "OTHER CHARGES—Retirement of Other Long-Term Debt"

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<table>
<tr><th colspan="3">Explanation of Objects and Subobjects</th></tr>
<tr><th colspan="3">SERVICES AND SUPPLIES (continued)</th></tr>
<tr><td rowspan="3">27</td><td colspan="2">Minor Equipment</td></tr>
<tr><td colspan="2">Includes minor equipment of insufficient life or value to require classification as a capital asset, and replacement parts of such tools and instruments.</td></tr>
<tr><td>Include
(1) Carpentry, machine and general purpose tools:
• Bits, calipers, chisels, cutters
• Drills, files, flashlights, gauges
• Hammers, handsaws
• Ladders, lanterns, levels
• Oil cans, paint brushes, picks
• Reamers, screwdrivers, shovels
• Toolboxes, wheelbarrows, wrenches
(2) Drafting, engineering, and surveying tools:
• Curve sets, drawing instruments
• Hand compasses, measuring tapes
• Plumb bobs, sextants, slide rules
(3) Gardening tools:
• Garden hoses, hand lawnmowers
• Hedgers, hoes, planters,
• Pruning shears, rakes, sprayers
(4) Other specialized tools and instruments:
• Art and craft
• Barbering, blacksmith, electrician
• Metal working, plumbing, tailoring
• Weighing and measuring</td><td>Do Not Include
• Medical, dental, and laboratory instruments; post to “SERVICES AND SUPPLIES—Medical, Dental, and Laboratory Supplies”
• Safety devices, such as belts, goggles, helmets; post to “SERVICES AND SUPPLIES—Clothing and Personal”
• Supplies such as nails, bolts, oxygen, welding rod; post to “SERVICES AND SUPPLIES: Maintenance—Equipment”; If used in construction of capital assets by force account; post to “CAPITAL ASSETS—Equipment”</td></tr>
</table>

<table>
<tr><th colspan="3">Explanation of Objects and Subobjects</th></tr>
<tr><td colspan="3">SERVICES AND SUPPLIES (continued)</td></tr>
<tr><td rowspan="3">28</td><td colspan="2">Special Departmental Expense</td></tr>
<tr><td colspan="2">Includes comparatively specialized supplies and services, generally peculiar to one of a few departments, for which an account has not otherwise been provided.</td></tr>
<tr><td>Include
Ammunition
Athletic supplies
Books for circulating library use
Demonstration materials
Detective expense
Dog food
Disposal of animal carcasses
Educational training, including related expenses
Election officers
Election expenses
Film development supplies and expenses
Fingerprinting supplies
Fireworks
Games and puzzles
Handcuffs
Hoses, nozzles
Photograph records
Pound supplies
Printing and binding lists of registered votes
Printing ballots
Road materials
Service pins
Shipping supplies
Unclassified expenditures from district attorney’s and sheriff’s special funds</td><td>Do Not Include</td></tr>
</table>

<table>
<tr><th colspan="3">Explanation of Objects and Subobjects</th></tr>
<tr><th colspan="3">SERVICES AND SUPPLIES (continued)</th></tr>
<tr><td rowspan="3">29</td><td colspan="2">Transportation and Travel</td></tr>
<tr><td colspan="2">Includes the transportation of persons and things, except where other services furnished in conjunction with transportation comprise the major portion of the charge, or when the transportation is more appropriately included under subobject titles indicating purposes.</td></tr>
<tr><td>Include
Central garage services
Delivery services
Freight, express, and other transportation charges not chargeable to a commodity purchased
Gasoline or diesel fuel, except when purchased for central garage
Leased or hired vehicles
Reimbursement for Private-car use
Reimbursement for: meals, lodging, conference expenses, bridge tolls, train fares, bus fares, air fares, any other authorized travel expense
Transportation of prisoners and court wards</td><td>Do Not Include
Ambulance service; post to “SERVICES AND SUPPLIES—Professional and Specialized Services”
Armored car service; post to “SERVICES AND SUPPLIES—Professional and Specialized Services”
Packing Supplies; post to “SERVICES AND SUPPLIES—Office Expense”
Transportation of indigents; post to “OTHER CHARGES—Support and Care of Persons”
Purchases for central garage vehicles; post to “SERVICES AND SUPPLIES: Maintenance—Equipment”
Gasoline, diesel fuel, etc. used for off-highway purposes by road department or central garage; post to “SERVICES AND SUPPLIES: Maintenance—Equipment”
Natural gas, butane, fuel oil, etc. used for heating/cooling purposes; post to ‘SERVICES AND SUPPLIES—Utilities”</td></tr>
<tr><td rowspan="2">30</td><td colspan="2">Utilities</td></tr>
<tr><td>Include
Coal, wood
Electricity
Heating and cooling supplies for county buildings
Natural gas, butane, fuel oil
Sewage disposal
Street lighting on county grounds
Water</td><td>Do Not Include
Refuse disposal; post to “SERVICES AND SUPPLIES—Household Expense”
Telephone service; post to “SERVICES AND SUPPLIES—Communications”
Gasoline, fuel for central garage vehicles; post to “SERVICES AND SUPPLIES: Maintenance—Equipment”
Fuel for department vehicles; post to “SERVICES AND SUPPLIES—Transportation and Travel”</td></tr>
</table>

<table>
<tr><th colspan="3">Explanation of Objects and Subobjects</th></tr>
<tr><th colspan="3">OTHER CHARGES</th></tr>
<tr><td rowspan="3">40</td><td colspan="2">Support and Care of Persons</td></tr>
<tr><td colspan="2">Includes cash or necessaries furnished indigents or other for whom the county has assumed the burden of support.</td></tr>
<tr><td>Include
• Allowances for incidentals to prisoners and court wards
• Contract nursing and housekeeping services for welfare recipients
• Groceries, clothing, and supplies for indigent persons
• Meals and lodging for indigent persons
• Medical and dental supplies furnished to public assistance recipients
• Payment for care in foster homes and private institutions
• Payment of rents and utilities of indigent persons
• Public assistance payments
• Reimbursement to other governmental agencies for care and transportation of prisoners
• Reimbursement to the State for care of county prisoners in State institutions
• Transportation of indigent persons
• Maternity and adoption expense</td><td>Do Not Include
• Support and care in county institutions; post to applicable subobjects</td></tr>
<tr><td rowspan="2">41</td><td colspan="2">Bond Redemption</td></tr>
<tr><td colspan="2">Includes redemption of matured and called bonds.</td></tr>
<tr><td rowspan="2">42</td><td colspan="2">Retirement of Other Long-Term Debt</td></tr>
<tr><td colspan="2">Includes liquidation of long-term debt principal, other than bonds, including capitalized lease payments.</td></tr>
<tr><td rowspan="2">43</td><td colspan="2">Interest on Bonds</td></tr>
<tr><td colspan="2">Includes interest and call premium payments on bonded debt.</td></tr>
<tr><td rowspan="2">44</td><td colspan="2">Interest on Other Long-Term Debt</td></tr>
<tr><td colspan="2">Includes interest on long-term debt other than bonds.</td></tr>
<tr><td rowspan="2">45</td><td colspan="2">Interest on Notes and Warrants</td></tr>
<tr><td colspan="2">Includes interest payments on short-term debt, such as tax anticipation notes and registered warrants.</td></tr>
</table>

<table>
<tr><th colspan="3">Explanation of Objects and Subobjects</th></tr>
<tr><th colspan="3">OTHER CHARGES (continued)</th></tr>
<tr><td rowspan="3">46</td><td colspan="2">Judgments and Damages</td></tr>
<tr><td colspan="2">Includes expenditures in settlement of claims against the county for injury to persons and property.</td></tr>
<tr><td>Include</td><td>Do Not Include
• Damages paid in connection with rights of way acquisition; post to “OTHER CHARGES—Rights-of-Way”
• Damages paid in connection with land acquisition; post to “CAPITAL ASSETS—Land”</td></tr>
<tr><td rowspan="2">47</td><td colspan="2">Rights-of-Way</td></tr>
<tr><td colspan="2">Includes amounts paid for the acquisition of easements where title is not acquired by the county, and for land acquired in fee title for road purposes.</td></tr>
<tr><td rowspan="2">48</td><td colspan="2">Taxes and Assessments</td></tr>
<tr><td colspan="2">Includes taxes and assessments levied against the county by another governmental agency.</td></tr>
<tr><td rowspan="2">49</td><td colspan="2">Depreciation</td></tr>
<tr><td colspan="2">Includes the recording of expiration in the service life of capital assets, other than wasting assets attributable to wear and tear, deterioration, action of physical elements, inadequacy, and obsolescence.</td></tr>
<tr><td rowspan="3">50</td><td colspan="2">Bad Debts</td></tr>
<tr><td colspan="2">Includes amounts incurred in the current year because of the failure to collect receivables.</td></tr>
<tr><td>Include</td><td>Do Not Include
• Hospital contractual allowances; post to a contra-revenue account</td></tr>
<tr><td rowspan="2">51</td><td colspan="2">Income Allocation</td></tr>
<tr><td colspan="2">Includes Allocation of net earnings to Deferred Compensation liability account (Deferred Compensation Fund only).</td></tr>
<tr><td rowspan="3">52</td><td colspan="2">Contributions to Non-County Governmental Agencies</td></tr>
<tr><td colspan="2">Includes contributions, grants, subventions, etc., to non-county governmental agencies.</td></tr>
<tr><td>Include
• Grants to recreation, soil, conservation, air pollution control, and other types of districts
• Grants to State agencies for fish and game propagation and predatory animal control
• Contributions to cities for lifeguard services
• Contributions to the U.S. Forest Service
• Disproportionate share</td><td>Do Not Include
• Grants to other county agencies such as internal service, enterprise funds; post to “OTHER FINANCING USES—Transfers Out”
• Contributions to non-governmental agencies such as museums and zoos, local celebrations and chambers of commerce, blood banks, PTA milk subsidies; post to “SERVICES AND SUPPLIES—Professional and Specialized Services”</td></tr>
</table>

<table>
<tr><th colspan="3">Explanation of Objects and Subobjects</th></tr>
<tr><td colspan="3">OTHER CHARGES (continued)</td></tr>
<tr><td rowspan="3">53</td><td colspan="2">Interfund Expenditure</td></tr>
<tr><td colspan="2">Include Expenditures resulting from interfund transactions between governmental fund types.</td></tr>
<tr><td>May include, but not limited to
Communication
Data processing
Insurance
Maintenance
Professional and specialized services</td><td>Do Not Include</td></tr>
<tr><td rowspan="2">54</td><td colspan="2">Debt Issuance Cost</td></tr>
<tr><td colspan="2">Debit issuance cost, except any portion related to prepaid insurance costs, should be recognized as an expense in the period incurred.</td></tr>
<tr><td colspan="3">CAPITAL ASSETS</td></tr>
<tr><td rowspan="3">60</td><td colspan="2">Land</td></tr>
<tr><td colspan="2">Includes expenditures for the acquisition of land; however, land acquired for infrastructure is optional.</td></tr>
<tr><td>Include
Appraisal, negotiation, title search, and surveying fees
Cost of obtaining consents and payment for condemnation costs
Filing costs
Clearing land for use
Cost of demolishing or relocating structures</td><td>Do Not Include
Purchase of right of way where title is not acquired by the county; post to “OTHER CHARGES—Rights-of-Way”
Land acquired in fee title for infrastructure purposes if not treated as a capital asset; post to “OTHER CHARGES—Rights-of-way”</td></tr>
</table>

Explanation of Objects and Subobjects		
CAPITAL ASSETS (continued)		
61	**Buildings and Improvements**	
	Includes expenditures for the acquisition of structures and improvements.	
	Include • Architect fees • Costs of permits and licenses • Condemnation costs • Insurance during construction • Costs of fixtures attached to and forming a permanent part of structures • Major alterations or improvements of existing structures • Non-removable leasehold improvements • Landscaping • Pipelines • Wells • Pavement • Sewers • Drains • Fences • Dams	**Do Not Include**
62	**Equipment**	
	Includes expenditures for the acquisition of physical property of a permanent nature, other than land, buildings and improvements, and infrastructure.	
	Include • Freight or other carriage charges • Sales, use, and transportation taxes • Installation costs	**Do Not Include**
63	**Infrastructure**	
	Includes expenditures for land and structures for networks and subsystems not classified as buildings or building improvements.	
	Include • Roads • Bridges • Tunnels • Drainage systems • Water and sewer systems • Dams • Lighting systems • Sidewalks, walkways, etc.	**Do Not Include**

Explanation of Objects and Subobjects		
CAPITAL ASSETS (continued)		
64	**Intangible Assets**	
	Includes nonphysical assets that have a useful life of greater than one year.	
	Include • Trademarks • Internet domain names • Noncompetition agreements • Order backlog • Licensing agreements • Broadcast rights • Use rights • Trade secrets • Computer software • Literary works, etc.	**Do Not Include**
OTHER FINANCING USES		
70	**Transfers-Out**	
	Includes flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. It is recommended that interfund accounts or subaccounts be used to identify and control interfund activity. Having such activity identified separately will be useful when preparing consolidated financial reports that require interfund eliminations (e.g. the State Controller's Office *Counties Financial Transactions Report* and governmental GAAP compliant financial statements).	
SPECIAL ITEMS		
80	**Special Items**	
	Includes significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.	
81	**Extraordinary Items**	
	Includes transactions or other events that are both unusual in nature and infrequent in occurrence.	

<table>
<tr><th colspan="2">Explanation of Objects and Subobjects</th></tr>
<tr><td colspan="2">INTRAFUND TRANSFERS</td></tr>
<tr><td rowspan="2">90</td><td>Intrafund Transfers</td></tr>
<tr><td>Intrafund transfers are included as appropriate increases/decreases to revenues or expenditure accounts. These are optional transfers of costs between budget units in the same governmental type fund. The account is used to distribute central staff costs to operating departments for budgetary and internal operating statements purposes. In all cases:
the amounts should be supported by justifiable cost allocations or cost accounting calculations; and
the transfer may be shown as a single amount under (an increase for the receiving budget unit, a decrease for the servicing unit) or as a decrease of a single amount in expenditures for the servicing unit and an increase in each appropriate expenditure account of the receiving unit.</td></tr>
<tr><td colspan="2">APPROPRIATION FOR CONTINGENCIES</td></tr>
<tr><td rowspan="2">100</td><td>Appropriation for Contingencies</td></tr>
<tr><td>A budgetary provision representing that portion of the financing requirements set aside to meet unforeseen expenditure requirements.</td></tr>
</table>

7.11 Expenditure/Expense Accounts by Function (Program)/Budget Unit

The minimum level for each function is provided on the following pages, along with examples of activity and budget units. Each budget unit should be classified, at a minimum, as to function and activity. The costs of combined statutory offices that engage in more than one activity should be allocated among the activities performed. In the absence of more refined allocation methods, an estimate may be used. With respect to other budget units that perform more than one activity, allocation is recommended and is required for reports of expenditures to the State Controller.

- *Budget Unit*—classification for the expenditure requirements of the budget into appropriately identified accounting or cost centers deemed necessary or desirable for control of the financial operation. Except as otherwise provided by law, such units may be devised at the discretion of the board of supervisors.

Combined statutory offices that engage in more than one of the expenditure activities and all other budget units that engage in more than one activity are required to allocate their appropriations and final total expenditures among the activities performed. Possible methods of arriving at reasonable estimates include:

- using cost accounting to calculate the allocation;
- allocating all expenses for a test period and using the resulting proportion as long as operating conditions are substantially unchanged. This method is suitable if seasonal and cyclical fluctuations are not significant;
- dividing salary and wage costs among the activities performed; dividing total appropriations in the same proportion as salaries and wages; or
- using the results of the cost allocation plan.

Numbers assigned to functions (programs) and activities are for reference purposes only.

Function (Program)/Budget Unit Classification Chart		
Function	**Activity**	**Example of Budget Units**
1 General	.01 Legislative and Administrative	• Board of Supervisors • Clerk of the Board • Administrative Officer • Annual Audit, if for Supervisors • Council of Governments
	.02 Finance	• Auditor-Controller • Treasurer • Assessor • Tax Collector • Purchasing Agent • Central Collections
	.03 Counsel	• County Counsel • District Attorney (Legal Advice)

Function (Program)/Budget Unit Classification Chart		
Function	**Activity**	**Example of Budget Units**
1 General (continued)	.04 Personnel	• Personnel Department • Safety Committees and Internal Training • Civil Service Commission • Traffic Safety Commission
	.05 Elections	• Registrar of Voters • County Clerk—Elections • Primary, General, and Special Elections • Election Expense—Supervisors • School Elections
	.06 Communication	• Telephone and Radio Systems • Messenger and Delivery Departments
	.07 Property Management	• Rents • Assessments and Taxes • Maintenance Departments • Custodial Services • Utilities • Property Management Departments
	.08 Plant Acquisition	• Budget units accounting for acquisition of land, structures, and improvements
	.09 Promotion	• County Chambers of Commerce • Fairs and Expositions • Advertising County Resources • Economic Development
	.10 Other General	• General Insurance and Surety Bonds • Workers' Compensation Insurance • Retirement and Social Security • Employee Group Insurance • Judgments and Damages • Surveyor and Engineer • Data Processing • Retirement Board • Central Services, Stores • Motor Vehicle Pool • Deferred Compensation • Urban Renewal Photographer • Microfilm Services

Function (Program)/Budget Unit Classification Chart		
Function	**Activity**	**Example of Budget Units**
2 Public Protection	.01 Judicial	• Courts • Grand Jury • Family Support • Juvenile Justice Commission • Court-Appointed Counsel • Law Library • District Attorney (prosecution) • Public Defender
	.02 Police Protection	• Sheriff • Marshal
	.03 Detention and Correction	• Jails • Rehabilitation Centers • Honor Farms • Juvenile Halls • Probation Department • State Correctional Schools • Delinquency Prevention
	.04 Fire Protection	• Fire Marshal • Fire Department • Weed Abatement (other than noxious) • State Contracts for Fire Protection
	.05 Flood Control and Soil and Water Conservation	• Administration and Engineering • Channel Construction and Maintenance • Levee Construction and Maintenance • Cloud Seeding
	.06 Protection Inspection	• Agricultural Commissioner • Building Inspector • Livestock Inspector • Sealer of Weights and Measures

Function (Program)/Budget Unit Classification Chart		
Function	**Activity**	**Example of Budget Units**
2 Public Protection (continued)	.07 Other Protection	• County Clerk • Recorder • Coroner • Public Administrator • Emergency Services—Civil Defense, Disaster Relief • Medical Examiner (Coroner) • Public Guardian—Conservator • Local Agency Formation Commission • Environmental Protection Programs • Consumer Affairs • Fish and Game Propagation • Planning and Zoning • Pound • Predatory Animal Control • Cemeteries • Abandoned Vehicle Program • Crossing Guards
3 Public Ways and Facilities	.01 Public Ways	• Road Construction and Maintenance (including ferries as part of a public road system) • Deep Water Channels • Street Lighting
	.02 Transportation Terminals	• Airports • Harbors and Ports
	.03 Transportation Systems	• Transit Systems—Bus, Rail
	.04 Parking Facilities	
4 Health and Sanitation	.01 Health	• Health Officer • Health Department • Community Mental Health • Health Clinics • Air Pollution • Vital Statistics • Family Planning, Family Health • Alcohol and Drug Abuse Services • Environmental Health

Function (Program)/Budget Unit Classification Chart		
Function	**Activity**	**Example of Budget Units**
4 Health and Sanitation (continued)	.02 Hospital Care	• County Hospital • T.B Hospitals • State Institutions • Emergency Hospitals • Ambulance Service • Chronic Diseases • Care of the Mentally Ill • Medical Care Services • Hospital Clinics • Medically Indigent Adults
	.03 California Children's Services	
	.04 Sanitation	• Refuse Collection and Disposal
5 Public Assistance	.01 Administration	• Social Services Department • Auditor—Welfare Division • Adoptions • Food Stamp Program • Homemaker Services
	.02 Aid Programs	
	.03 General Relief	• Aid to Indigents • Indigent Burials and Cemetery Care
	.04 Care of Court Wards	
	.05 Veterans' Services	• Veterans' Service Officer
	.06 Other Assistance	• Vocational Retaining • Day Care Centers • Aid to Victims of Crime and Violence • Federal Manpower Program • Community Development • Office on Aging • Commission on the Status of Women • Senior Citizens' Program
6 Education	.01 School Administration	• Board of Education • Superintendent of School • County Committee on School District Organization • Auditor—School Claims Division
	.02 Library Services	• County Library
	.03 Agricultural Education	• Agricultural Extension Service • Farm Advisor • 4-H Program • Home Economics
	.04 Other Education	• Rehabilitation Center Schools

Function (Program)/Budget Unit Classification Chart		
Function	**Activity**	**Example of Budget Units**
7 Recreation and Cultural Services	.01 Recreation Facilities	• Recreation Department • Contributions to Other • Governmental Agencies (recreation) • Parks • Playgrounds • Swimming Pools • Aquatic Recreational Areas • Golf Courses • Riding Trails
	.02 Cultural Services	• Museums • Monuments and Statues • Art Galleries • Botanical Gardens • Planetary • Zoos • Aquaria • Arboreta • Band and Orchestra Commissions
	.03 Veterans Memorial Buildings	• Community Buildings
	.04 Small Craft Harbors	
8 Debt Service	.01 Retirement of Long-Term Debt	
	.02 Interest on Long-Term debt	
	.03 Interest on Notes and Warrants	

Revenues

7.12 Revenue Classification

As discussed in GASB Cod. Sec. 1800.130 (Section 1800, paragraph .130), the most significant aspect of governmental fund accounting is that the operations measurement focus is on sources, uses, and balances of fund financial resources. In that context, the term *revenues* means increases in (sources of) fund financial resources other than through interfund transfers and debt issue proceeds and redemptions of demand bonds (refer to GASB Cod. Sec. D30 for additional information on demand bonds).

Revenue accounts therefore reflect the changes in the financial condition of a governmental fund that occurs during a specified time period, except for those resulting from transfers and general long-term debt issuance and issuance of special assessment bonds, refunding bonds, and certain demand bonds.

7.13 Program Revenues

According to GASB Cod. Sec. 1800.142 (Section 1800, paragraph .142), program revenues are directly linked to the functions/programs or from parties outside the reporting government's taxpayers or citizenry, as a whole; they reduce the net cost of the function to be financed from the government's general revenues. The statement of activities should separately report three categories of program revenues:

- Charges for services
- Program-specific operating grants and contributions
- Program-specific capital grants and contributions

Charges for services may include a variety of program-related fees, such as garbage collection fees, museum admissions, ball field permits, and parking fines. Most grants and contributions include aid for specific functions and programs, such as educational aid, but may also include amounts provided by not-for-profit organizations and other nongovernmental entities. Grants and contributions for operating purposes and capital projects are identified separately. Multi-purpose grants, if program-specific, should be reported as program revenue. If not program-specific, they should be reported as general revenue.

To identify the function to which a program revenue pertains, use the following determining factor(s):

- Charges for services—It is the function that generates the revenue.
- Grants and contributions—It is the function to which the revenues are restricted.
- Other revenues—It is the function that generates the revenue.

Earnings on endowments or permanent fund investments should be reported as program revenues if restricted to a specific program, but otherwise should be reported separately in the same manner as general revenues.

7.14 General Revenues

As discussed in GASB Cod. Sec. 1800.143 (Section 1800, paragraph .143), all revenues are deemed to be general revenues unless they are required to be reported as program revenues. All taxes, even those that are levied for a specific purpose, are general revenues and should be reported by type of tax. Examples of these taxes include sales tax, property tax, franchise tax, and income tax.

Revenues such as interest, grants, contributions, or charges for service that are non-restrictive in nature do not qualify as program revenues and should be treated as general revenue. Examples include unrestricted aid from other governments and grants that are provided for general support and are not tied to particular program. Investment earnings (unrestricted) are typically reported as general revenues.

7.15 Extraordinary and Special Items

As described in GASB Cod. Sec. 1800.145 (Section 1800, paragraph .145), *extraordinary items* are transactions or other events that cause increases or decreases in net assets that are both unusual in nature and infrequent in occurrence. They should be reported separately at the bottom of the statement of activities.

Special items are significant transactions or other events within the control of the local government and are either unusual in nature or infrequent in occurrence, as discussed in GASB Cod. Sec. 1800.146 (Section 1800, paragraph .146). A special item might be the gain or loss on the sale of a capital asset for a local government that does not commonly sell capital assets. These special items should be reported separately in the statement of activities, before extraordinary items, if any. Local governments should disclose in the notes to the financial statements any significant transactions or other events that are either unusual or infrequent, but not within the control of management.

The following criteria for special and extraordinary items is defined in GASB Cod. Sec. 1800.148 (Section 1800, paragraph .148).

> Special and extraordinary items are events and transactions that are distinguished either by their unusual nature or by the infrequency of their occurrence, or both. The following criteria should be met to classify an event or transaction as either unusual in nature or infrequent in occurrence:
>
> - *Unusual nature*—the underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the government, taking into account the environment in which the government operates.
> - *Infrequency of occurrence*—the underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the government operates.

Special and extraordinary items are set apart because they are not a part of the usual inflows and outflows of the fiscal year. Showing them separately helps the users and preparers of financial statements assess whether the local government is covering its routine costs with routine resources, or if it is resorting to other means.

7.16 Operating vs. Nonoperating Revenues

The Statement of Revenues, Expenses and Changes in Fund Net Position (proprietary funds) should distinguish between operating and nonoperating revenues and expenses. A local government should establish policies that define operating revenues and expenses, and use these policies consistently from one financial reporting period to another. When defining operating revenues and expenses, local governments should determine how these transactions would be categorized for the purposes of preparing a statement of cash flows.

Operating Revenues: revenues appropriate to the local governments' primary activity other than capital and related financing activities, noncapital financing activities or investing activities. This includes program revenue, nonexchange revenues, and exchange-like revenues.

Operating Expenses: expenses a local government incurs related to the revenue from its primary activities. These costs include administrative expenses such as office supplies and salaries for administrative personnel. Commissions and advertising are examples of sales expenses related to operations. Operating expenses also include program expenses, rent, and utilities.

Nonoperating Revenues: income resulting from events or transactions that is clearly distinct from the local governments' primary activity, including capital and related financing activities, noncapital financing activities, or investing activities.

Nonoperating Expenses: expenses a local government incurs outside of its primary activity, such as interest on capital financing.

7.17 Reporting Revenue

As discussed in GASB Cod. Sec. 1800.131 (Section 1800, paragraph .131), the primary classification for governmental fund revenues is by fund and source. Some major revenue source classifications include taxes, licenses and permits, intergovernmental revenues, charges for services, fines and forfeits, and miscellaneous.

Governmental units often classify revenues by organizational units, which include departments, bureaus and divisions, depending on the organization structure. Proprietary fund revenues should be reported by major source. Activity, function, and program codes are often better suited to source classifications in governmental accounting. However, reporting of revenues by object may serve other needs of the local government. Each local government should evaluate its own reporting needs when establishing its coding structure.

7.18 Chart of Accounts—Revenues

The following Revenue Chart of Accounts has been designed as a complete instrument for the accounting of the revenues of California counties. It provides all of the data necessary for preparation of the State Controller's *Counties Financial Transactions Report.*

However, financial statement requirements and local situations or customs may require a further breakdown of certain revenues for local purposes. In this event, the accounts listed on the chart may need to be broken down into the necessary subaccounts for county uses.

For example, Franchises might be set up in the chart of accounts as:

- Franchises — "X" Gas Company
- Franchises — "Y" Electric Company
- Franchises — "Z" Telephone Company

Used in this manner, the chart of accounts allows a county to accumulate all of the detail necessary to meet local needs, while still facilitating consolidation into the prescribed account form for State reporting purposes.

It is recommended that interfund accounts and subaccounts be used to identify and control interfund revenue and expenditure transactions between governmental fund types. When preparing consolidated statements such as the State Controller's *Counties Financial Transactions Report* and financial statements in accordance with GAAP, adjustments will be necessary to remove the effects of these transactions. The use of interfund subobject accounts is acceptable and will aid in making the appropriate adjustment.

For interfund revenues, either of the following methods is acceptable.

Account for interfund accounts within:

1) account numbers 118, 140, and 141 (Interfund Revenue, Sales and Intra-Entity Transfers of Future Revenues, and Transfers-In); or
2) a subaccount of an appropriate existing revenue account. If method (2) is used, the subaccount should be clearly identified as an interfund account.

For example, under account number 107, *Road and Street Services*, a subaccount 107, *Road and Street Services—Interfund* would be established for work performed by the road fund for the general fund. Accounts used in the following sample chart are numbered in sequence for reference purposes only.

Revenue Chart of Accounts	
Taxes	
1	Property Taxes—Current Secured
2	Property Taxes—Current Unsecured
3	Property Taxes—Prior Secured
4	Property Taxes—Prior Unsecured
5	Supplemental Property Taxes—Current
6	Supplemental Property Taxes—Prior
7	Residual Property Taxes
8	Pass-through Property Taxes
9	Property Tax In Lieu of Vehicle License Fee (VLF)
10	Sales and Use Taxes
11	Other taxes
12	(Intentionally Left Blank)
Licenses, Permits, and Franchises	
20	Animal Licenses
21	Business Licenses
22	Construction Permits
23	Road Privileges and Permits
24	Zoning Permits Administration
25	Franchises
26	Other Licenses and Permits
Fines, Forfeitures, and Penalties	
30	Vehicle Code Fines
31	Other Court Fines
32	Forfeitures and Penalties
33	Penalties and Costs on Delinquent Taxes
Revenue From Investments and Property	
40	Investment Income
41	(Intentionally Left Blank)
42	Rents and Concessions—including Service Concession Arrangements (SCAs)
43	Royalties

Revenue Chart of Accounts	
Intergovernmental Revenues	
50	State—Aviation
51	State—Highway Users Tax
52	State—Motor Vehicle In Lieu Tax
53	(Intentionally left blank)
54	Other State—In Lieu Taxes
55	State—Public Assistance Administration
56	State—Public Assistance Programs
57	State—Health Administration
58	State—California Children Services
59	State—Cerebral Palsy
60	State—Mental Health
61	State—Tuberculosis Control
62	Other State—Health
63	State—Agriculture
64	State—Civil Defense
65	State—Construction
66	State—Corrections
67	State—County Fairs
68	State—Disaster Relief
69	State—Veterans Affairs
70	State—Homeowners Property Tax Relief
71	(Intentionally Left Blank)
72	State—Proposition 172 Public Safety Funds
73	State—Citizens Option for Public Safety (COPS)
74	State—Other
75	Federal—Public Assistance Administration
76	Federal—Public Assistance Programs
77	Federal—Health Administration
78	Federal—Construction
79	Federal—Disaster Relief
80	Federal—Forest Reserve Revenue
81	Federal—Grazing fees
82	Federal—In Lieu Taxes
83	Federal—Other
84	Other—In Lieu Revenues
85	Other—Governmental Agencies
Charges for Services	
90	Assessment and Tax Collection Fees
91	Special Assessments
92	Auditing and Accounting Fees
93	Communication Services
94	Election Services
95	Legal Services

Revenue Chart of Accounts	
Charges for Services (continued)	
96	Personnel Services
97	Planning and Engineering Services
98	Purchasing Fees
99	Agricultural Services
100	Civil Process Services
101	Court Fees and Costs
102	Estate Fees
103	Commitment Fees
104	Humane Services
105	Law Enforcement Services
106	Recording Fees
107	Road and Street Services
108	Health Fees
109	Mental Health Services
110	California Children's Services
111	Sanitation Services
112	Adoption Fees
113	Institutional Care and Services
114	Educational Services
115	Library Services
116	Park and Recreation Services
117	Other
118	Interfund Revenue
Miscellaneous Revenues	
120	(Intentionally Left Blank)
121	Other Sales
122	Tobacco Settlement
123	Miscellaneous
Other Financing Sources	
130	Sale of Capital Assets
131	Long-Term Debt Proceeds
132	Other
Transfers	
140	Sales and Intra-Entity Transfers of Future Revenues
141	Transfers-In
Special Items	
150	Contributions
151	Special and Extraordinary Items

7.19 Explanation of Revenue Accounts

Following are the account titles and the recommended use of each account. Use is indicated by either an explanation, example, or both. Where shown, the title alone is usually considered self-explanatory and indicative of use. Within the account listing there are two references:

- Under the reference "Include" are examples of the types of revenue that should be posted to this account.
- Under the reference "Do Not Include" are examples of the types of revenue that should not be posted to this account. This category also notes the type of account to which they should be posted.

Explanation of Revenue Accounts	
Taxes	
1	**Property Taxes—Current Secured** Includes all taxes apportioned as a result of levies made against the secured roll of the county for the current fiscal year.
2	**Property Taxes—Current Unsecured** Includes all taxes apportioned as a result of levies made against the unsecured roll of the county for the current fiscal year.
3	**Property Taxes—Prior Secured** Includes all taxes and interest apportioned as a result of levies made against the secured roll of the county in prior fiscal periods; also includes revenues from tax-defaulted land sales.
4	**Property Taxes—Prior Unsecured** Includes all taxes apportioned because of levies made against the unsecured rolls of the county in prior fiscal periods.
5	**Supplemental Property Taxes—Current** Includes all taxes apportioned because of supplemental levies made against the secured and unsecured property of the county for the current fiscal year.
6	**Supplemental Property Taxes—Prior** Includes all taxes and interest apportioned as a result of supplemental levies made against the secured and unsecured property of the county in prior fiscal periods.
7	**Residual Property Taxes** Includes apportioned taxes, which exceed the enforceable obligations, pass-through payments and other costs associated with successor agencies of dissolved redevelopment agencies.
8	**Pass-through Property Taxes** Includes apportioned taxes as a result of pass-through agreements or statutory pass-through revenues associated with successor agencies of dissolved redevelopment agencies.
9	**Property Tax In Lieu of Vehicle License Fee (VLF)** Property tax revenue in lieu of vehicle license fees received from the Vehicle License Fee Property Tax Compensation Fund (VLF Compensation Fund) as allocated by statute.
10	**Sales and Use Taxes** Includes the net amount received from the levy of a sales and use tax under the Bradley-Burns Uniform Sales Tax Law. **Include** • Revenues received under the Transportation Act of 1971.

Explanation of Revenue Accounts	
Taxes (continued)	
11	**Other Taxes** Includes county-levied taxes not included elsewhere. **Include** • Raw material processing fees • Hotel (transient lodging) taxes • Property transfer taxes • Race horse taxes • Timber yield taxes • Aircraft taxes **Do Not Include** • Revenue from the State, federal government, or other agencies in lieu of taxes; post to the appropriate account under “Intergovernmental Revenues”.
12	(Intentionally Left Blank)
Licenses, Permits, and Franchises	
20	**Animal Licenses** **Include** • Dog licenses **Do Not Include** • Kennel licenses; post to “Licenses, Permits, and Franchises—Business Licenses”. Impounding fees, placement fees, boarding fees, vaccination fees, and sale of animal carcasses; post to “Charges for Services—Humane Services”.
21	**Business Licenses** Includes revenues from the licensing of business, occupations, and amusements. **Include** • Taxicab licenses • Private investigator licenses • Second-Hand store licenses • Food market licenses • Carnival licenses • Food processing health permits • Milk and dairy health permits • Kennel licenses • Fire extinguisher serviceman permits • Motion picture operator permits • Pest Control Business registration • Other business licenses or permits issues primarily for regulation **Do not include** • Services provided that are not primarily regulatory; post to the appropriate account under “Charges for Services”.

Explanation of Revenue Accounts	
Licenses, Permits, and Franchises (continued)	
22	**Construction Permits** **Include** • Building permits • Electrical permits • Plumbing permits • Sidewalk, curb, and gutter permits • Air pollution construction permits **Do Not Include** • Plan or map checking services when not included above; post to “Charges for Services—Planning and Engineering Services”. • Road Excavation permits; post to “Licenses, Permits, and Franchises—Road Privileges and Permits”. • Permit for breaking curb and gutter; post to “Licenses, Permits, and Franchises—Road Privileges and Permits”. • Air pollution variance permits; post to “Licenses, Permits, and Franchises—Other Licenses and Permits”.
23	**Road Privileges and Permits** Includes revenue from the issuance of permits for the special use or obstruction of county roads. **Include** • Transportation permits for movement of usual loads on county roads • Excavation permits • Permits for mains laid • Road obstruction permits • Permits for breaking curb and gutter
24	**Zoning Permits Administration** Includes revenue from the issuance of permits related to property other than as provided in the zoning ordinance. **Include** • Zone changes • Zone exceptions and special permits • Cemetery permits • Agricultural preserve application fees **Do Not Include** • Subdivision fees; post to “Charges for Services—Planning and Engineering Services”.

Explanation of Revenue Accounts	
Licenses, Permits, and Franchises (continued)	
25	**Franchises** Incudes revenue from persons, firms, and corporations for the continuing use of property, usually involving the elements of regulation and monopoly. **Include** • Bids for franchises awarded • Franchises based on gross receipts • Franchises based on number of miles of pipeline, electrical transmission line, street railway, etc. **Do Not Include** • Permits for attaching privately owned pipelines to county bridges; post to "Licenses, Permits, and Franchises—Other Licenses and Permits".
26	**Other Licenses and Permits** Includes revenue from all licenses and permits not included elsewhere. **Include** • Bicycle licenses • Gun Permits • Fire permits • Marriage licenses • Air pollution variance permits • Oil well permits • Burial Permits • Other non-business licenses and permits that are primarily regulatory • Permits for attaching privately owner pipelines to bridges • Pleasure-riding permit fees • Mobile home use permit fees • Permit fees for explosives **Do Not Include** • Air pollution construction permits; post to "Licenses, Permits, and Franchises—Construction Permits". • Other license and permits where the payment is primarily rent or a charge for correct services; post to the appropriate account under "Revenue from Use of Money and Property" or "Charges for Services".
Fines, Forfeitures, and Penalties	
30	**Vehicle Code Fines** Includes revenue from court fines and forfeiture of bail for violations of the State Vehicle Code. **Include** • The county's share of State Vehicle Code Fines, including the county's share from arrests made in cities • Fines for "driving under the influence" (DUI) **Do Not Include** • Violations of county traffic ordinances; post to "Fines, Forfeitures, and Penalties—Other Court Fines". • Fines, penalties and court costs imposed as a condition of probation; post to "Fines, Forfeitures, and Penalties—Forfeitures and Penalties".

Explanation of Revenue Accounts	
Fines, Forfeitures, and Penalties (continued)	
31	**Other Court Fines** Includes revenue from court fines and forfeitures of bail for violations of other that the State Vehicle Code. **Include** • Violations of county traffic ordinances • Violations for other county ordinances • Violations of the Fish and Game Code • Violations of any State law other than the Vehicle Code • Fines for possession of controlled substances • Littering fines • Unlawful burning fines • The county's share of fines, other than State Vehicle Code fines resulting from arrest by city officers • Fees for attending traffic school
32	**Forfeitures and Penalties** Includes all forfeitures and penalties other than those included under "Fines, Forfeitures, and Penalties—Penalties and Costs on Delinquent Taxes". **Include** • Judgment and damages • Forfeitures of faithful performance bonds or deposits • Penalties and court costs imposed as a condition of probation • The sale of vehicles used in commission of a crime • Surcharge and penalty assessment on parking, non-parking, and criminal fines **Do Not Include** • Penalties assessed for failure to secure business license; post to "Licenses, Permits, and Franchises—Business Licenses". • The State share of penalty assessments.
33	**Penalties and Costs on Delinquent Taxes** Includes all amounts apportioned as a result of penalties and costs charged against property owners for tax delinquency exclusive of such amounts required to be apportioned as taxes. **Include** • 10% penalties for late payment of first and second installments of secured taxes • 10% penalty for late payment of unsecured tax • $10 charge on each item of real estate unpaid as of April 10th for publishing delinquent roll • $15 fee for seizure and sale of unsecured personal property • 1 1/2 % month redemption penalty on delinquent taxes charged monthly • Advertising of tax-defaulted land sales

Explanation of Revenue Accounts	
Revenue From Investments and Property	
40	**Investment Income** Investment earnings on bank deposits, other forms of investment, and equity interest. **Include** • Interest • Dividends • Changes in the fair value of investments
41	(Intentionally Left Blank)
42	**Rents and Concessions—including Service Concession Arrangements (SCAs)** Includes revenue from the use of land, buildings, or equipment belonging to the county. **Include** • County parking facilities • Parking meter collections • Vending machines • Public telephones • Pole attachment charges • Cafeteria • Airport Space • Rents from employees living on institutional grounds • Revenue from county fairs, including off-season rentals • Concession Payments, other than for recreation purposes • Tenant farmers • Leases • Service Concession Arrangements (SCAs) **Do Not Include** • Rental of voting booths; post to "Charges for Services—Election Services". • Concessions for county recreation facilities; post to "Charges for Services—Park and Recreation Services".
43	**Royalties** Includes revenues from the use, operation, or development of property rights belonging to the county, other than public utility use. **Include** • Oil and gas royalties • Revenue from rights for removal of oil, gas, and other natural resources from county property **Do Not Include** • Sales of rock and gravel from county operated facilities; post to "Miscellaneous Revenues—Other Sales".
Intergovernmental Revenues	
NOTE: State and federal revenues for construction of facilities are posted to the appropriate construction accounts, rather than to accounts indicating the purpose pf the construction. For example, state revenue for the construction of mental facilities is posted to "State Construction", not to "State Mental Health".	
50	**State—Aviation**
51	**State—Highway Users Tax**

Explanation of Revenue Accounts	
Intergovernmental Revenues (continued)	
52	**State—Motor Vehicle In Lieu Tax**
53	(Intentionally Left Blank)
54	**Other State—In Lieu Taxes** Includes any apportionments to the county of State in lieu taxes not included elsewhere. **Include** • Amounts received from the State from the rental of lands held for State highway purposes.
55	**State—Public Assistance Administration** Includes amounts received from the State as reimbursement for administrative costs of county welfare activities. **Do Not Include** • Assistance payments, as distinguished from administrative reimbursements; post to "Intergovernmental Revenues—State Public Assistance Programs".
56	**State—Public Assistance Programs** Includes amounts received from the State for families with dependent children, adoptions, potentially self-supporting blind individuals, and for other direct assistance programs.
57	**State—Health Administration** Includes amounts received from the State for the administration of the county health program. **Include** • Payment for partial support of the country health department to provide an increased level of service.
58	**State—California Children Services**
59	**State—Cerebral Palsy**
60	**State—Mental Health**
61	**State—Tuberculosis Control**
62	**Other State—Health** Includes any State revenue for health purposes not included elsewhere. **Include** • Tumor registry • Mosquito/gnat control • Medically Indigent Adult Program • AB 8 Health Subvention
63	**State—Agriculture** **Include** • Partial reimbursement of the salary of the agricultural commissioner • The unclaimed agricultural gas tax refund
64	**State—Civil Defense** **Do Not Include** • State revenues for disaster resulting from fire, flood, etc.; post to "Intergovernmental Revenues: State—Disaster Relief".

<table>
<tr><th colspan="2">Explanation of Revenue Accounts</th></tr>
<tr><th colspan="2">Intergovernmental Revenues (continued)</th></tr>
<tr><td>65</td><td>State—Construction
Include
• State revenue for constriction of hospitals, juvenile halls, and camps, etc.
• State revenue for construction of civil defense facilities
• State revenue for railroad crossings
Do Not Include
• Amounts received for restoration of roads and other facilities damaged by disaster; post to “Intergovernmental Revenues: State—Disaster Relief”.</td></tr>
<tr><td>66</td><td>State—Corrections
Include
• State revenue for the operation of juvenile halls and camps</td></tr>
<tr><td>67</td><td>State—County Fairs</td></tr>
<tr><td>68</td><td>State—Disaster Relief
Incudes amounts received from the State for emergency relief from disasters.
Include
• Amounts received for restoration of damages roads and other facilities</td></tr>
<tr><td>69</td><td>State—Veterans Affairs</td></tr>
<tr><td>70</td><td>State—Homeowners Property Tax Relief
Includes amounts received from the State to compensate the county for revenue lost because of the Homeowners Property Tax Exemption.</td></tr>
<tr><td>71</td><td>(Intentionally Left Blank)</td></tr>
<tr><td>72</td><td>State—Proposition 172 Public Safety Funds</td></tr>
<tr><td>73</td><td>State—Citizens Option for Public Safety (COPS)</td></tr>
<tr><td>74</td><td>State—Other
Includes amounts received from the State for any purpose not included elsewhere.
Include
• SB 90 reimbursements
• Tax-defaulted land rentals
• State revenues for juvenile hall school operation and special milk program (where the school is regarded as a general county activity); if the school is considered a separate school district, these amounts are school fund receipts
• Cigarette taxes
• State Subventions for county libraries
• State Subventions based on recoveries from absent parents
• Payments for tax loses because of open space assessments (Williamson Act)
• Off-highway motor vehicle license fees
• Cotton bale in lieu taxes</td></tr>
<tr><td>75</td><td>Federal—Public Assistance Administration
Includes amounts received from the federal government as reimbursement for administrative costs of county welfare activities.</td></tr>
<tr><td>76</td><td>Federal—Public Assistance Programs
Includes amounts received from the federal government for families with dependent children and other direct assistance programs.</td></tr>
</table>

Explanation of Revenue Accounts	
Intergovernmental Revenues (continued)	
77	**Federal—Health Administration** Includes amounts received from the federal government for administration of the county health program.
78	**Federal—Construction**
79	**Federal—Disaster Relief** Includes amounts received from the federal government for emergency relief from disaster.
80	**Federal—Forest Reserve Revenue** Includes amounts received from the federal government as the county's share of revenues of national forest areas. **Do Not Include** • Rental payments for grazing lands; post to "Intergovernmental Revenues: Federal—Grazing Fees".
81	**Federal—Grazing Fees** Includes amounts received from the federal government as the county's share of revenues from the rental of grazing lands.
82	**Federal—In Lieu Taxes** **Include** • Federal housing authorities
83	**Federal—Other** Incudes all aid from the federal government not included elsewhere. **Include** • Flood control land receipts • Funds for the purchase of surplus equipment for civil defense • Research grants • Subventions for maternal and child health, seasonal and farm workers, chronic illness and aging • Grants received from the California Council on Criminal Justice • Federal manpower program finds for which the county is responsible • Federal health grants • Child support enforcement incentives
84	**Other—In Lieu Revenues** Includes amounts received from other agencies as payments in lieu of taxes and assessments **Include** • Payments from public housing authorities, other than federal authorities **Do Not Include** • Payments by federal housing authorities; post to "Intergovernmental Revenues: Federal—In Lieu Taxes".

Explanation of Revenue Accounts	
Intergovernmental Revenues (continued)	
85	**Other—Governmental Agencies** Includes amounts, other than in lieu revenues, received from other governmental agencies. **Include** Revenues from redevelopment Successor Agencies that are from the following sources: • Excess Low and Moderate Income Housing Funds • Excess funds, other than housing funds • Sales of Capital Assets • Reserve balances
Charges for Services	
90	**Assessment and Tax Collection Fees** Includes revenues from tax segregation and collection of taxes and special assessments of other governmental agencies. **Include** • The sale of copies of assessment roll • The sale of indices • Tax Collectors' $150 per parcel reimbursement for tax-defaulted land sales • The county's share of redemption fees • Document fees charged by assessor, tax collector, auditor • The supplemental property tax administrative fee (5%)
91	**Special Assessments** **Include** • Levies against specified properties to defray all or part of a specific improvement or service benefiting these properties, whether or not collected on the tax roll
92	**Auditing and Accounting Fees** **Include** • Special district audits • Accounting and systems services for other governmental agencies
93	**Communication Services** **Include** • Services provided under contact to other governmental agencies • Telephone service provided to quasi-county agencies
94	**Election Services** **Include** • Services provided to governmental agencies under contract • Charges for consolidating elections • Rental of voting booths **Do Not Include** • Sales of voters' indices; post to "Miscellaneous Revenue—Other Sales".
95	**Legal Services** **Include** • Legal services provided in connection with the public administrator's duties • City prosecution services provided under contract • Legal services for other governmental agencies

Explanation of Revenue Accounts	
Charges for Services (Continued)	
96	**Personnel Services** **Include** • Services provided under contract to other governmental agencies • Examination fees
97	**Planning and Engineering Services** **Include** • Subdivision fees • Planning services provided to cities under contract • Engineering services provided to cities under contract • Legal advertising required by planning ordinance • Traffic surveys • The sale of plans and specifications • The sale of blueprints • Plan or map-checking fees when not an integral part of permits listed below **Do Not Include** • Building permits, electrical permits, plumbing permits for constriction or alteration; post to "Licenses and Permits—Construction Permits".
98	**Purchasing Fees** Includes revenue from commissions from the purchase of materials and supplies for other governmental agencies.
99	**Agricultural Services** **Include** • Enforcement of the plan pest quarantine program for the State Controller's Office • Rodent abatement • Noxious weed abatement • Quarantine inspection fees • Standardization inspection fees for fruits, vegetables, milk, eggs, poultry, honey, aviaries, and nurseries
100	**Civil Process Services** **Include** • Fees and mileage for service or executing notices, writs, levies of attachment, warrants or orders • Posting advertising or conducting sales of real or personal property • Subpoenaing witnesses • Summoning trial juries • Garnishment fees • Fees charged by the auditor for filing an abstract of judgment **Do Not Include** • Advertising tax-defaulted land sales; post to "Fines, Forfeitures, and Penalties—Penalties and Costs on Delinquent Taxes".

Explanation of Revenue Accounts	
Charges for Services (Continued)	
101	**Court Fees and Costs** **Include** • Civil filing fees • Probate filing fees • Transcript fees • Fees for issuance of writs, orders, and certificates • Fees for preparing abstracts • Naturalization fees • Court reporter fees • Notary fees **Do Not Include** • Witness and jury fees received from County employees; post to “Miscellaneous Revenues—Miscellaneous”. • Book fines and payments for lost books; post to “Charges for Services—Library Services”.
102	**Estate Fees** **Include** • Statutory and extraordinary fees allowed to the public administrator for administering estates • Handling charges for deposits by the public administrator • Compensation for the public guardian from estates of wards **Do Not Include** • Legal services provided by county counsel for the district attorney; post to “Charges for Services: Legal Services—Penalties and Costs on Delinquent Taxes”.
103	**Commitment Fees** Includes fees received for a commitment to originate or purchase a loan or group of loans and is recorded as a liability—if exercised, it is recognized as revenue in the period of exercise. If the commitment expires unexercised, the fees are recognized as revenue upon expiration of the commitment.
104	**Humane Services** **Include** • Veterinarian services provided to city zoos • Placement fees • Boarding fees • Vaccination fees • Impounding fees • Sale of animal carcasses
105	**Law Enforcement Services** **Include** • Services provided under contract to governmental agencies • Transporting prisoners **Do Not Include** • Care of prisoner; post to “Charges for Services—Institutional Care and Services”.

Explanation of Revenue Accounts	
Charges for Services (Continued)	
106	**Recording Fees** Incudes all recording and related fees. These fees are not limited to those collected by the clerk and the recorder. **Include** • Recording services • Certified copies • Corporation fees • Fictitious firm name fees • Certified copies of birth and death certificates **Do Not Include** • Document fees charged by assessor, tax collector, and auditor; post to "Charges for Services—Tax Collection Fees".
107	**Road and Street Services** **Include** • Street maintenance, construction, striping curb and gutter, and traffic signal work provided under contract to other governmental agencies • Street side tree services provided under contract to other governments agencies • Cooperative road projects with adjourning property owners • Payments for extraordinary maintenance of roads
108	**Health Fees and Services** **Include** • Revenue from health services provided • Search of health records • Preparation of medical reports • Clinic fees, other than hospital • Vaccination charges **Do Not Include** • Certified copies of birth and death certificates; post to "Charges for Services—Recording Fees".
109	**Mental Health Services** Includes reimbursement for services provided under Mental Health program.
110	**California Children's Services** Incudes reimbursement for services provided under California Children's program.
111	**Sanitation Services** **Include** • Services provided under contract to other governmental agencies • Sale of sewage by-products • Service charge for use of mains and trunk lines • Refuse disposal fees • Sale of garbage • Sewer connection charges • Septic tank inspection and laboratory fees

Explanation of Revenue Accounts	
Charges for Services (Continued)	
112	**Adoption Fees** **Include** • Reimbursement for board and care of adopted children
113	**Institutional Care and Services** Incudes reimbursement for care in public and private institutions. **Include** • In-patient hospital care • Out-patient hospital care • Sale of drugs and medical supplies • Reimbursement for care in private institutions and boarding homes • Rental of wheelchairs, crutches, iron lungs, etc. • Care of prisoners • Care of juvenile court wards • Board and care at juvenile halls • Work furlough program reimbursement • Reimbursement for care in State institutions • Ambulance fees • Emergency hospital services • Fees for medical reports • Interest on judgment for services provided by county hospital **Do not include** • Health clinic fees; post to "Charges for Services—Health Fees".
114	**Educational Services** **Include** • Reimbursement of the cost of the U.S. Veterans Administration medical training program • Training nurses, peace officers, social workers, etc. • Other services provided under contract to other governmental agencies **Do Not Include** • Library services; post to "Charges for Services—Library Services". • Museum exhibit admission fees and lending service charges; post to "Charges for Services—Park and Recreation Fees".
115	**Library Services** **Include** • Book fines • Loss of damaged books • Reservation fees • Services provided under contract to other governmental agencies • Film or other special materials usage fees

Explanation of Revenue Accounts	
Charges for Services (Continued)	
116	**Park and Recreation Services** Includes revenue from the use of county recreational facilities. **Include** • Boat usage fees • Park and recreation services to governmental agencies • Concessions for county recreation facilities • Golf and equipment usage fees • Swimming pool fees • Archery fees • Swimming pool charges to organizations • Arts and craft charges and sale of craft material • Lighting charges • Picnic area usage fees • Clubhouse usage fees • Use of small craft harbor facilities • Camping fees • Museum exhibit admission fees and lending service charges • Parking fees from recreational facilities • Reimbursement for lost or damaged recreational equipment • Other recreational fees **Do Not Include** • Revenue from county fairs, including off-season rentals; post to "Revenue from Investment and Property—Rents and Concessions".

Explanation of Revenue Accounts	
Charges for Services (Continued)	
117	**Other** Includes revenue for services that are not included elsewhere. **Include** • Reimbursement for burials • Fees for making payroll deductions • Aircraft landing fees • Fees for registration of bonds • Aircraft flight plan fees • Embalming fees • Reimbursement of the cost of eradicating weeds or other hazardous conditions • Equipment maintenance services to governmental agencies • Meals and quarters (lodgings) for employees and others • Fees for certification of safety deposit box contents • Microfilming fees • Reimbursement from the State Department of Education for food transportation services
NOTE: **Sales of records are posted to "Miscellaneous Revenues—Other Sales", except in cases where the physical record sold is considered incidental to the service performed. In the latter case, sales are posted to the appropriate "Services" account as indicated.** **Transcript, notary, legal advertising, and document fees follow the revenue source whenever they are incidental to a service for which an account has been established.** **Other items may be subject to varying classification, depending on the circumstances (i.e., pest examination could be either a health or an agricultural service).**	
118	**Interfund Revenue** Includes revenues resulting from interfund transactions between governmental fund types. **May include, but are not limited to:** • Auditing and accounting fees • Communication services • Data processing • Legal services • Personnel services • Planning and engineering services • Purchasing services • Road and street services

Explanation of Revenue Accounts	
Miscellaneous Revenues	
120	(Intentionally Left Blank)
NOTE: **The basis for segregating sales between "Charges for Services" and "Miscellaneous Revenues" corresponds to what is used by the State Board of Equalization in determining whether or not a sale is subject to sales tax.** **Sales posted to "Charges for Services" are generally exempt, and sales posted to "Miscellaneous Revenues" are generally taxable unless specifically exempt, such as sales for resale, food products, sales in interstate commerce, etc.**	
121	**Other Sales** **Include** • Salvage • Surplus county supplies • Poison for pest extermination • Seeds • Books, pamphlets, postcards • Slides, tobacco, candy, etc., purchased for resale • Maps • Personal property sales by the Sheriff • Commissary sales • Fire prevention codes • Directories • Indices • Ordinances • Surveys • Reports produced by the county for resale • Rock and gravel • Items produces in vocational programs for the agenda and blind **Do Not Include The Sale Of** • Certified copies and transcripts; post to the appropriate account under "Charges for Services" • Copies of the assessment roll; post to "Charges for Services—Assessment and Tax Collection Fees" • Meals for employees or others; post to "Charges for Services—Other" • Art craft materials; post to "Charges for Services—Park and Recreation Fees" • Animal carcasses; post to "Charges for Services—Humane Services" • Sewage by-products; post to "Charges for Services—Sanitation Services" • Garbage; post to "Charges for Services—Sanitation Services"
122	**Tobacco Settlement**

Explanation of Revenue Accounts	
Miscellaneous Revenues (Continued)	
123	**Miscellaneous** Includes monetary donations from private agencies, persons, or other sources. **Include** • Prisoners' unclaimed money • Witness and jury fees received from county employees • Consultant fees received from county employees • Services by private physicians in county institutions • Contributions and donations • Insurance proceeds • Compensation insurance refunds • Contributions from trust funds • Unclaimed money in the county treasury (escheated taxes) • Money seized in slot machines or other devices for gambling • Cash overages • Cancelled warrants and checks
Other Financing Sources	
130	**Sale of Capital Assets** **Include** • Land, buildings and improvements, equipment, infrastructure, and intangible assets, etc.
131	**Long-Term Debt Proceeds** Includes long-term obligations incurred to meet operating or capital requirements. **Include** • Bond proceeds • Long-term notes • Other long terms obligations • The discounted present value of capital leases **Do Not Include** • Short-term obligations • Obligations incurred to cover short-term cash requirements
132	**Other** Includes other financing sources that are not included above.
Transfers	
140	**Sales and Intra-Entity Transfers of Future Revenues** • Sales and intra-entity transfers of future revenues should generally be reported as deferred inflows of resources. Governments that factor their receivables, should initially record the proceeds from the sale as a deferred inflow that is recognized over time.

Explanation of Revenue Accounts	
Transfers (continued)	
141	**Transfers-In** Includes transfers between funds (governmental, proprietary or fiduciary) for which no reimbursement is expected. It is recommended that interfund accounts or subaccounts be used to identify and control interfund activity. Having such activity identified separately will be useful when preparing consolidated financial reports that require interfund eliminations (e.g., the State Controller's *Counties Financial Transactions Report* and governmental GAAP compliant financial statements). **Include** • Transfers of tax revenues from the general fund or a special revenue fund to the debt service fund • Operating subsidy transfers from the general fund or a special revenue fund to an enterprise or internal services fund • Transfers from the general fund to a special revenue fund or capital projects fund **Do Not Include** Interfund revenues (see Account 118)
Special Items	
150	**Contributions** **Include** • Contributions to endowments from citizens or businesses
151	**Special and Extraordinary Items** **Include** • Special and extraordinary items

Pension Plan Accounts

7.20 Chart of Accounts and Explanation of Accounts

Statement of Fiduciary Net Position

Local government entities should design their chart of accounts to be consistent with their accounting needs. The following list of chart of accounts is not all-inclusive. Local government entities should supplement these classifications with additional account titles as needed.

Sample Accounts for Statement of Fiduciary Net Position	Explanation of Account
PENSION PLAN ASSETS	Pension plan assets should be subdivided into (a) the major categories of assets held (for example, cash and cash equivalents, receivables, investments, and assets used in pension plan operations) and (b) the principal components of the receivables and investments categories.
Cash & Cash Equivalents	Currency on hand, short-term, or highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) near enough to maturity that they present insignificant risk of changes in value.
Receivables	Pension plan receivables are generally short term and consist of contributions due as of the end of the reporting period from employers, non-employer contributing entities and plan members, and interest and dividends on investments.
Contributions	Amounts recognized as receivables for contributions should include only those due pursuant to legal requirements. Contributions that are payable to the pension plan more than one year after the end of the reporting period (for example, pursuant to installment contracts) should be recognized in full in the period the receivable arises. If a receivable is recognized at its discounted present value, interest should be accrued using the effective interest method, unless use of the straight-line method would not produce significantly different results.
Member Contributions	The amount charged each year to a member (including personal and stakeholder pensions) to cover the cost to the provider of investing and administering the member's plan.
Employer Contributions	Contributions an employer makes to his or her employee's employer-sponsored retirement plan that are not included in employer’s salary expense.
Current Investments	
Accrued Interest	Interest that has accumulated between the most recent payment and the sale of a bond or other fixed-income security.
Dividends	A distribution of a portion of a company’s earnings on stocks or other investments.

Sample Accounts for Statement of Fiduciary Net Position	Explanation of Account
PENSION PLAN ASSETS (Current Investments) continued	
Real Estate Mortgage Loans	The current portion a debt instrument, secured by the collateral of specified real estate property, that the borrower is obliged to pay back with a predetermined set of payments.
Hedge Funds	
Sales of Securities	The sale of a financial instrument that represents an ownership position in a publicly-traded corporation (stock), a creditor relationship with governmental body or with a corporation (bond), or rights to ownership as represented by an option.
Real Estate Income	Income from property bought or developed to earn income through renting, leasing, or price appreciation.
Miscellaneous	Receivables not specifically described above. In each case, these accounts are to be analyzed and managed according to the control procedures that are most applicable to the particular receivable.
Hedge Investments (at Fair Value)	Purchases and sales of investments should be recorded on a trade-date basis. Pension plan investments, whether equity or debt securities, real estate, investment derivative instruments, or other investments (excluding allocated insurance contracts), should be reported at their fair value at the end of the pension plan's reporting period.
Short-Term Hedge Investments	Any investments that a company has made that will expire within one year, including time certificates of deposits, banker acceptances, and commercial and finance paper.
Global Debt Securities	
U.S Government Securities	Include preferred stock that either is required to be redeemed by the issuing entity or is redeemable at the option of the investor, and a collateralized mortgage obligation or other instrument that is issued in equity form, but is accounted for as a non-equity instrument.
Domestic Corporate Bonds	A bond issued in a domestic market by a foreign entity, in the domestic market's currency.
Municipal Bonds	A debt security issued by a state, municipality, or local government entity to finance its capital expenditures.
International Bonds	Debt securities issued by foreign companies or governments and sold domestically.
Global Equity Securities	
Domestic Stocks	The stocks of American companies traded on the various stock exchanges.
International Stocks	The stocks of companies based outside of the U.S.

Sample Accounts for Statement of Fiduciary Net Position	Explanation of Account
PENSION PLAN ASSETS continued	
Securities Lending Collateral	
Private Equity	Equity securities and debt in operating companies that are not publicly traded on a stock exchange.
Real Estate Equity	The difference between the current market value of the property and the amount the owner still owes on the mortgage of real estate property such as land and buildings.
Other Investments	
Capital Assets (Net of Accumulated Depreciation)	
Equipment And Furniture	Tangible property of a more or less permanent nature, other than land or buildings and improvements thereon.
Accumulated Depreciation — Equipment and Furniture	A valuation account to record the accumulation of periodic credits made to record the expiration of the estimated service life of capital assets.
Buildings and Improvements	A capital asset account reflecting the acquisition cost of permanent structures owned or held and improvements thereon.
Accumulated Depreciation — Buildings and Improvements	A valuation account to record the accumulation of periodic credits made to record the expiration of the estimated service life of capital assets.
Land	A capital asset account that reflects the cost of land owned or held.
Other Assets	Those assets that cannot be reasonably categorized under the asset classification discussed above (e.g., long-term receivables).
DEFERRED OUTFLOWS OF RESOURCES	Certain defined transactions that do not qualify for treatment as either assets or liabilities related to future periods.
PENSION PLAN LIABILITIES	Pension plan liabilities generally consist of benefits due to plan members (including refunds of plan member contributions), and accrued investment and administrative expenses. Pension plan liabilities for benefits should be recognized when the benefits are currently due-and-payable in accordance with the benefit terms.
Net Pension Liability	Net pension liability (NPL) is the difference between the actuarial present value of a projected benefits owed to employees (total pension liability) and a pension plans fiduciary net position. Usually net pension liability is reported as a single figure in a local governments' financial statements. Pension plan assets and liabilities in this instance are managed by an outside agency such as CalPERS.
Other Liabilities	Those liabilities that cannot be reasonably categorized under liability classifications discussed above.

Sample Accounts for Statement of Fiduciary Net Position	Explanation of Account
PENSION PLAN LIABILITES continued	
Refunds Payable	
Actuarial Services Fee	Fee for actuarial services including the analysis of rates of disability, morbidity, mortality, retirement, survivorship and other contingencies.
Custodian Services Fee	Fees to a financial institution that holds customers' securities for safekeeping so as to minimize the risk of their theft or loss.
Investment Counselor Fee	As defined by the Investment Advisors Act of 1940, any person or group that makes investment recommendations or conducts securities analysis in return for a fee, whether through direct management of client assets or via written publications.
Administrative Fee Expenses	A fee charged by an insurer or other authorized agency to cover expenses related to record keeping and/or other administrative costs.
DEFERRED INFLOWS OF RESOURCES	Certain transactions related to future periods that do not qualify for treatment as either assets or liabilities.

Statement of Changes in Fiduciary Net Position

Local government entities should design their chart of accounts to be consistent with their accounting needs. The list of chart of accounts presented below is not all-inclusive. Local government entities should supplement these classifications with additional account titles as needed.

Sample Accounts for Statement of Changes in Fiduciary Net Position	Explanation of Account
ADDITIONS	The additions section of the Statement of Changes in Fiduciary Net Position should include separate display of the following, if applicable: (a) Contributions from employers; (b) Contributions from non-employer contributing entities (for example, state government contributions to a local government pension plan); (c) Contributions from plan members, including those transmitted by the employers; and (d) Net investment income, including separate display of (1) investment income, and (2) investment expense, including investment management and custodial fees and all other significant investment-related costs.
Contributions	
Employer Contributions	
Safety	Employer contributions paid into the system to fund basic, cost-of-living, and other retirement benefits related to “safety” type employees.
Miscellaneous	Employer contributions paid into the system to fund basic, cost-of-living, and other retirement benefits that are not qualified as safety.
Combined	Employer contributions paid into the system to fund basic, cost-of-living, and other retirement benefits that cannot be properly divided into safety and miscellaneous members.
Member Contributions	
Safety	Member contributions paid into the system to fund basic, cost-of-living, and other retirement benefits (detail by safety members).
Miscellaneous	Member contributions paid into the system to fund basic, cost-of-living, and other retirement benefits that are not qualified as safety.
Combined	Member contributions paid into the system to fund basic, cost-of-living, and other retirement benefits that cannot be properly divided into and safety and miscellaneous members.
Other Contributions	
Safety	Contributions paid into the system to fund basic, cost-of-living, and other retirement benefits made by other contributors not including employer(s) or members.

Sample Accounts for Statement of Changes in Fiduciary Net Position	Explanation of Account
ADDITIONS (Contributions) continued	
Miscellaneous	Contributions paid into the system to fund basic, cost-of-living, and other retirement benefits made by other contributors not including employer(s) or members that are not qualified as safety.
Combined	Contributions paid into the system to fund basic, cost-of-living, and other retirement benefits made by other contributors not including employer(s) or members that cannot be properly divided into safety and miscellaneous members.
Investments Income (Loss)	Contributions include (a) the net increase (decrease) in the fair value of pension plan investments, and (b) interest income, dividend income, and other income not included in (a). Components (a) and (b) of investment income may be separately displayed or combined and reported as one amount.
Securities Lending Income	
Interest Income	Monies earned on cash deposits, bonds, and other investments. Includes amortization of premiums and discounts on debt securities and interest income on leases.
Bonds	A debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate.
Short-Term Investments	Investments that a company has made that will expire within one year.
Dividends Income	Earnings and distributions from stock.
Net Appreciation (Depreciation) in Fair Value of Investments	The sum of: 1. Realized gains and losses on investments both bought and sold during the year, measured as the difference between the proceeds of sale and the original cost; 2. Realized gains and losses on investments bought in prior years and sold during this year, measured as the difference between the proceeds of sale and the fair value of the investment at the beginning of the year; and 3. Unrealized gains and losses for the year on investments held at year-end, measured as the difference between fair value of the investment at year-end, and either the original cost (if purchased during the year) or the fair value of the investment at the beginning of the year (if purchased in a prior year).
Other Investment Income	Investment income that cannot be reasonably categorized under the investment income classification discussed above.
(Investment Expenses)	Investment-related costs should be reported as investment expense if they are separable from (a) investment income, and (b) the administrative expense of the pension plan.

Sample Accounts for Statement of Changes in Fiduciary Net Position	Explanation of Account
ADDITIONS continued	
(Cost of Lending Securities)	
Other Income	Those revenues that cannot be reasonably categorized under classifications discussed above.
DEDUCTIONS	The deductions section of the Statement of Changes in Fiduciary Net Position should separately display, at a minimum, (a) benefit payments to plan members (including refunds of plan member contributions) and (b) total administrative expense.
Benefit Payments	
Service Retirement	Pension, annuity, cost-of-living, and lump sum payments due to service retirement.
Safety	Pension and annuity payments due to service retirement. Includes survivor continuance benefits (detail by safety members).
Miscellaneous	Pension and annuity payments due to service retirement. Includes survivor continuance benefits that are not qualified as safety.
Combined	Pension and annuity payments due to service retirement. Includes survivor continuance benefits that cannot be properly divided into safety and miscellaneous members.
Disability	Payments including cost-of-living allowances to members retired due to total and permanent disability, or payments due to partial and temporary disability.
Safety	Payments to members retired due to total and permanent disability, or payments due to partial and temporary disability (detail by safety members).
Miscellaneous	Payments including cost-of-living allowances to members retired due to total and permanent disability, or payments due to partial and temporary disability that are not qualified as safety.
Combined	Payments including cost-of-living allowances to members retired due to total and permanent disability, or payments due to partial and temporary disability that cannot be properly divided into safety and miscellaneous members.
Other	
Safety	Payments made to “safety” type members from employer contributions prior to normal or early retirement age, death benefits, life insurance premium payments, and other ancillary benefit payments.
Miscellaneous	Payments made to miscellaneous members from employer contributions prior to normal or early retirement age, death benefits, life insurance premium payments, and other ancillary benefit payments.

Sample Accounts for Statement of Changes in Fiduciary Net Position	Explanation of Account
DEDUCTIONS (Benefit Payments - Other) continued	
Combined	Payments made to members from employer contributions prior to normal or early retirement age, death benefits, life insurance premium payments, and other ancillary benefit payments that cannot be properly divided into safety and miscellaneous members.
Member Refunds	
Safety	A refund of contributions, including interest, to a member upon separation from service, or to the beneficiary upon the member's death (detail by safety members).
Miscellaneous	A refund of contributions, including interest, to a member upon separation from service, or to the beneficiary upon the member's death that are not qualified as safety.
Combined	A refund of contributions, including interest, to a member upon separation from service, or to the beneficiary upon the member's death (detail by general and safety members) that cannot be properly divided into safety and miscellaneous members.
Member Withdrawals	
Safety	Report member withdrawals (detail by safety members).
Miscellaneous	Report member withdrawals that are not qualified as safety.
Combined	Member withdrawals that cannot be properly divided into safety and miscellaneous members.
Administration Expenses	
General	Administrative and management cost pertaining to the retirement system.
Professional Services	Investment counseling fees, actuarial services, audit services, and other professional charges.
Other Expenses	Those expenses that cannot be reasonably categorized under classifications discussed above.

Chapter 8: The Reporting Entity

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Chapter 8: The Reporting Entity

Introduction

According to GASB Cod. Sec. 2100.102 (Section 2100, paragraph .102), "accountability is the cornerstone of all financial reporting in government." It is the paramount objective of governmental financial reporting from which all other financial reporting objectives flow. An accountability perspective should provide the basis for defining the financial reporting entity.

In keeping consistent with the accountability perspective, financial reporting information should be useful for economic, social, and political decisions.

To meet this objective, financial reports should contain information beneficial for:

- comparing actual financial results with the legally adopted budget;
- assessing financial condition and the results of operations;
- assisting in determining compliance with finance-related laws, rules and regulations; and
- assisting in evaluating efficiency and effectiveness.

The organizational structure of governments are becoming increasingly complex as the demand for services from its constituents continues to grow. Unfortunately, the demands placed upon the local government may outpace their ability to provide these services in a traditional governmental environment. For this reason and many others, many local governments are starting to create separate organizations to provide these services. Whatever the reason, public accountability demands that the financial data of these separate organizations be incorporated in the primary governments financial statements, where applicable.

Financial Reporting Entity Overview

8.01 Financial Reporting Entity Concept

Elected officials are accountable to their constituents for their actions. Financial reporting by a local government should report the elected officials' accountability for those organizations.

Financial statements of the reporting entity should allow users to differentiate between the primary government, its component units, and other relationships, such as joint power authorities. This is done by providing information about their relationships with the primary government.

8.02 Financial Reporting Entity Structure

The financial reporting entity consists of the primary government and organizations for which the primary government is financially accountable. The reporting entity's government-wide financial statements should present information about the reporting government as a whole and use separate rows/columns to distinguish between the total primary government and its discretely presented component units.

The fund financial statements should display the primary government's governmental, proprietary, and fiduciary funds (including its blended component units), reporting major funds individually and nonmajor funds in the aggregate. The fiduciary component units should be reported only in the statements of fiduciary net position and changes in fiduciary net position should be reported with the primary government's fiduciary funds.

Primary Government Definition

As noted in GASB Cod. Sec. 2100.112 - .113 (Section 2100, paragraph .112 - .113) a primary government is an elected governing body and a legally separate entity, fiscally independent of other governments. In the financial reports, the primary government includes all funds, organizations, institutions, agencies, departments, and offices that are part of its direct fiscal responsibility.

Component Unit Definition

Component units are also legally separate organizations and, while legally separate from the primary government, are included on the financial statements of the primary government because the primary government is financially accountable for them and excluding them from the primary governments' financial statements would be misleading. They are, therefore, required to be reported on the financial statements of the primary government. A component unit may be reported as either blended or discretely-presented on the financial statements. For more information on these presentations, refer to the Examples section in Chapter 11, *Financial Reports*.

8.03 Financial Accountability

Financial accountability is the relationship where a legally separate organization is included in the reporting statements of another government entity. As stated in GASB Cod. Sec. 2100.120 (Section 2100, paragraph .120):

> The following circumstances set forth a primary government's financial accountability for a legally separate organization.
>
> a) The primary government is financially accountable if it appoints a voting majority of the organization's governing body <u>and</u> (1) it is able to impose its will on that organization <u>or</u> (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.
>
> b) The primary government is financially accountable if an organization is fiscally dependent on <u>and</u> there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government, or (3) a jointly appointed board.
>
> c) The primary government is financially accountable for a legally separate organization if the primary government's holding of a majority equity interest in that organization does not meet the definition of an investment

Appointment of a Voting Majority

A primary government that appoints a simple majority of an organization's governing board, usually has a voting majority. However, if any financial decisions require approval of more than a simple majority, the primary government is not accountable for the organization.

In determining if accountability exists, a primary government's appointment authority should be substantive. The appointment authority of a primary government is not substantive if the number of candidates is severely limited by the nominating process (e.g., a primary government is required to select three appointees from a group of only five candidates). A primary government's appointment authority would not be substantive in situations where the primary government's responsibility is limited to the confirming appointments made by individuals or groups other than the primary government's officials or appointees.

The same legal provisions that outline the procedures for the appointment of an organization's officials, generally provides for continuing appointment authority. In cases where such authority is not specified, the basis for ongoing accountability is provided via the ability of a primary government to unilaterally disband the organization. As long as a primary government makes continuing appointments, it is accountable for an organization.

Imposition of Will

A primary government is considered to be financially accountable for an organization if it appoints a voting majority of an organization's officials and has the ability to impose its will on the organization. There are certain conditions that indicate the primary government's ability to affect the day-to-day operations of an organization. Such conditions indicate a government's ability to impose its will on an organization.

As stated in GASB Cod. Sec. 2100.125 (Section 2100, paragraph .125):

> A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, activities, or level of services performed or provided by the organization. The existence of any one of the following conditions, clearly indicates that a primary government has the ability to impose its will on an organization:
>
> a) The ability to remove appointed members of the organization's governing board at will.
> b) The ability to modify or approve the budget of the organization.
> c) The ability to modify or approve rate or fee changes affecting revenues, such as water usage rate increases.
> d) The ability to veto, overrule, or modify the decisions (other than those in b and c) of the organization's governing body.
> e) The ability to appoint, hire, reassign, or dismiss those persons responsible for the day-to-day operations (management) of the organization.
>
> Other conditions may also indicate that a primary government has the ability to impose its will on an organization. In determining whether imposition of will exists, a distinction should be made between substantive approvals and ministerial (or compliance) approvals, as discussed in GASB Cod. Sec. 2100.116 - .117 (Section 2100, paragraph .116 - .117).

Majority Equity Interests

An *equity interest* is a financial interest in a legally separate organization by another government. The equity interest may be shown by stock ownership of the organization or by an explicit and measurable claim to the net resources of the organization. If the primary government's holding of a majority equity interest in a separate legal organization does not meet the definition of an investment, then the primary government is financially accountable for the separate organization and should report it as a component unit.

Chapter 9: Reporting Assets

Chapter Contents

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Chapter 9: Reporting Assets

Introduction

Local government entities should make clear distinction between general capital assets and capital assets in their financial statements. The purpose of this chapter is to provide an overview as to how assets should be reported in governmental funds, proprietary funds, and fiduciary funds.

Capital Asset Accounting

9.01 Capital Assets

A clear distinction should be made between general capital assets and capital assets of proprietary and fiduciary funds. While the capital assets of proprietary funds should be reported in both the government-wide and fund financial statements, the capital assets of fiduciary funds (including fiduciary component units) should be reported only in the statement of fiduciary net position. All other capital assets of the governmental unit are general capital assets and should not be reported as assets in governmental funds, but instead should be reported in the governmental activities column in the government-wide statement of net position.

Capital assets should be reported at historical cost, including ancillary charges necessary to place the asset into its intended location and condition for use. Donated capital assets should be reported at their acquisition value plus any ancillary charges, if applicable.

A local government may establish a capitalization policy to determine which assets are to be treated as capital assets (including general capital assets). The general rule is that if an asset has a cost of at least $5000, the asset should be capitalized. When it comes to a group of assets (such as 100 computers), the general rule of materiality should apply. Expensing assets is acceptable provided the financial statements are not materially misstated.

Local governments usually exercise conscientious physical and accounting controls over cash; however, with capital assets in which cash has been invested, controls are frequently inadequate or lacking.

Accounting controls over capital assets (including general capital assets) are recommended in order to:

- safeguard a sizeable investment;
- fix responsibility for the custody of equipment;
- assist in the formulation of acquisition and retirement policies through accumulation of data regarding prices, sources of supply, and useful life;
- provide data for financial reporting;
- provide record support and to account for reimbursement or depreciation under grants and proprietary service programs; and
- provide information for insurance purposes.

The term capital assets includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and have useful lives beyond a single reporting period. *Infrastructure assets* are long-lived capital assets that are normally stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Some examples include roads, bridges, tunnels, drainage systems, water/sewer systems, dams and lighting systems.

General Capital Assets

General capital assets are capital assets of the government that are not specifically related to activities reported in proprietary or fiduciary funds. They are associated with, and generally arise from, governmental activities. As general capital assets usually arise from the expenditure of governmental fund financial resources, they should not be reported as assets in governmental funds, but should be reported in the governmental activities column in the government-wide statement of net position.

Purchases of general capital assets are typically charged as expenditures, commonly known as capital outlays, in the fund from which they were purchased and are capitalized at cost in the capital assets accounting system. In addition to outright purchases, the capital assets accounting system may include general assets acquired by the following methods:

Leases—Capital assets acquired through non-cancellable a capital type lease.

Construction—Recorded at the related governmental fund expenditures.

Eminent Domain—Recorded the amount awarded to property owners.

Donations—Recorded at the estimated value on the date of acquisition.

General capital assets acquired by tax or special assessment foreclosure, which are to be resold in the near future, are accounted for in the governmental fund to which the taxes or assessments are owed. Reporting infrastructure as individual capital assets is optional (e.g., roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems and similar assets that are immovable and of value only to the governmental unit).

Upon disposition, the gain or loss on sale should be reported as nonoperating revenue or as nonoperating expenses, respectively. A gain or loss is measured by the difference between book value (i.e., cost less accumulated depreciation) and the proceeds received from the sale, salvage, or insurance claims.

Land

Land includes the investment in real estate other than:

- buildings and improvements; and
- land acquired for street and road purposes.

Land—including any acreage, parcel, or plot associated with infrastructure—should be reported at cost, estimated cost, or estimated fair value at the date of acquisition. Any time that a determination is made that all or part of any land acquired for street or road purposes is no longer needed for those purposes, that portion shall be capitalized as a capital asset. Usually, land is not depreciated because it has an indefinite life.

Buildings and Improvements

Buildings and improvements are physical property of a permanent (non-moveable) nature; examples include buildings, structural attachments or fixtures, storage tanks, reservoirs and parking areas. Sidewalks, trees, and drives in connection with other structures or parks should also be capitalized.

In practice, buildings and improvements with a minimum value of $5,000 or other amount established by the fiscal officer or governing body of the local government, should be capitalized. If a local government exercises the option to capitalize selected items of lesser value, it should be done on a consistent basis. Items such as parking meters and portable traffic signals are considered equipment and should be reported as such.

Fixtures are defined as permanent attachments to buildings that are not intended to be removed and that function as part of the building, such as boilers, lighting fixtures, or plumbing.

Equipment

Equipment includes moveable personal property of a relatively permanent nature and of significant value, such as furniture, machines, tools, vehicles.

- *Relatively permanent* is generally defined as a useful life of one year and longer.
- *Significant value* is generally defined as a minimum value of $100 to $5,000 as established by the fiscal officer or governing body of the local governments' capitalization policy. The cost test may be applied in some instances to aggregates of units of similar type or purpose, such as blocks of folding chairs, shelving, and filing drawers, rather than to the unit itself.

The cost of equipment includes:

- purchase price or construction costs less any discounts;
- freight or other carriage charges;
- sales, use or transportation taxes; and
- installation costs.

In establishing the capital asset accounting system, information on equipment may be obtained from departmental inventories on file, insurance carrier, and from special physical inventories (including physical inventory audit).

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Intangible Assets

As described in GASB Cod. Sec. 1400.138 (Section 1400, paragraph .138), *intangible assets* are assets that lack physical substance, are nonfinancial in nature (not in a monetary form), and have an initial useful life extending beyond a single reporting period. Examples include easements, water rights, computer software, copyrights, patents, intellectual property, goodwill, privileges, and other intangible property necessary or valuable in the conduct of operations.

An intangible asset should be considered to have an indefinite useful life if there are no legal, contractual, regulatory, technological, or other factors that limit the useful life of the asset. A permanent right-of-way easement is an example of an intangible asset that should be considered to have an indefinite useful life. Intangible assets with indefinite useful lives should not be amortized.

Easements are land or any interest in land acquired for the purpose of public or private rights-of-use and passage (including persons, vehicles, and heavy equipment). Easement rights also include erecting, laying, placing, and maintaining drains, ditches, pipes, and transmission lines or wires for the conveyance, transmission, or transportation of water and electric power or for any other purpose necessary for the construction, operation, and maintenance of the project or undertaking. Easements are not depreciated because they have an indefinite useful life.

Internally Generated Intangible Assets

According to GASB Cod. Sec. 1400.142 - .150 (Section 1400, paragraph .142 - .150), specified conditions should be present in order to recognize internally generated intangibles (i.e., computer software). Capitalization of costs begins after <u>all of the following criteria are met:</u>

- Determination of the specific objective of the project (work effort) and the nature of the service capacity that is expected to be provided by the intangible asset upon completion;
- Demonstration of the technical or technological feasibility that the completed project (work effort) will provide its expected service capacity; and
- Demonstration of the current intention, ability, and presence of effort to complete or continue (as in the case of a multi-year project or work effort) development of the intangible asset.

Only costs incurred subsequent to meeting the above criteria should be capitalized. Costs incurred prior to meeting those criteria should be expensed. Also, note that in the above definition the term <u>service capacity</u> refers to either internally generated computer software or acquired software that requires more than a minimal incremental effort to achieve expected service capacity.

Specific Amortization Issues

Qualified intangible assets should be amortized over their useful life. Intangible assets with no legal, contractual, regulatory, technological, or other factors limiting their useful life should be considered to have an indefinite useful life and should not be amortized. As an example, a permanent right-of-way easement would be considered to have an indefinite useful life.

9.02 Capital Assets System

General capital assets, as distinguished from proprietary fund assets—including those acquired from the resources of a particular fund—are accounted for in a capital asset accounting system. The asset accounts in this group include all aforementioned capital assets (land, buildings and improvement, equipment, infrastructure, intangible assets, etc.) used in operations with useful lives beyond a single reporting period.

The equity of the local government in these assets is shown in a number of Investment accounts, set up according to the source of the outlay. The list below is not all-inclusive.

- Investment in capital assets—General Fund;
- Investment in capital assets—Special Revenue Fund;
- Investment in capital assets—General Obligation Bonds;
- Investment in capital assets—Accumulative Capital Outlay Fund; or
- Investment in capital assets—Donations

These accounts are posted simultaneously with, but independently of, the related transactions recorded in the operating funds. Several investment accounts could be combined into one amount on a balance sheet or statement of net position, if a condensed presentation is desired.

9.03 Treatment of Costs Subsequent to Acquisition

Expenditures on general capital assets that are incurred after their original acquisition are defined and recorded as one of the following:

- *Maintenance*—generally regarded as expenditures that neither materially add to the value of the property nor appreciably prolong its life, but merely keep it in an ordinarily efficient operating condition. Maintenance costs typically not be capitalized; or

- *Capitalized Expenditures*—generally regarded as expenditures that materially add to the value of the asset or appreciably extend its life. The cost of capitalized expenditures should be added to the book value of the asset where the original cost of a component being improved can be specifically identified. The remaining book value should be written off and the new cost capitalized. Capitalized expenditures are on occasion referred to as betterments.

The decision as to whether expenditures should be capitalized should be made by an evaluation of engineering, physical, or other relevant factors apart from cost. Following are examples of factors that should be considered when capitalizing an asset:

- *Additions*—generally treated as new separate units, or extensions of existing units, and are considered to be general capital assets (or capital assets). The test of significance/materiality should be applied, as with betterments.
- *Alterations*—generally treated as changes in the physical structure or arrangement of general capital assets, the cost of which does not qualify as an increase in general capital assets under the foregoing definitions of betterments and additions. Alterations should not be capitalized.

With respect to structures and improvements, a significant betterment is generally one, which results in an improvement of at least $5,000.

Capital Asset Valuations

9.04 Valuation Basis

As a general rule capital assets should be reported at historical cost, including ancillary charges necessary to place the asset into its intended location and condition for use.

The cost of a capital asset includes not only its purchase price or construction cost but also the costs necessary to place the asset in its intended location and condition for use. These costs include freight and transportation charges, site preparation expenditures, professional fees, and legal claims directly attributable to asset acquisition.

Occasionally, a local government will acquire a capital asset for which the historical cost information may not be available. In such cases, the local government may use either of the following approaches to estimate the historical cost of capital assets:

- *Standard Costing*—The cost that other governments may have paid for a similar asset; or
- *Normal Costing*—The cost to acquire the normal asset today and then using a price index to adjust the cost of the asset to the amount the asset would have cost in the year the asset was actually acquired.

Land Cost

The cost of land includes all expenditures in connection with its acquisition. Following is a list (not all-inclusive) of such expenditures.

- Purchase price
- Appraisal and negotiation fees
- Title search fees
- Surveying fees
- Cost of contents
- Relocation costs
- Condemnation costs
- Clearing land for use
- Demolishing or removing structures
- Filing costs
- Legal fees
- Escrow costs related to acquisition (this does not include taxes, interest or insurance)

Any receipts from the sales of items located on the property should be credited against the land cost. In establishing the capital asset accounting system, the assessor may be able to provide information about the location and value of land owned if the local government itself does not have adequate records.

Structure and Improvement Costs

The cost of structures and improvements includes all expenditures in connection with their acquisitions. Following is a list (not all-inclusive) of such expenditures.

- Purchase price of construction cost
- Fixtures attached to the structure
- Architects' fees
- Accident or injury costs
- Payment of damages
- Insurance during construction
- Cost of permits and licenses
- Legal and escrow costs related to acquisition (this does not include taxes, interest or insurance)

The cost should be reduced for:

- sale of salvage from materials charged against the construction;
- discounts, allowance, and rebates secured; or
- amounts recovered through surrender of liability and casualty insurance.

Rentals of property during the construction period should be credited to revenue unless otherwise restricted. Interest costs incurred in relation to acquisition, construction, development, or improvement of capital asset (governmental funds) are treated as ancillary charges.

In establishing the capital asset accounting system, the assessor and the insurance carrier may be able to provide information about the structures and improvements owned if the local government itself does not have adequate records.

Equipment Replacement Reserve (Designation)

Government Code section 25262 states that the county budget may contain a provision for an equipment replacement reserve within a fund. Legislation determines whether component units or governments other than the county are authorized to maintain a designated equipment reserve. For example, a community services district, pursuant to Government Code section 61112, may establish a designated reserve for capital outlays.

The methodology used to determine the replacement cost, or inflationary factor, may vary depending on the class of equipment, availability of information (indices), or other market factors.

A. The illustrative case below assumes the availability of accurate replacement cost information and a capital asset system that is capable of depreciating by class, using the straight-line method and historical cost.

   1. The *Motor Pool Internal Service Fund* wishes to establish an *Equipment Replacement Reserve (Designation)* based on replacement cost beginning with fiscal year 20X5-X6. The straight-line depreciation based on historical cost for the year is $50,000, while replacement cost for the same vehicles equals $62,000. The equipment rental rates used to bill the various departments would be based on the $62,000; the actual depreciation expense would be $50,000, in accordance with Generally Accepted Accounting Principles (GAAP).

   2. The total revenue raised by the rental rates based on replacement cost for FY 20X5-X6 would be $147,600.

A new entry to establish the *Equipment Replacement Reserve (Designation)* based on replacement cost would be as follows:

Account	Debit	Credit
Motor Pool Fund		
Net Assets - Unrestricted	12,000	
Net Assets Designated for Equipment Replacement		12,000

B. The case assumed required accurate replacement information and a sophisticated capital asset system. This capability will not exist in all counties; as a result, other methods of estimating replacement cost may be used. The case offered below assumes the availability of an industry-wide inflationary index for vehicles:

1. Once again, the *Motor Pool Internal Service Fund* wishes to establish an *Equipment Replacement Reserve*. On July 1, 20X5, the index that the fund uses to determine inflationary trends shows that, during the preceding year, the cost of new vehicles increased 3%. This increase will be applied to the historical cost of the fleet of vehicles on hand ($510,000 x 3%) to determine the additional revenue ($15,300) that needs to be raised to establish the *Equipment Replacement Reserve (Designation)*. Rental rates for the coming year would be adjusted to achieve the total income requirement of $150,900.

2. The remainder of the entries will be essentially the same as those contained in the prior example, except that the net effect of each will be higher by $3,300 due to the increase in revenue over that achieved by the other method.

Account	Debit	Credit
Motor Pool Fund		
Net Assets - Unrestricted	15,300	
Net Assets Designated for Equipment Replacement		15,300

C. The entries regarding the purchase of equipment during the following fiscal year would be as follows, assuming the existence of an *Equipment Replacement Reserve*:

Account	Debit	Credit
Equipment	8,200	
Accumulated Depreciation	6,500	
Net Assets Designated for Equipment Replacement	1,250	
Net Assets - Unrestricted	7,750	
Net Assets Invested in Capital Assets		7,750
Equipment		7,800
Cash		400
Cash Restricted for Vehicle Replacement		6,500
Net Assets - Unrestricted		1,250

NOTE: The cases used to illustrate the uses of an Equipment Replacement Reserve (Designation) reflect the accounting and reporting of designations and not reserves.

Donated Assets

Donated capital assets should be reported at their acquisition value plus any ancillary charges, if applicable. Surplus property purchases at nominal prices far below actual value are, in part, donations and should be so valued.

Disposition of Capital Assets

General capital assets may be sold, abandoned, or traded in on new assets. Regardless of the manner of disposition or the amount of the proceeds, the asset should be removed from the capital assets accounting system at its recorded value. The local government records any disposition proceeds in the revenue accounts or any costs related to the disposition in the expenditure accounts.

Depreciation (Depletion)

Capital assets should be depreciated over their estimated useful lives, unless they are inexhaustible, are intangible with indefinite useful lives, or are infrastructure assets that are part of a network reported using the modified approach which meets the criteria set forth in GASB Cod. Sec. 1400.103 (Section 1400, paragraph .103). Local governments may use any established depreciation method. Depreciation may be based on the estimated useful life of a class of assets, a network of assets, a subsystem of a network, or individual assets.

Depreciation of capital assets should not be reported in the accounts of governmental funds, but should be tracked in the Capital Asset Accounting System for a record of depreciation added to the government-wide statements. Depreciation of capital assets purchased in a proprietary fund are required to be directly recorded in the accounts of that fund. As capital assets of governmental funds are treated as expenditures and not capitalized, depreciation is not recorded the governmental funds. When recorded in the capital assets accounting system, the depreciation entry should increase the accumulated depreciation accounts and decrease the Investment in General Capital Assets account(s).

Useful Life of Assets

As rule of thumb, the best way for a local government to determine the useful life is of any capital asset is through its own experiences with similar assets. If that information is not available, then local governments may refer to the following for general guidance:

a) General guidelines obtained from professional or industry organizations (such as AICPA);
b) Information for comparable assets of other governments; or
c) Internal information.

Local governments should also consider an asset’s present condition and how long it is expected to meet service needs/demands, along with the following factors:

- Quality: differences in materials, workmanship, etc.;
- Application: how the asset is currently being used, frequency of use, etc.; or
- Environment: physical climate, regulatory requirements, etc.

Interest Cost Incurred before the End of a Construction Period

When preparing financial statements using economic resources focus, interest cost incurred before the end of the construction period should be expensed in the period incurred instead of being capitalized. Under the current financial resources measurement focus, the interest cost would be treated as an expenditure.

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9.05 Transfers to Proprietary Funds

Capital assets used by proprietary funds are considered to belong to those funds, rather than being accounted for in the capital asset account system. This circumstance requires that transactions involving governmental capital assets and proprietary funds be regarded as taking place between independent financial entities and will require an adjustment in the capital asset account system of the governmental funds.

Accounting for such capital asset transfers should reflect the actual terms of the transactions. Capital assets may be donated or sold to internal service or enterprise funds. If donated, no entries are required in the accounts of governmental funds that had originally purchased the assets because the donated assets are not accounted for as assets of the original fund. If sold, the original governmental fund may:

- receive cash (accounted for as revenue in governmental funds);
- acquire a receivable which will be collected from future earnings of the fund purchasing the assets; or
- acquire a permanent investment that may be recovered only upon liquidation of the fund that purchased the assets. In any event, the assets should be removed from the capital assets account system.

Conversely, if governmental funds purchase proprietary fund capital assets, the purchase price should be recorded as an expenditure, just as though bought from an outside vendor. The asset should be recorded in the general capital asset accounting system.

Inventory and Records

9.06 Accounting for Inventories

Consumption Method

In the consumption method of inventory accounting, expenditures are recorded when materials and supplies are used. GASB requires using this method when reporting inventories in the government-wide financial statements as it is consistent with economic resources measurement focus and full accrual basis of accounting.

Purchases Method

Using the purchases method of accounting, purchases are recorded as expenditures when acquired, regardless of when they are used. As stated above, the GASB requires the use of the consumption method when accounting for inventories in governmental funds. If a local government uses the purchases method to account for inventories in its governmental funds, and the consumption method produces different results when preparing the government-wide financial statements, the difference should be included as part of the reconciliations of the governmental funds to governmental entities.

Unavailable Revenues

When an asset is recorded in the governmental fund financial statements but the revenue is unavailable, the government should report the unavailable revenue as a deferred inflow of resources until such time as the revenue becomes available.

9.07 Records

Physical Inventory

To ensure that the system is functioning as intended, complete physical inventories of capital assets should be taken at intervals prescribed by law or as prescribed by the local governing body.

The physical inventory will be easier if the property accounting officer provides a current list, in numerical order, of the equipment charged to departments with space for checking each item present, notation of exceptions, and certification.

Additionally, the property accounting officer, in the interest of internal control, should check physical inventories of departments or item groups at random, reporting any deficiencies to the department head as promptly as possible.

Shortages and Overages

An investigation of any shortages or overages should be made in cooperation with the department involved. Frequently, such a condition is due to an accounting lag in recording acquisitions, transfers, and dispositions. Shortages may exist because of the accounting lag, or because of pilferage. Any shortage still unexplained after a reasonable effort to determine the cause should be reported to the legislative body for appropriate action.

Identification of Equipment

Records of capital assets should be carefully maintained to ensure that there is an accurate government-wide representation of these financial resources and their location, whether or not they are expended from governmental funds.

Two main reasons exist for affixing a sequence number to as many items as is possible and practical:

- *Ease of identification*: It is quicker to identify equipment by number than to search for obscurely placed serial numbers or to match physical characteristics to a word description. This is particularly true when dealing with many items of similar, but not quite identical, appearance; and
- *Maintaining Inventory*: A department physical inventory may be taken rapidly if a listing of items in sequence number order is available. Any item seen may be quickly located on the list and checked off. Otherwise, the inventory should be taken in the order listed, or the entire listing should be searched to locate the item or to adjust the accounting records accordingly.

Some items for which a sequence number may not be practical include:

- equipment habitually coated with dirt and grease;
- certain medical and laboratory instruments; and
- unique items, readily identifiable.

Judgment should be exercised as to which equipment is best left unnumbered. It is possible that no single method of numbering will prove adequate, and several may be necessary depending on the surface, composition, and usage of the item. Some of the commonly used devices are (list is not all-inclusive):

- metal tags with adhesive on the back;
- metal tags affixed with rivets or nails;
- decals;
- stenciled numbers; or
- die-stamped numbers.

Standardization regarding the location for affixing tags to capital assets is desirable.

Individual Records

An individual record of each unit of accountability should be maintained. Information recorded should include:

- Date acquired;
- Department charged with the item (including purchase authorization documents);
- The sequence number assigned (e.g., Property system ID/serial number, etc.);
- An abbreviated word description;
- Cost or estimated cost, and salvage value;
- Method by which acquired (example lease, outright purchase, donation, etc.);
- Fund from which purchased;
- Vendors' name if purchased;
- Date and method of retirement;
- Posting reference (including payment voucher number);
- Physical location; and
- Depreciation records (where applicable).

Optional data might include a value for insurance purposes, estimated life, and equipment class code. Descriptive information regarding capital asset additions is best taken from purchase invoices and contracts, even though there is sometimes an undue lag between physical possession of the property and the receipt of these documents.

In local governments where a purchasing agent exists and is assigned the responsibility for handling surplus property sales, equipment abandonments, and interdepartmental transfers of equipment, close cooperation with the purchasing agent will facilitate the functioning of the property accounting system. In local governments where a purchasing agent does not exist and the individual department head controls the purchase, movement and disposition of assets; procedures and report forms should be designed to give the property accounting officer prompt notice of any change in the composition or physical location of the assets.

Subsidiary Records

For control purposes, it is convenient to group detail records by the department or location, in the case of equipment. Records filed by department constitute a subsidiary ledger to the capital assets accounting system control account called Equipment.

Similarly, individual records for land, buildings and improvements may be grouped by the location to constitute subsidiary ledgers to the other control accounts. Larger local governments with thousands of assets may wish to install intermediate control records to facilitate the various departments and locations.

Construction and Work-In-Progress

9.08 Construction by Force Account

Capital assets constructed by local governments are recorded in the same manner as those acquired by purchase or construction contract. Costs are initially charged to the accounts of the cost center performing the construction and are then transferred to the project. These costs include direct labor, materials, equipment usage, and overhead. Overhead is limited to those items—such as workers' compensation and employee group insurance premiums, retirement, sick leave, and vacation allowances—that can be distributed based on direct labor. Administrative overhead outside of the cost center may be capitalized when clearly related to the construction.

9.09 Construction in Progress

At the close of the fiscal period, the recorded expenditures for general capital assets being constructed but not yet completed should be recognized in the capital assets accounting system. This is accomplished by charging the Construction in Progress account and crediting the appropriate Investment in Capital Assets account. If the project is not completed by the end of the following period, these accounts are adjusted later to reflect any additional expenditures.

Upon completion, the proper asset account, usually the Buildings and Improvements account, is charged with the total of the completed construction. The Construction in Progress account is then credited with previously recorded costs, and the Investment in Capital Assets account adjusted for any difference.

Examples

E9.10 Capital Assets Note Disclosure

GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended, requires that information about changes in capital assets used in governmental activities and business-type activities be disclosed. The capital assets note contains four columns of information. The first columns present the original cost, accumulated depreciation, and net amounts as of the start of the year. Unless an adjustment has been made, these are likely the amounts that were reported in the previous year's financial report. The right-hand column presents the same information. The totals in the right-hand column are the same as those shown in the balance sheet or statement of net position.

The two middle columns explain how the capital asset amounts changed from the previous year to the current year. One column shows additions, construction, or donation, as well as the depreciation reported for the year. The other column reports information about assets that have been sold or otherwise disposed of. If a capital asset suffers an impairment—meaning it cannot be used to provide services or its usefulness is greatly diminished because of physical damage, obsolescence, or some other reason—then the "writing down" of the asset is shown in the retirement column.

Disclosure of Information about Capital Assets

Capital asset balances and activity for the year ended December 31, 2Y01, was as follows (in thousands):
(1)

	(2) Primary Government			
	Beginning Balance	(3) Additions	(4) Retirements/ Reclassifications	Ending Balance
Governmental Activities:				
Capital Assets that are not Depreciated:				
Land	$ 29,484	$ 2,020	$ (4,358)	$ 27,146
Infrastructure (roads)	48,016	12,848	-----	60,864
Construction in Progress	2,881	768	(2,326)	1,323
Total	80,381	15,636	(6,684)	89,333
Capital Assets that are Depreciated:				
Buildings and Improvements	39,961	734	-----	40,695
Equipment	32,110	1,544	(1,514)	32,140
Infrastructure	44,578	1,530	-----	46,108
Total	116,649	3,808	(1,514)	118,943
Less Accumulated Depreciation:				
Buildings and Improvements	(10,358)	(691)	-----	(11,049)
Equipment	(9,247)	(2,676)	1,040	(10,883)
Infrastructure	(15,301)	(1,020)	-----	(16,321)
Total	(34,906)	(4,387)	1,040	(38,253)
Total Depreciable Capital Assets, Net	81,743	(579)	(474)	80,690
Governmental Activities Capital Assets, Net	$ 162,124	$ 15,057	$ (7,158)	$ 170,023
Business-Type Activities:				
Land	$ 3,691	$ 145	$ -----	$ 3,836
Distribution and Collection Systems	35,522	3,838	-----	36,360
Buildings and Equipment	122,870	3,847	(32)	126,685
Construction in Progress	4,955	980	(3,311)	2,624
Total	167,038	8,810	(3,343)	172,505
Less Accumulated Depreciation for:				
Distribution and Collection Systems	(7,654)	(897)	-----	(8,551)
Buildings and Equipment	(11,789)	(808)	32	(12,565)
Business-Type Activities Capital Assets, Net	$ 147,595	$ 7,105	$ (3,311)	$ 151,389
*Depreciation Expense was charged to Governmental Functions as follows:				
General Government	$ 275			
Public Safety	330			
Public Works, which includes Depreciation of General Infrastructure	1,315			
Health and Sanitation	625			
Cemetery	29			
Culture and Recreation	65			
Community Development	40			
In addition, Depreciation on Capital Assets held by the Local Governments' Internal Service Funds is charged to various function based on their usage of the assets	1,708			
Total Depreciation Expense	$ 4,387			

*NOTES
(1) These amounts have been rounded off to thousands of dollars
(2) The amounts, in the beginning balance column, come from the prior year's financial statements
(3) Additions are typically the cost of assets acquired, constructed, or rebuilt during the year, and the year's depreciation expenses (and new construction not yet completed)
(4) Retirements are the removal of historical cost and accumulated depreciation related to assets sold, destroyed, or that otherwise became unusable to the government during the year (and adjustments to reflect completion of construction in progress)

E9.11 Examples of Classification and Posting

For simplicity, it is assumed that all transactions are cash and are financed through the General Fund unless otherwise stated.

Capital Asset Purchase	A printer is purchased for $1,000 for the clerk.							
	Application of Policy: The asset is capitalized in the amount of the expenditure.							
General Ledger			**Subsidiary Ledger (Expenditure Ledger)**			**Capital Assets Accounting System**		
Accounts	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**
Expenditures	1,000		Clerk—Equipment	1,000		Equipment	1,000	
Cash		1,000				Investment in Capital Assets—General Fund		1,000

Distinction between Capital Asset and Maintenance Expenditures

The following illustrative examples (not all-inclusive) demonstrate common types of transactions for capital asset and maintenance expenditures.

For the purposes of the following example, it is assumed that the local government has a capitalization policy of capitalizing general capital assets costing $5000 or more.

Capital Asset vs. Maintenance Expenditure Example 1	Repairs were made to bleachers (seats) costing $200 in the Parks and Recreations Building.							
	Application of Policy: Repairs are considered maintenance and is not capitalized.							
General Ledger			**Subsidiary Ledger (Expenditure Ledger)**			**Capital Assets Accounting System**		
Accounts	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**	**Accounts**	**Debit**	**credit**
Expenditures	200		Parks and Recreation—Building Maintenance of Equipment.	200		No Entry		

Capital Asset vs. Maintenance Expenditure Example 2	100 bleachers costing $5000 were are added to the inventory of bleachers							
	Application of Policy: This is an addition to the existing capitalized bleachers. These items are capitalized according to the local government's capitalization policy.							
General Ledger			**Subsidiary Ledger (Expenditure Ledger)**			**Capital Assets Accounting System**		
Accounts	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**
Expenditures	5,000		Parks and Recreation—Building Equipment	5,000		Equipment	5,000	
Cash		5,000				Investment in Capital Assets—General Fund		5,000

Capital Asset vs. Maintenance Expenditure Example 3	**A new radiator is installed in a five-year-old auto for the Administrator at a cost of $145.**							
	Application of Policy: This is ordinary maintenance and therefore not capitalized.							
General Ledger			**Subsidiary Ledger (Expenditure Ledger)**			**Capital Assets Accounting System**		
Accounts	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**
Expenditures	145		Administrator Maintenance of Equipment	145		No Entry		

Capital Asset vs. Maintenance Expenditure Example 4	Maintenance was performed on the hospital heating system, costing $500.							
	Application of Policy: Maintenance expenditures are not capitalized.							
General Ledger			**Subsidiary Ledger (Expenditure Ledger)**			**Capital Assets Accounting System**		
Accounts	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**
Expenditures	5,00		Hospital Maintenance of Buildings and Improvements	5,00		No Entry		

Capital Asset vs. Maintenance Expenditure Example 5	A new five-ton cooling system costing $7,500 is installed in the hospital, replacing an existing three-ton system, which originally cost $5000.							
	Application of Policy: The expenditure can be capitalized—capitalize the new item and write off the item replaced.							
General Ledger			**Subsidiary Ledger Expenditure Ledger)**			**Capital Assets Accounting System**		
Accounts	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**
Expenditures	7,500		Hospitals—Buildings and Improvement	7,500		Buildings and Improvements	7,500	
Cash		7,500				Investment in Capital Assets—General Fund		7,5000
						Investment in Capital Assets—General Fund	5000	
						Buildings and Improvement		5000

<table>
<tr><td rowspan="2">Capital Asset vs. Maintenance Expenditure Example 6</td><td colspan="8">$1,750 is expended on the installation of new partitions in the hospital lobby to provide additional office space.</td></tr>
<tr><td colspan="8">Application of Policy: The addition is less than $5,000 and is accordingly charged to maintenance.</td></tr>
<tr><th colspan="3">General Ledger</th><th colspan="3">Subsidiary Ledger
(Expenditure Ledger)</th><th colspan="3">Capital Assets Accounting System</th></tr>
<tr><th>Accounts</th><th>Debit</th><th>Credit</th><th>Accounts</th><th>Debit</th><th>Credit</th><th>Accounts</th><th>Debit</th><th>Credit</th></tr>
<tr><td>Expenditures</td><td>1,750</td><td></td><td>Hospital—Maintenance of Buildings and Improvements</td><td>1,750</td><td></td><td colspan="3">No Entry</td></tr>
</table>

<table>
<tr><td rowspan="2">Capital Asset vs. Maintenance Expenditure Example 7</td><td colspan="8">A new building is painted at a cost of $11,000</td></tr>
<tr><td colspan="8">Application of policy: Painting as part of the initial construction cost is regarded as capital outlay. Subsequent repair is maintenance according to the local governments' capitalization policy.</td></tr>
<tr><th colspan="3">General Ledger</th><th colspan="3">Subsidiary Ledger
(Expenditure Ledger)</th><th colspan="3">Capital Assets Accounting System</th></tr>
<tr><th>Accounts</th><th>Debit</th><th>Credit</th><th>Accounts</th><th>Debit</th><th>Credit</th><th>Accounts</th><th>Debit</th><th>Credit</th></tr>
<tr><td>Expenditures</td><td>11,000</td><td></td><td rowspan="2">Buildings and Improvements of Equipment</td><td rowspan="2">11,000</td><td rowspan="2"></td><td>Buildings and Improvements</td><td>11,000</td><td></td></tr>
<tr><td>Cash</td><td></td><td>11,000</td><td>Investment in Capital Assets—General Fund</td><td></td><td>11,000</td></tr>
</table>

<table>
<tr><td rowspan="2">Capital Asset vs. Expenditure Example 8</td><td colspan="8">An administration building was constructed with an unpainted exterior. After 15 years, the building is painted at a cost of $15,000.</td></tr>
<tr><td colspan="8">Application of Policy: Although a theoretical case exists for classification as an addition, it is considered preferable to regard this as an expenditure of maintaining the original exterior of the building.</td></tr>
<tr><th colspan="3">General Ledger</th><th colspan="3">Subsidiary Ledger
(Expenditure Ledger)</th><th colspan="3">Capital Assets Accounting System</th></tr>
<tr><th>Accounts</th><th>Debit</th><th>Credit</th><th>Accounts</th><th>Debit</th><th>Credit</th><th>Accounts</th><th>Debit</th><th>Credit</th></tr>
<tr><td>Expenditures</td><td>15,000</td><td></td><td rowspan="2">Administration Building—Maintenance of Buildings and Improvements</td><td rowspan="2">15,000</td><td rowspan="2"></td><td colspan="3" rowspan="2">No Entry</td></tr>
<tr><td>Cash</td><td></td><td>15,000</td></tr>
</table>

Capital Asset vs. Maintenance Expenditure Example 9	A shop building is completely shingled, costing $1,700. Application of Policy: The replacement is in-kind and is accordingly classified as maintenance.							
General Ledger			Subsidiary Ledger (Expenditure Ledger)			Capital Assets Accounting System		
Accounts	Debit	Credit	Accounts	Debit	Credit	Accounts	Debit	Credit
Expenditures	1,700		Shop Building Maintenance of Buildings and Improvements	1,700		No Entry		
Cash		1,700						

Capital Asset vs. Maintenance Expenditure Example 10	The shingles in the above roof are replaced with shake shingles at a cost of $6,800. Application of Policy: The amount of the betterment is greater than $5,000 as established by the auditor. Capitalize the new item and write off the $1,100 remaining book value of the old roof.							
General Ledger			Subsidiary Ledger (Expenditure Ledger)			Capital Assets Accounting System		
Accounts	Debit	Credit	Accounts	Debit	Credit	Accounts	Debit	Credit
Expenditures	6,800		Shop Buildings and Improvements	6,800		Buildings and Improvements	6,800	
Cash		6,800				Investment in Capital Assets —General Fund		6,800
						Investments in Capital Assets—General Fund	1,100	
						Buildings and Improvement		1,100

The following illustrative examples (not all-inclusive) demonstrate common types of expenditure transactions related to general capital assets.

For the purposes of the following examples, it is assumed that the local government has a capitalization policy of capitalizing general capital assets costing $2000 or more. All entries are recorded in the general fund, unless otherwise stated.

Purchase of a capital asset with a trade-in for a governmental fund type Method A	A laptop is purchased for the assessor for $2,675. The vendor allows $125 for an old laptop, which originally cost $1,250.
	Application of Policy: The new asset is recorded at cost. The old asset is removed at its recorded value. The trade-in value is recognized as revenue.

General Ledger			**Subsidiary Ledger (Expenditure Ledger)**			**Capital Assets Accounting System**		
Accounts	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**
Expenditures	2,675		Assessor—Equipment	2,675		Equipment	2,675	
Cash		2,550				Investment in Capital Assets—General Fund		2,675
Other Financing Sources-Proceeds from General Capital Asset Trade-In		125				Investment in Capital Assets—General Fund	1,250	
						Equipment		1,250

Purchase of a capital asset with a trade-in for a governmental fund type Method B	A laptop is purchased for the assessor for $2,675. The vendor allows $125 for an old laptop, which originally cost $1,250.
	Application of Policy: Record purchase of the laptop net of the trade-in allowance. Note that the trade-in value is recognized only in the capital assets accounting system.

General Ledger			**Subsidiary Ledger (Expenditure Ledger)**			**Capital Assets Accounting System**		
Accounts	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**
Expenditures	2,550		Assessor—Equipment	2,675		Equipment	2,675	
Cash		2,550				Investment in Capital Assets—General Fund		2,675
						Investment in Capital Assets—General Fund	1,250	
						Equipment		1,250

Purchase of a capital asset with a trade-in	**The Parks Department was allowed $1,000 on an old pick-up truck toward the purchase of a new one. The old truck originally cost $3,000 and the price of the new truck is $6,200 before any trade-in allowance.**							
	Application of Policy: Same as with preceding example (here using Method A)							
General Ledger			**Subsidiary Ledger (Expenditure Ledger)**			**Capital Assets Accounting System**		
Accounts	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**
Expenditures	6,200		Parks Department—Equipment	6,200		Equipment	6,200	
Cash		5,200				Investment in Capital Assets—General Fund		6,200
Revenue Account		1,000				Investment in Capital Assets—General Fund	3,000	
						Equipment		3,000

Sale of a capital asset	The Public Works Department sells a truck originally costing $3,500 for $600							
	Application of Policy: Assets sold must be removed from the capital assets accounting system at their recorded value, regardless of selling price.							
General Ledger			**Subsidiary Ledger (Expenditure Ledger)**			**Capital Assets Accounting System**		
Accounts	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**
Cash	600		Sale of Capital Assets		600	Investment in Capital Assets—General Fund	3,500	
Revenue		600				Equipment		3,500

Construction in Progress	At June 30, $30,000 has been expended on a capital projects fund toward construction of a new health building.							
	Application of Policy: The amount of the expenditure at the close of the fiscal year is recorded in the Capital Assets Accounting System.							
General Ledger			**Subsidiary Ledger Expenditure Ledger)**			**Capital Assets Accounting System**		
Accounts	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**	**Accounts**	**Debits**	**Credit**
No Entry			No Entry			Construction in Progress	30,000	
						Investment in Capital Assets from Capital Projects Fund—General Obligation Bonds		30,000

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Development in progress: Internally generated intangible asset-Public Works software	At June 30, $125,000 has been expended in a special revenue fund toward development of software being internally generated for Public Works.
	Application of Policy: The amount of the expenditure at the close of the fiscal year is recorded in the Capital Assets Accounting System.

General Ledger			Subsidiary Ledger (Expenditure Ledger)			Capital Assets Accounting System		
Accounts	Debit	Credit	Accounts	Debit	Credit	Accounts	Debit	Credit
No Entry			No Entry			Development in Progress	125,000	
						Investment in Capital Assets from Special Revenue Fund—General Obligation Bonds		125,000

A lease contract requiring operating method of accounting	The Library leased a van for two months at $400 per month while its bookmobile was being overhauled.
	Application of Policy: The lease agreement contains no provision for acquiring title.

General Ledger			Subsidiary Ledger (Expenditure Ledger)			Capital Assets Accounting System		
Accounts	Debit	Credit	Accounts	Debit	Credit	Accounts	Debit	Credit
Expenditures	800		Library Operations		800	No Entry		
Cash		800						

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Chapter 10: Reporting Liabilities

Chapter Contents

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Chapter 10: Reporting Liabilities

Introduction

Liabilities are present obligations to sacrifice resources that the government has little or no discretion to avoid. An *obligation* is a social, legal, or moral requirement, such as a duty, contract, or promise that compels one to follow or avoid a particular course of action. A major compelling factor is that the obligation is legally enforceable. The event creating the liability should have taken place and be external to the government. Additionally, governmental liabilities should be maintained in sufficient detail in the debt accounting records to provide sufficient information for financial reporting and disclosure requirements.

A clear distinction should be made between fund long-term liabilities and general long-term liabilities. Any long-term liabilities directly related to and expected to be paid from proprietary funds should be reported in the proprietary fund statement of net position and in the government-wide statement of net position.

Long-term liabilities directly related to and expected to be paid from fiduciary funds (including fiduciary component units) should be reported in the statement of fiduciary net position. All other unmatured general long-term liabilities of the governmental unit should not be reported as liabilities in governmental funds, but should instead be reported only in the governmental activities column in the government-wide statement of net position.

Overview of Liabilities

10.01 Liabilities

Bonds, notes, and other long-term liabilities directly related to and expected to be paid from proprietary funds and fiduciary funds should be included in the accounts of such funds, as they are specific fund liabilities, even though the full faith and credit of the governmental unit may be pledged as further assurance that the liabilities will be paid. Liabilities such as these may constitute a mortgage or lien on specific fund properties or receivables.

Any liabilities arising from interfund activities do not constitute general long-term liabilities and therefore should be reported in governmental funds.

10.02 Current Liabilities

Current liabilities describe obligations whose liquidation is reasonably expected to require the use of existing resources or the creation of other current liabilities. The classification is intended to include obligations for items that have entered the current operating cycle, such as payables incurred to acquire materials and supplies for use in providing services, collections received in advance of the performance of services, or other short-term debts (e.g., accruals for wages, salaries, commissions, rentals, and/or royalties) arising from operations directly related to the operating cycle required to be expended within one year.

Also intended for inclusion are other liabilities whose regular and ordinary liquidation is expected to occur within one year, such as:

- short-term debts from capital asset acquisition;
- serial maturities of long-term obligations;
- amounts required to be expended within one year under sinking fund provisions;
- certain obligations arising from the collection or acceptance of cash or other assets for the account of third parties; or
- obligations that, by their terms, are due on demand or will be due on demand within one year from the date of the financial statements.

Governmental fund liabilities and expenditures for debt service on general long-term debt, including capital leases, generally should be recognized when due—that is, to the extent that portions of the debt mature during the reporting period. As previously discussed in this chapter section, current liabilities are also intended to include obligations that are due on demand or will be due on demand within one year from the date of the financial statements.

The current liabilities classification is also intended to include long-term obligations that are or will be callable by the creditor because of:

- the debtor's violation of a provision of the debt agreement at the date of the financial statements makes the obligation callable; or
- the violation, if not cured within a specified grace period, will make the obligation callable.

Such callable obligations should be classified as current liabilities unless one of the following conditions is met:

- The creditor has waived or subsequently lost the right to demand repayment for more than one year from the date of the financial statements.
- For long-term obligations containing a grace period within which the debtor may cure the violation, it is probable that the violation will be cured within that period, thus preventing the obligation from becoming callable.

It should be noted that short-term obligations that are expected to be refinanced on a long-term basis should be classified in accordance with the provisions of GASB Cod. Sec. 1500.108 - .115 (Section 1500, paragraph .108 - .115). This includes the callable obligations previously discussed in this chapter section.

10.03 Long-Term Liabilities

All other unmatured long-term indebtedness of the government is considered general long-term debt and should not be reported as liabilities in governmental funds but should be reported only in the governmental activities column in the government-wide statement of net position. This also includes certain special assessment debt as discussed in more detail in GASB Cod. Sec. 115.120 (Section 1500, paragraph .120).

Long-term liabilities describe obligations that are not expected to be liquidated with available resources. The accounting standards that are used to determine which long-term liabilities should be presented in a local governments' financial statements and how they should be presented vary depending on whether a liability is presented in governmental funds, proprietary or fiduciary funds, or the government-wide financial statements.

Types of obligations found in this category include, but are not limited to:

- Noncurrent liabilities on leases, employee benefits, pensions, etc.
- Noncurrent Notes Payable
- Unmatured Principal on General Obligation and Revenue Bonds

As defined in GASB Cod. Sec. 1500.103 (Section 1500, paragraph .103), "General long-term debt is the unmatured principal of bonds, warrants, notes, special assessment debt for which the government is obligated in some manner, or other forms of noncurrent or long-term general obligation debt that is not a specific liability of any proprietary fund or fiduciary fund."

The general long-term debt of a government is secured by the local government's general credit or its revenue raising powers. Similar to capital assets, general long-term debt does not require the consumption of governmental fund resources within one fiscal year.

10.04 Special Liability Items

Conduit Debt Obligations

Conduit debt obligations are certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a local government for the express purpose of providing capital financing for a specific third party that is not a part of the issuer's financial reporting entity. Conduit debt is generally not reported on the face of a local governments' financial statements, but its existence is disclosed in the footnotes (e.g., revenue bond for a nonprofit).

The conduit debt financial statement note disclosure should include a general description of transactions, the aggregate amount of conduit debt obligations at the balance sheet or statement of net position date, and a clear indication that the issuer has no obligation for such debt beyond the resources of the related leases or loans. The statement does not preclude issuers from continuing to report the conduit debt obligations as liabilities with related assets on their balance sheet or statement of net position, as long as the debt is substantially the same as that previously reported.

General Obligation and Revenue Bonds

General Obligation bonds represent bonded indebtedness of the local government to which repayment is secured by general revenues and supported by the full faith and credit of the local government in the form of its taxing ability.

General obligation bonds normally require voter approval and are typically repaid with property or other taxes levied for such a purpose. Revenue bonds can be payable solely from a particular source of revenue, such as those generated from the related project, or from other pledged revenues other than property taxes. Examples of these revenues include, but are not limited to, utility revenues, hospital revenues and other business type activity.

Anticipation Notes

Anticipation notes are short-term securities issued with the expectation that a local government will receive resources in the near future and that these resources will be used to retire the liability. Tax anticipation notes are often issued as part of a cash management strategy that recognizes that certain taxes (such as property taxes) will not be collected evenly over the fiscal year. Bond anticipation notes may be issued with the understanding that as soon as the proceeds from the issuance of specific long-term bonds are received, the bond anticipation notes will be extinguished.

Accounting for Debt Proceeds, Issuance Costs, Premiums and Discounts

Debt proceeds, issuance costs, premiums and discounts should be reported separately in the financial statements. Issuance costs are expenses in the period incurred, while bond premiums and discounts are amortized over the life of the debt.

Bond Premium/Discount

The bond premium/discount is the excess/deficiency of the proceeds collected over/under the face value of the bonds issued, exclusive of any accrued interest collected.

As governmental funds use the modified accrual basis of accounting, the proceeds of debt issuance are recorded in governmental funds (e.g., capital project fund) as other financing sources and not as a liability. The debt issuance costs, other than prepaid insurance, are reported as an expenditure in the period incurred, while the unmatured bond premium or discount is amortized on the government-wide financial statements.

Long-term debt issuance proceeds of proprietary funds and trust funds should be accounted for as fund liabilities in the fund financial statements with the unmatured bond premium or discount is amortized over the life of the debt. When bond proceeds are invested prior to their use, the earnings are applied toward debt service, unless some other disposition was prescribed in the bond indenture or the proposition approved by the electorate.

<u>Example</u>
Bonds are issued for capital projects with a face value of $100,000 and were sold at a premium for $105,000 and with accrued interest of $2,000. It is assumed that a Debt Service Fund will make the principal and interest payments over the life of the debt and there is no legal requirement that mandates how the premium is to be treated. The governing body has decided to make the premium available to the Debt Service Fund.

Account	Debit	Credit
Capital Projects Fund		
Cash	100,000	
Other Financing Source—bond proceeds		100,000

Account	Debit	Credit
Debt Service Fund		
Cash	5,000	
Other Financing Source—Premium on bonds sold		5,000
Interest expenditure	2,000	
Accrued Interest Payable		2,000

Discounts should be accounted for using the net method. Under this method, the discount is recognized in the year of debt issuance by recording only the net proceeds (face value less discount). As with premiums, discounts should not be amortized.

Example
Bonds are issued for capital projects with a face value of $100,000 and were sold at a discount for $98,000.

Account	Debit	Credit
Capital Projects Fund		
Cash	98,000	
Other Financing Source—bond proceeds		98,000

10.05 Disclosures of Debt Obligations

Debt is defined in GASB Cod. Sec. 1500.129 (Section 1500, paragraph .129) as "a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in ore more payments to settle an amount that is fixed at the date the contractual obligation is established". Local governments should separately disclose details of their individual obligations in the notes to the financial statements. The details should include the terms for variable rate debt and the principal and interest requirements up to the time of the debt maturity, shown annually for the first five years and in five-year increments thereafter. The governments should also disclose, in a summary format, their unused lines of credit, assets pledged as collateral, and the terms related to significant events such as default, termination, and acceleration clauses.

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FINANCIAL STATEMENTS

Chapter 11: Financial Reports

Chapter Contents

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Accounting Standards and Procedures for Counties

Chapter 11: Financial Reports

Introduction

As a steward of public monies, every governmental entity should prepare and publish financial statements as a matter of public record. Financial statements provide information about operations, cash flows, assets, and liabilities that account for the government's management and use of funds.

While internal accounting is generally focused on the collection and analysis of a government's day-to-day financial data, financial reporting serves as a link between that local government's financial information and the local government's governing bodies, investors, creditors, and taxpayers. The financial statements provide the data in a summarized form that can be compared to similar entities and evaluated against the goals of the community.

Financial reporting according to GAAP improves the usability and transparency of a local government's financial information. The Governmental Accounting Standards Board (GASB) has generated GAAP standards for comprehensive reporting in order to improve the consistency of reporting, allowing improved comparability of statements across governmental and non-governmental entities.

Basic Financial Reporting (Nature and Purpose)

Accounts in the financial statements are generally listed in the order of their liquidity. Liquidity refers to how easily an asset can be turned into cash. Cash is the most liquid asset and, therefore, is listed first in the asset section of the financial statements. Some investments are so close to their maturity (three months from the date of issue) that they may be considered cash equivalents. Other investments, such as certificates of deposit and bonds, have more distant maturities or cannot be converted to cash or sold as readily. Accounts receivable amounts may take longer to liquidate than some investments. Each government entity should determine the liquidity of their assets based on its own experience. A government entity may collect accounts receivable for water service within a short time period, but a government entity that provides pipeline or infrastructure likely experiences much longer delays in collecting its accounts receivable.

In addition to listing accounts in order of their individual liquidity, financial statements also group assets and liabilities according to whether their liquidity is current or noncurrent. Current assets and liabilities generally can be liquidated within a single fiscal year. Cash, receivables, and payables are usually current in liquidity with a life of one year or less, while capital assets, revenue bonds, long-term leases, and pollution remediation obligations are usually noncurrent.

The accounts included in the financial statements are also grouped by their account types: assets, deferred outflows, liabilities, deferred inflows, and net position. Deferred inflows and outflows are, by their nature, not liquid in the current fiscal year and therefore do not need to be further broken down. Deferred inflows and outflows help the users of the financial statements assess inter-period equity. *Inter-period equity* refers to the degree to which a government entity raises sufficient resources in a fiscal year to cover its costs, as opposed to consuming future resources by deferring payments to future years. By waiting to report inflows and outflows as revenues and expenses, respectively, until the years in which they are related, financial statements make it easier to assess whether a government entity is operating within their means from year to year.

Net position, as stated in GASB Concepts Statement No. 4, *Elements of Financial Statements,* "is the residual of all other elements presented in a statement of financial position." The net position section of the statement of net position should include the following components:

- Net investment in capital assets
- Restricted net position
- Unrestricted net position

11.01 The Comprehensive Annual Financial Report

A Comprehensive Annual Financial Report (CAFR) is a set of U.S. government financial statements comprising the financial report of a state, municipality, or other governmental entity that complies with the accounting requirements promulgated by the Governmental Accounting Standards Board. CAFRs provide financial, economic, and demographic information that can be used when analyzing financial statements of a local government.

Government Code section 53891(a) requires local governments to use data from their audited financial statements, if available, to prepare the Financial Transactions Report (FTR) for submission to the State Controller. The audited financial statements should be prepared in accordance with Generally Accepted Accounting Principles (GAAP).

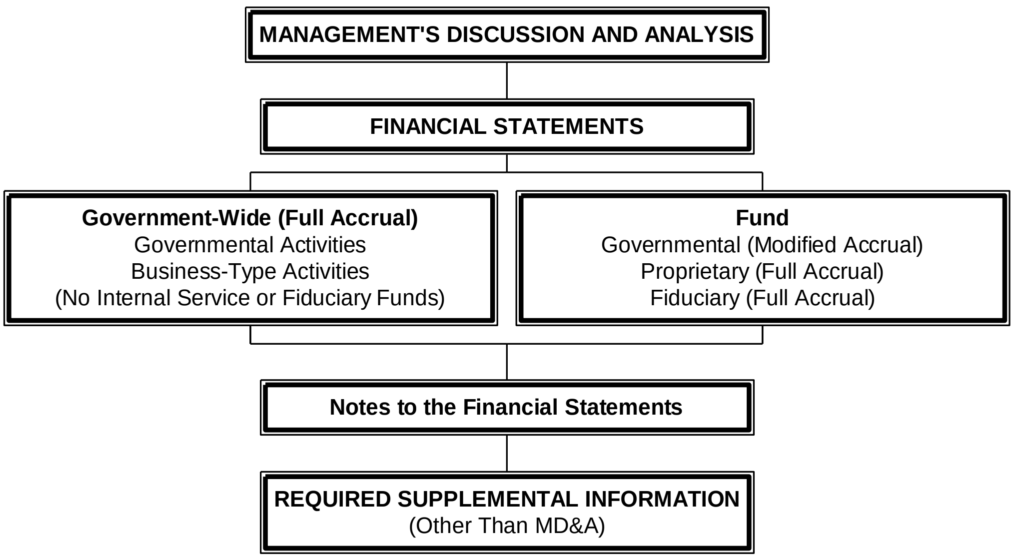
The outline and minimum content of the CAFR should include the following sections:

- Introductory Section
- Financial Section
    - Independent Auditor's Report
    - Management Discussion and Analysis (MD&A)
    - Basic Financial Statements
    - Required Supplementary Information (RSI)
    - Combining financial statements for non-major funds
    - Individual fund statements and related schedules
- Statistical Section

While GAAP does not require all elements of the CAFR, it does require the following minimum components for proper financial reporting:

- management discussion and analysis (MD&A)
- basic financial statements (government-wide and fund financial statements)
- notes to the financial statements
- required supplementary information (other than MD&A)

Description of Financial Statements



Introductory Section of the CAFR

The introductory section of a CAFR is unaudited Supplementary Information (SI). It is provided voluntarily by the reporting government entity.

The introductory section includes:

- Table of Contents;
- Letter of Transmittal; and
- Other material deemed appropriate by management, such as:
  - Certificate of Achievement for Excellence in Financial Reporting
  - List of principal officials
  - Organization chart
  - Audit committee letter

Local governments should not duplicate material in the Letter of Transmittal that is being covered in the MD&A.

11.02 Table of Contents

A table of contents section is not required, but is recommended. If a table of contents section is included, it should provide a clear separation of the CAFR sections to ensure clarity for the end user. Refer to the Examples section of this chapter for an example of a table of contents.

Financial Section of the CAFR

11.03 Independent Auditor's Report

An independent auditor's report is considered an essential tool when reporting financial information to users, particularly in business. As many third-party users require financial information to be certified by an independent external auditor, government entities rely on auditor reports to certify their information in order to attract investors, obtain loans, and improve public trust. Refer to the Examples section of this chapter for an example of an independent auditor's report.

11.04 Management Discussion and Analysis (MD&A)

The management discussion and analysis (MD&A) section is required supplementary information that precedes the financial statements. The intention of the MD&A is to provide an objective and easy-to-understand short and long-term analysis of a reporting entity's financial activities.

The MD&A serves several purposes:

- It introduces the user to the financial statements and provides a framework and context for understanding the information they contain. Upon reading the MD&A, a user should be more prepared to obtain meaningful information from the statements.
- By offering an easy-to-read overview of the financial statements, the MD&A allows members of the general-public to better understand and relate to information in the statements.
- The MD&A also gives officials the opportunity to highlight issues they believe are important to financial statement users that the readers might otherwise miss.

The MD&A is not intended to alter the reader's opinion of the financial statements. It is meant to be a fact-based analysis intended to enlighten readers on general activities of the reporting entity as well as important occurrences that the entity encountered during the fiscal year. While the MD&A should answer some basic questions about a reporting entity's finances, it is designed to go much further, providing sufficient guidance for the reader to better understand the conditions, decisions, events, and activities that influenced the government entity's finances over the course of the fiscal year.

The MD&A introduction section should include:

- General purpose and use of the financial statements;
- Basic information on the nature of the organization and its component units;
- Overview of the major sections, their purpose, and relationships;
- List of subsections in the MD&A organized by order of presentation;
- Currently known facts, events, conditions, activities, or decisions;
- Comparisons of the current fiscal year to the prior fiscal year.

The following sections in this chapter (11.05–11.08) provide general guidelines as to what information may be presented. The MD&A is an opportunity for financial managers to effectively report the most relevant information; however, the MD&A should be confined to these topics.

Refer to the Examples section of this chapter for examples of the MD&A discussions.

Discussion on Basic Financial Statements

This section of the MD&A contains a brief discussion of the reporting entity's basic financial statements and government-wide financial statements. The discussion should also include an analysis that shows how the information presented in the fund financial statements relates to the information presented in the government-wide financial statements. This should include an analysis of any highlights or significant differences between statements.

Presentation of Condensed Financial Statements

This section of the MD&A should present the government-wide financial statements in a condensed form, comparing current and prior fiscal year activities. This section should also provide a commentary on significant changes that occurred between the current and prior fiscal year that supports the analysis of operations in the MD&A. For more specific elements, refer to GASB Cod. Sec. 2200.109 (b) [Section 2200, paragraph .109 (b)].

Results of Operations and Overall Financial Position

This section of the MD&A provides an analysis as to whether a reporting entity's financial position and the results of operation improved or deteriorated over the reporting period. The analysis in this section should focus on governmental and business type activities reported in the government-wide financial statements and include reasons for significant changes between current and prior-year results. The analysis should also focus on important economic factors that could significantly affect the operating results of the government entity.

Analysis of Fund Balances

The MD&A section should analyze the transactions and balances of individual funds. It should explain substantial changes in the fund balance or the fund net position and identify any limitations that will affect the future use of fund resources.

Analysis of the Budget

The MD&A section should discuss any significant variations between (1) the original and final budget and (2) the final budget and actual budget results for the general fund. The analysis in this section should identify reasons for the variations and their potential effects on a reporting entity's operations and liquidity.

Discussion on Significant Capital Assets Activity

This section briefly describes what happened during the year to capital assets, including summarized information about:

- The general types of capital assets owned by a government entity, including the total dollar amount of each type of capital asset, and how that amount changed from the previous year;
- Major additions, sales, or disposals of capital assets; and
- Significant commitments the government entity has made to construct or acquire capital assets in the future.

Discussion on Significant Long-Term Debt Activity

The MD&A briefly describes what happened during the year to long-term debt, including summarized information about:

- amounts and general types of debt owed at the end of the fiscal year;
- significant amounts borrowed during the year and significant repayments of debt;
- major events or circumstances that affect debt financing of facilities or services;
- capital expenditure commitments; and
- changes to credit ratings.

An example of a significant change would be changes in reporting requirements in response to new GASB Pronouncements.

Additional debt policy and performance information that would be useful to the reader, provided in summary form:

- Debt service coverage
- Debt-funded capital spending amounts and percentages
- Use of variable debt instruments
- Amount of authorized debt

Discussion of Modified Approach, When Used

If a reporting entity is using the modified basis for valuing its infrastructure assets, it should discuss significant changes in the assessed condition of the infrastructure assets.

Currently Known Facts Bearing on the Future

The MD&A section concludes with a discussion of any circumstances that could significantly influence the reporting entity's future financial position and operations. This section should include discussions only on those items or circumstances that are discernable and verifiable.

Request for Information

This section provides the reader with contact information and website links to find additional online financial statistics such as budgets, rates, and interim and annual financial reporting. SB 929 (Chaptered Bill 408 in 2018) requires independent special districts to maintain an internet website (exceptions apply).

11.05 Basic Financial Statements

Basic financial statements are presented in the "Financial Section" of the CAFR after the MD&A section. The financial section of the CAFR consists of:

- Government-Wide Financial Statements
- Fund Financial Statements
- Notes to Financial Statements

Government-Wide Financial Statements

Government-wide statements refer to statements that summarize all of the fund financial statements and provide the primary government's net position as a whole. This representation allows the activity of the primary government to be assessed against both governmental and non-governmental financial statements worldwide.

Local governments should prepare a CAFR covering all funds and the activities for which it is financially accountable, including those of component units. The financial statements of the reporting entity should allow users to distinguish between the primary government and its component units by communicating information about the component units and their relationships with the primary government rather than creating the perception that the primary government and all of its component units are one legal entity.

To accomplish this goal, the reporting entity's government-wide financial statements should display information about the reporting government as a whole, using separate rows and columns to distinguish between the total primary government and its discretely presented component units. The reporting entity's fund financial statements should present the primary government's governmental, proprietary, and fiduciary funds (including its blended component units, which are, in substance, part of the primary government), reporting major funds individually and nonmajor funds in the aggregate. Fiduciary component units should be reported only in the statements of fiduciary net position and changes in fiduciary net position with the primary government's fiduciary funds.

The government-wide financial statements that should be reported in the CAFR are:

- Statement of net position
- Statement of activities

The focus of the government-wide financial statements should be on the government entity itself. When reporting its government-wide financial statements, the government entity should:

- exclude fiduciary funds;
- display information related to discrete component units separately;
- display governmental and business-type activities separately;
- present prior year data may be presented (but it is not required); and
- exclude separate displays of funds—the display should be in the aggregate.

Government-wide financial statements are prepared using the economic resources measurement focus and full accrual basis of accounting. The use of these methods will require adjustments of the totals brought from the fund financial statements to reflect the full accrual basis.

Capital assets of proprietary funds should be reported in the government-wide financial statements. The statement of net position should report all assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. The operations of the government entity in the statement of activities should be presented in a format that reports the net (expense) revenue (sometimes referred to as the "net cost" method) of its individual functions.

A reporting entity should provide a reconciliation between the government-wide financial statements and fund financial statements. Typically, this reconciliation is located at the bottom of the fund financial statements or in an accompanying schedule.

As discussed in GASB Cod. Sec. 2200.132 - .133 (Section 2200, paragraph .132 - .133), depreciation expense for capital assets that can be specifically identified with a function should be included in its direct expenses, whereas depreciation expense for general infrastructure assets should not be allocated to the various functions. Instead, it should be reported on a separate line in the statement of activities as a general government expense.

According to GASB Cod. Sec. 2200.134 (Section 2200, paragraph .134), interest on general long-term liabilities generally should be considered an indirect expense except in those limited instances when borrowing is essential to the creation or continuing existence of a program and it would be misleading to exclude the interest from direct expenses of that program.

Eliminations and Reclassifications

As discussed in GASB Cod. Sec. 2200.151 - .156 (Section 200, paragraph .151 - .156), eliminations are adjustments that are made in the government-wide financial statements to minimize the "grossing-up" and "doubling-up" effect caused by some internal transactions. Eliminations are required in both the Statement of Net Position and the Statement of Activities.

There are several types of internal or interfund activities that should be considered for elimination or reclassification. These activities include internal service fund (ISF) activities, interfund activities similar to ISF charges, interfund services provided and used, allocations of overhead expenses, and transfers.

Special and Extraordinary Items

As discussed in GASB Cod. Sec. 2200.168 (Section 2200, paragraph .168), special and extraordinary items are to be reported separately on the bottom of the Statement of Activities, in the same manner as general revenue, with costs appropriately classified within the governmental and business-type activities.

Fund Financial Statements—Governmental Funds

The financial statements reported in the CAFR for governmental funds are:

- Balance sheet
- Statement of revenues, expenditures, and changes in fund balances

The focus of governmental fund financial fund statements is on major funds. Government entities should display each major fund separately while reporting nonmajor funds under one column in the fund financial statements.

Refer to the table below to determine whether a governmental fund meets the criteria for being reported as a major fund in the fund financial statements. Any <u>one</u> of the elements below should meet the criteria in <u>both</u> columns. Refer to GASB Cod. Sec. 2200.158 - .159 (Section 2200, paragraph .158 - .159) for more detailed information.

Governmental Funds		
Financial Statement Element	**Percentage of Total for Governmental Funds**	**Percentage of Total for both governmental and enterprise funds**
Assets and deferred outflows	≥ 10%	≥ 5%
Liabilities and deferred inflows	≥ 10%	≥ 5%
Revenues	≥ 10%	≥ 5%
Expenditures/expenses	≥ 10%	≥ 5%

Reporting entities should note that the general fund is always a major fund. If a fund does not meet the criteria of being a major fund (nonmajor fund), but has been deemed important to the users of the financial statements; the reporting entity may report a nonmajor fund as a major fund.

Each major fund should report the following separately on the balance sheet and nonmajor funds should aggregate their totals of the following on the balance sheet:

- Assets
- Deferred outflows/inflows of resources
- Liabilities
- Fund balance

For governmental funds, the balance sheet should be prepared using the current financial resource measurement focus and modified accrual basis of accounting.

The statement of revenues, expenditures, and changes in fund balance should report information on inflows and outflows of financial resources. Similar to the balance sheet, this financial statement should be prepared using the current financial resource measurement focus and modified accrual basis of accounting.

Balance Sheet Format

Example—Government Entity Balance Sheet—Governmental Funds June 30, 2Y01	
ASSETS	
Cash and Investments	$
Reserves	
Offset to Reserves	
Restricted Cash and Investments with Fiscal Agent	
Receivables:	
Accounts, Net	
Interest	
Other	
Due from Other Governmental Agencies	
Loans	
Due from Other Funds	
Advances to Other Funds	
Prepaid	
Other Assets	
Deferred Outflows	
TOTAL ASSETS AND DEFERRED OUTFLOWS	$
LIABILITIES	
Accounts Payable	$
Accrued Liabilities	
Refundable Deposits	
Due to Other Funds	
Advances from Other Funds	
Net Pension Liability	
Other Liabilities	
Deferred Inflows	
TOTAL LIABILITIES AND DEFERRED INFLOWS	$
NET POSITION	
Net Investment in Capital	$
Restricted	
Unrestricted	
TOTAL NET POSITION	$
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	$

Fund Financial Statements—Proprietary Funds

Government entities should prepare three basic financial statements:

- Statement of Net Position or Balance Sheet
- Statement of Revenues, Expenses and Changes in Net Position
- Statement of Cash Flows.

As discussed in GASB Cod. Sec. 2200.158 (Section 2200, paragraph .158), the focus of proprietary fund financial fund statements is on major funds. Government entities should display each major fund separately while reporting nonmajor funds under one column in the fund financial statements. Refer to the table presented in the preceding section to determine whether a fund meets the criteria of being reported as a major fund in the financial statements. Any one of the elements below should meet the criteria in both columns.

Enterprise Fund		
Financial Statement Element	**Percentage of Total for Enterprise Funds**	**Percentage of Total for both governmental and enterprise funds**
Assets and deferred outflows	≥ 10%	≥ 5%
Liabilities and deferred inflows	≥ 10%	≥ 5%
Revenues	≥ 10%	≥ 5%
Expenditures/expenses	≥ 10%	≥ 5%

As with governmental funds, reporting government entities should note that the general fund is always a major fund. If a nonmajor fund is deemed important to the community a government entity serves, the nonmajor fund may be reported as major fund in the financial statements.

Major fund reporting requirements do not apply to internal service funds. Internal service funds should be reported in separate columns of a proprietary fund financial statement.

Proprietary fund financial statements are prepared using the flow of economic resources measurement focus and full accrual basis of accounting.

The following financial statements should be prepared by any reporting government entity using enterprise funds.

- **Statement of Net Position:** Assets and liabilities should be classified as current and noncurrent. Government entities can prepare the statement of net position in the net position (refer to GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended, and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, as amended).

- **Statement of Changes in Net Position** (refer to GASB Statement No. 34, as amended)**:** While preparing the statement of revenues, expenses, and changes in net position, reporting government entities should ensure that revenues are reported as a major source; revenues restricted for the payment of revenue bonds should be identified.

- **Statement of Cash Flows:** The statement of cash flows should be prepared in accordance with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, as amended, is one of the required financial statements for enterprise funds. The statement of cash flows classifies cash receipts and payments according to whether they stem from operating, noncapital financing, capital and related financing, or investing activities. In accordance with GASB Statement No. 34, as amended, the direct method of presenting cash flows from operating activities (including a reconciliation of operating cash flows to operating income) should be used.

- Under the direct method, gross receipts and payments should be reported by major classes such as cash receipts from customers, cash payments to employees for services, cash payments to suppliers for goods and services, etc. Under the indirect method, the reconciliation described for the direct method replaces the information on gross cash flows related to operating activities on the face of the cash flows statement. Also, a reconciliation of cash flows from operating activities to operating net income should be presented; this would include reconciling items such as changes in receivables relating to operating activities, changes in inventory, changes in payables, and add-back of noncash expenses. GASB Statement No. 9, as amended, also requires that noncash transactions that affect financial positions (e.g., acquisition of an asset with debt) be disclosed separately in either a narrative or tabular format.

Statement of Net Position or Balance Sheet

The statement of net position displays the resources of a government entity at a given point in time, usually the last day of the fiscal year. It provides an overview of the assets and liabilities, netted against one another. The government entity has two options when presenting the statement of net position—it may use either a net position format, which is preferred, or a balance sheet format.

Examples of these formats were presented previously in this chapter section. Additional examples of the balance sheet and statement of net position formats can also be found in the Examples subsection of Chapter 11.05, *Basic Financial Statements*. It is most important to note that "net position" represents the resources remaining after they have been offset by existing liabilities.

Deferred outflows of resources and deferred inflows of resources identify resource impacts that do not yet affect the current fiscal period, but are part of the long-term financial picture. Government entities often present this information in "comparative financial statements," which include information for both the current fiscal year and the preceding fiscal year or years. This comparison of financial data is usually accomplished by presenting multiple columns, one for each year, on a single page. The term *comparative financial statements* reveals the statements' primary purpose, which is putting a government entity's financial information in a comparative context. In a comparative statement, a reader may see not only where a government entity stands financially, but how that financial standing compares with where it was in the prior year.

The statement of net position is prepared in a "classified format," which categorizes the assets and liabilities as current and noncurrent and provides separate subtotals for each. This format is helpful for certain kinds of analyses. For example, if an interested party wanted to assess a government entity's short-term financial needs, the classified format would help them to focus only on the government entity's most immediately available resources.

Balance Sheet vs. Statement of Net Position

The statement of net position for fiduciary and proprietary funds use economic resources measurement focus or full accrual accounting, and the balance sheet for governmental funds are presented using the current resources measurement focus. Government entities should follow these general reporting formats:

1. Statement of net position format for fiduciary and proprietary fund statements:

$$(\text{Assets} + \text{Deferred Outflows}) - (\text{Liabilities} + \text{Deferred Inflows}) = \text{Net Position}$$

2. Balance sheet format for governmental fund statements:

$$\text{Assets} + \text{Deferred Outflows} = \text{Liabilities} + \text{Deferred Inflows} + \text{Fund Balance}$$

The information for the Balance Sheet or Statement of Net Position should be taken from the government entity's general ledger. The governmental fund balance should be identified as nonspendable, restricted, committed, assigned, or unassigned amounts with the provisions outlined in GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as amended. Notes to the financial statements may be referenced by number or letter.

The statement should have a proper heading, date, and should contain a note directing the reader to the accompanying notes to the financial statements. The notes to financial statements would include "non-recognized" events (material) that did not exist at the financial statement date but arose subsequent to that date.

Net Position

GASB Concept Statement No. 4 defines the term *net position* as the residual of all elements presented in a statement of financial position. GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, as amended, introduced the Statement of Net Position for all full accrual basis financial statements.

Net position is comprised of three components:

1. Net Investment In Capital Assets;
2. Restricted Net Position; and
3. Unrestricted Net Position.

Net Investment in Capital Assets

Net investment in capital assets is a component in the financial statement that summarizes the capital assets represented in the assets and liabilities. It should be calculated as followed:

NI = CAB – AD – OB

NI: Net Investment in Capital Assets
CAB: Capital Asset Balance (including restricted capital assets)
AD: Accumulated Depreciation (if capital assets are not reported net)
OB: Outstanding Balances (bonds, mortgages, notes, other capital, related to debt that is attributed to acquisitions, construction, or improvement of assets)

Deferred outflows and inflows of resources that are attributable to acquisitions, construction, improved assets, or related debt should also be included in the net investment in capital assets calculation. However, unspent amounts at the end of the reporting period, such as unspent related debt proceeds or unspent deferred inflows of resources, are not included in the calculation of net investment in capital assets. The unspent amounts should be reported in the other components, restricted or unrestricted, as applicable.

All capital assets should be considered in the computation of net investment in capital assets, regardless of any restrictions. If there is no capital-related debt, the account should be labeled "Investment in Capital Assets." When debt is issued to refund existing capital-related debt, the new issued debt should be used in the computation of net investment in capital assets. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the unspent amount should not be used in calculating net investment in capital assets; instead the unspent proceeds should be included in the same net asset component (restricted or unrestricted) as the unspent amount.

If a government entity issues debt to finance the capital assets of another government entity, this debt is not capital-related and should not reduce the net investment in capital assets of the government entity issuing the debt. If capital assets are not reported, the debt issuance should be reported in the restricted or unrestricted component of the net position, as applicable. If the amount is significant, the government entity should disclose details in the notes to the financial statements.

Restricted Net Position

The following assets are examples of assets required to be reported in the Restricted Net Position account:

- Assets that are restricted for use other than current operations;
- Assets that are restricted for the acquisition or construction of noncurrent assets; and
- Assets that are restricted for sinking funds or for the liquidation of long-term debts.

The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Net position should be reported as restricted when constraints placed on net position are either:

- Externally imposed by creditors, grantors, contributions, or regulations; and/or
- Imposed constitutional provisions or enabling legislation.

Enabling legislation refers to a law that gives a government entity the ability to levy taxes or otherwise raise revenues and may require the government entity to use these resources for particular purposes. The government entity has to distinguish such external constraints between major categories of restrictions. Details about internal commitments, however, are unrestricted components of net position and should not be displayed on the face of the statements. These restrictions are separately maintained in the management's plan for the use of resources and are not equivalent to enabling legislation.

Restricted component(s) of net position should be reduced by liabilities and deferred outflows of resources related to those assets that have already been posted. These components should be reported as restricted when constraints are placed on their use. Examples include categories such as Restricted for Capital Projects and Restricted for Debt Service, etc. No category of restricted component of net position can be negative; if related liabilities exceed those amounts, no balance should be reported. The negative amount should be reported as a reduction of the unrestricted component of the net position.

The types of situations requiring restricted assets or liabilities can vary. Examples of accounts that are restricted assets and liabilities are as follows:

- Restricted Cash for Street Improvements (State gas tax apportionments/revenues for street and road improvements pursuant to California Streets and Highways Code);
- Restricted Cash for Debt Service (cash from property taxes legally restricted for debt service payments on capital related general obligation bond);
- Restricted Cash for Bond Issue Capital Replacement (cash aside for capital asset replacement restricted by local ordinance);
- Accounts Payable from Restricted Assets—Bond Issue Capital Projects (represents the balance to be paid from the unspent proceeds of the general obligation bond (Restricted Cash for Debt Service); or
- Accounts Payable from Restricted Assets—Capital Assets (represents the balance to be paid from cash restricted for capital replacement (Accounts Payable from Restricted Assets—Bond Issue Capital Projects).

Following is an example of how restricted net position should be calculated:

Restricted Assets:	**Account**	**Subtotals/Totals**
Restricted Cash for Streets Improvements	$ 500,000	
Restricted Cash for Debt Service	800,000	
Restricted Cash for Bond Issue Capital Projects	1,200,000	
Restricted Investments for Museum	1,000,000	
Subtotal—Restricted Assets		$ 3,500,000
Less Restricted Liabilities		
Accounts Payable from Restricted Assets—Streets	$ 200,000	
Accrued Interest Payable on Bonds	300,000	
General Obligation bonds Payable	1,200,000	
Subtotal—Restricted Liabilities		$ 1,700,000
Restricted Net Position		$ 1,800,000

The $1,800,000 of restricted net position should be displayed on the face of the statement of net position in the following manner by category of restriction:

Restricted Net Position	
Restricted for street improvements	$ 300,000
Restricted Debt Service	500,000
Restricted for permanent endowment—museum	1,000,000

Unrestricted Net Position

There are no specific criteria for determining when a component of the net position is unrestricted. It is a default category. If the component does not meet the criteria of Net Investment in Capital Assets or Restricted, it should be reported as unrestricted. Assignments and commitments that fall under the unrestricted component of net position should not be reported on the face of the statement, but the details can be disclosed in the notes to the financial statements.

Statement of Activities and Statement of Revenues, Expenses and Changes in Net Position

The Statement of Activities presents the operations of the government in a format that reports the net revenue of its individual functions. This net is sometimes referred to as the "net cost" of a program. The format allows the reader to visualize the degree to which a program or function is self-financing rather than a burden borne by taxpayers.

The statement of revenues, expenses, and changes in net position, on the other hand, tracks a government entity's yearly operating revenues and expenses, as well as any other transaction that enhances or reduces its net position. Revenues are reported by major source rather than by function. Revenues and expenses should be displayed as operating and nonoperating revenues and expenses.

A detailed discussion of revenue and expenses, as well as other transactions that influence net position, is covered in Chapter 7, *Classification and Terminology*. Sample statements can be found in the Examples section at the end of this chapter.

Fund Financial Statements—Fiduciary Funds

Required financial statements for fiduciary fund financial statements are as follows:

- Statement of fiduciary net position
- Statement of changes in fiduciary net position

Fiduciary financial statements contain information on both the fiduciary funds and on component units that are fiduciary in nature. The following fund types should be reported in separate columns in the fiduciary fund financial statements:

- Pension and other post-employment benefit trust funds
- Investment trust funds
- Private purpose trust funds
- Custodial funds

Statement of Net Position Format

Example—Government Entity Statement of Net Position December 31, 2Y01	
ASSETS	
Current Assets:	
Cash and Cash Equivalents	$
Investments	
Reserves	
Offset to Reserves Subtotal Cash and Investments	
Restricted Assets:	
Cash and Cash Equivalents	
Investments	
Interest Receivable	
Taxes Receivable	
Accounts Receivable	
Interest Receivable	
Notes Receivable	
Contracts Receivable	
Due from Other Governments	
Inventory	
Prepaid	
Other Current Assets	
TOTAL CURRENT ASSETS	$
Noncurrent Assets	
Restricted Assets:	
Cash and Cash Equivalents	$
Investments	
Interest Receivable	
Capital Assets not being Depreciated:	
Land	
Construction in Progress	
Capital Assets being Depreciated:	
Equipment	
Intangible Assets	
Less: Accumulated Depreciation	
Other Noncurrent Assets	
TOTAL NONCURRENT ASSETS	$
TOTAL ASSETS	$
DEFERRED OUTFLOWS OF RESOURCES	
Accumulated Decrease in Fair Value of Hedging Derivatives	$
Loss on Refunding	
Pension Related	
Grants Paid in Advance	
TOTAL DEFERRED OUTFLOW OF RESOURCES	$

Example—Government Entity Statement of Net Position December 31, 2Y01	
LIABILITIES	
Current Liabilities:	
Accounts/Warrants payable	$
Accrued Expenses	
Accrued Interest Payable	
Notes Payable	
Payable from Restricted Assets:	
Debt Principal/Interest	
Deposits and Other Payable	
Current Portion of Long-Term Obligations	
Other Current Liabilities	
TOTAL CURRENT LIABILITIES	$
Noncurrent Liabilities:	
General Obligation Bonds	$
Revenue Bonds	
Capital Leases	
Notes Payable	
Contracts Payable	
Payable from Assets:	
Debt Principal/Interest	
Deposits and Other Payables	
Employee Leave Benefits	
Net Pension Liability	
Other Noncurrent Liabilities	
TOTAL NONCURRENT LIABILITIES	$
TOTAL LIABILITIES	$
DEFERRED INFLOWS OF RESOURCES	
Accumulated Increase in Fair Value of Hedging Derivatives	$
Service Concession Arrangement Receipts	
Property Taxes	
Advance Payments of Property Taxes	
Advance Payments of Special Assessments	
Gain on Refunding	
Pension Related	
Grants Received in Advance	
TOTAL DEFERRED INFLOWS OF RESOURCES	$
NET POSITION	
Net Investment in Capital Assets	$
Restricted for _______________	
Unrestricted	
TOTAL NET POSITION	$
**The notes to the financial statements are an integral part of this statement.*	

Statement of Fiduciary Net Position

As discussed in GASB Cod. Sec. 2200.198 (Section 2200, paragraph .198), the statement of fiduciary net position should include information on assets, liabilities, deferred inflows/outflows and net position of each fiduciary fund type, similar to the Statement of Net Position prepared for proprietary funds. Investments are reported based on their market value as of the period end. Deferred inflows and outflows are displayed separately from assets and liabilities; and assets and liabilities are presented in order of liquidity.

Financial statement preparers of a government entity can use either the “net position” or “balance sheet” format to display the statement of fiduciary net position. The “net position” method is recommended by GASB.

The detailed display requirements of GASB Cod. Sec. Pe5 and Po50 apply to the financial statements of pension plans that are administered through trusts that meet the criteria in paragraph .101 of GASB Cod. Sec. Pe5 (Section Pe5, paragraph .101) and other postemployment benefit plans that are administered through trusts that meet the criteria in paragraph .101 of GASB Cod. Sec. Po50 (Section Po50, .101), respectively. GASB Cod. Sec. I50, *Investments*, provides detailed guidance for investment trust funds.

The net position section of the statement of fiduciary net position does not have to be broken into the following categories: net investment in capital assets, restricted and unrestricted.

Statement of Changes in Fiduciary Net Position

According to the provisions of GASB Cod. Sec. 2200.199 - .200 (Section 2200, paragraph .199 - .200), the statement of changes in fiduciary net position reflects the additions and deductions to the net position in each fiduciary fund. Additions include transactions like employer contributions, plan member contributions, gifts, and bequests. Deductions include payments and refunds to plan members, administrative expenses, distributions to shareholders, and payments of taxes to other governments.

If applicable, the following additions should be displayed separately:

a) Investment earnings
b) Investment costs (including investment management fees, custodial fees, and other significant related costs)
c) Net investment earnings (investment earnings less investment costs)

Investment-related costs should be reported as investment costs if they are separable from investment earnings and administrative costs. The statement of changes in fiduciary net position should disaggregate deductions by type and, if applicable, should separately display administrative costs.

A government may report a single aggregated total for additions and a single aggregated total for deductions of custodial funds in which resources, upon receipt, are normally expected to be held for three months or less. The descriptions of the aggregated totals of additions and deductions should indicate the nature of the resource flows. An example of a description of the nature of a custodial fund addition is property taxes collected for other governments. An example of a description of the nature of a custodial fund deduction is property taxes distributed to other governments. A government that reports a defined benefit pension plan or defined benefit OPEB plan in a fiduciary fund should report changes in the fund's net position in accordance with the detailed display requirements of GASB Cod. Sec. Pe5 or Po50, as applicable.

Refer to the Examples section at the end of this chapter to see a sample statement of fiduciary net position and statement of changes in fiduciary net position.

Fund Financial Statements

Required financial statements for fiduciary funds are:

- **Statement of Fiduciary Net Position:** should include information about the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position for each pension trust fund, investment trust fund, private purpose trust fund and custodial fund.

- **Statement of Changes in Fiduciary Net Position**: should include information about the additions to, deductions from, and net increase (or decrease) for the year in net position for each fiduciary fund type. The statement should provide information about significant year-to-year changes in net position.

Notes to the Financial Statements

Note disclosures provide additional information that is essential for a fair presentation of a local government's financial position. This information is not displayed on the face of the financial statements. The focus of the notes should be on the activities (governmental and business-type) of a local government. The notes should also support the information provided in the government-wide and fund financial statements. Refer to the Examples section at the end of this chapter for samples of note disclosures.

Following is a list (not all-inclusive) of disclosure items that should be included in the notes to financial statements in accordance with GASB Cod. Sec. 2300.106 (Section 2300, paragraph .106):

- Summary of significant accounting policies
- Cash and investments
- Receivables
- Capital assets
- Payables
- Long-term liabilities
- Net position
- Pensions and other postemployment benefits
- Risk management
- Known environmental matters
- Contingent liabilities
- Commitments and contingencies (including significant transactions between discretely presented component units and with the primary government and donor restricted endowments)
- Independent auditors report on internal controls

As discussed in GASB Cod. Sec. 2300.107 (Section 2300, paragraph .107), additional note disclosures should be made if applicable to the local government. Disclosures may include:

- Significant risks
- Property taxes
- Segment information for enterprise funds
- Condensed financial statements for major discretely presented component units
- Budget basis of accounting and budget-to-GAAP reporting differences not otherwise reconciled
- Short-term debt instructions and liquidity
- Transactions with related organizations
- The nature of the primary government's accountability for related organizations
- Capital leases
- Joint agreements and jointly-governed organizations
- Debt refunding
- Interfund eliminations in fund financial statements not apparent from headings
- Pension and OPEB plans
- Bond, tax, or revenue anticipation notes excluded from fund or current liabilities
- Nature and amount of inconsistencies in financial statements caused by transactions between component units having different fiscal year-ends or changes in component unit fiscal year-ends
- Special assessment debt
- Reverse repurchase agreements and dollar reverse repurchase agreements

- Securities lending transactions
- Demand bonds
- Landfill closure and post closure activities
- On-behalf payments for fringe benefits and salaries
- Involvement in conduit debt obligations
- External investment pools reported as investment trust funds
- The amount of interest expense included in direct expenses
- Nature of individual elements of a particular reconciling item, if obscured in the aggregate
- Discounts and allowances that reduce gross revenues, when not reported on the face of the financial statements
- Disaggregation of receivable and payable balances
- Impairment losses, idle impaired capital assets, and insurance recoveries, when not otherwise apparent from the face of the financial statements
- Termination benefits
- Future revenues that are pledged or sold
- Derivative instruments
- Conditions and events giving rise to substantial doubt about the local government's ability to continue as a going concern
- Bankruptcy proceedings
- Stabilization arrangements and minimum fund balance policies
- Lending and mortgage banking activities
- Regulated business type activities

As stated in GASB Cod. Sec. 2300.120 (Section 2300, .120):

> Information about long-term liabilities should include both long-term debt (such as bonds, notes, and loans) and other long-term liabilities (such as compensated absences, leases payable, and claims and judgments). According to GASB, information presented about long-term liabilities should include:
>
> a) beginning- and end-of-year balances (regardless of whether prior-year data are presented on the face of the government-wide financial statements);
> b) increases and decreases (separately presented);
> c) the portions of each item that are due within one year of the statement date; and
> d) which governmental funds typically have been used to liquidate other long-term liabilities (such as compensated absences and pension liabilities) in prior years.

Pursuant to the provisions of GASB Cod. Sec. 2300.124 (Section 2300, paragraph .124), governments should provide details in the notes to the financial statements about short-term debt activity during the year, even if no short-term debt is outstanding at year-end. For this purpose, GASB defines *debt* as "a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established." For purposes of disclosure in the financial statements, the GASB states that debt does not include leases, except for contracts reported as a financed purchase of the underlying asset, or accounts payable. A government should separate information in debt disclosures regarding direct borrowings and direct placements of debt from other debt. Short-term debt results from borrowings characterized by anticipation notes, use of lines of credit, and similar loans. Details should include:

a) a schedule of changes in short-term debt, disclosing beginning- and end-of-year balances, increases, and decreases; and
b) the purpose for which the short-term debt was issued.

Materiality

The test of materiality may be applied to transactions, classifications, and recommended procedures to determine if the result would be a possible distortion of the financial conditions and operations. According to GASB Cod. Sec. 2300.108 (Section 2300, paragraph .108), the notes to financial statements should not be cluttered with immaterial and unnecessary disclosures.

Required Supplementary Information Other Than MD&A

Accounting standards require that the following data be provided as required supplementary information (RSI) in the CAFR but not part of the basic financial statements, and be presented immediately following the notes:

- Schedules and statistical data
- Budgetary comparisons schedules
- Pension and OPEB information
- Combining statements and individual fund statements and schedules

Refer to the Examples section at the end of this chapter to see samples of RSI schedules.

Combining Statements and Individual Fund Statements and Schedule

Combined and individual fund financial statements are required to be presented in the financial section of the CAFR. Required schedules that support the fund financial statements are presented in this section.

Refer to the Examples section at the end of this chapter for samples of combining balance sheet and combining statement of changes in net position for a retirement trust fund.

Statistical Section of the CAFR

The statistical section of the CAFR contains tables of trends in financial, economic, and demographic data. This data should be presented as factual; the narratives on these trends should be introduced in the MD&A. A typical schedule would present information for several periods of time—often 10 years or more. It should be noted that the information presented in the statistical section is unaudited.
The schedules in the statistical section can be collated into five groups:

- Financial trends
- Revenue capacity
- Debt capacity
- Demographic and economic information
- Operating information

Additional Reporting Considerations

11.06 Adjusting Entries and Accounting Changes

As discussed in GASB Cod. Sec. 2250.126 - .152 (Section 2250, paragraph .126 - .152), adjusting entries are those that are necessary to bring the balance of an account to the correct amount at a given date. They are made prior to closing the books. The number of such entries usually increases in proportion to the degree to which the accrual basis of accounting is used, particularly if the daily accounting has been performed on a cash basis. Adjusting entries include entries recording accounts and taxes receivable, physical inventories, and accounts payable as of the date of closing.

When the prior period adjustments are recorded, their effect on the change in net assets should be disclosed in the notes to financial statements. When financial statements are presented for single periods, the disclosure of prior period adjustments should indicate the effects on the beginning balances in net assets of the immediately preceding period. When the financial statements are for multiple periods, the disclosure should include the effects of the prior period adjustments on the periods being impacted.

A change in an accounting estimate is usually the result of new events, shifting conditions, changes in accounting principles or additional information, any of which requires the revision of previous estimates. A change in an accounting estimate should be accounted for (1) in the period of change if the change affects only that period, or (2) in the period of change or future periods if the change affects both.

Closing Entries

Closing entries transfer the balances in the operating accounts to the fund balance or net position. After closing, only the balance sheet or statement of net position accounts have balances. The use of budgetary control accounts in the general ledger does not affect the actual revenues and expenditures recognized during the accounting period.

Reversing Entries

Adjusting entries can have the effect of recording certain revenues and expenditures before they would have been normally entered in the books. An example would be if revenue that has not yet been physically-received is recognized in the current period. That adjusting entry would need to be reversed at the beginning of the new period in order to avoid duplication of the entry and the potential overstatement of revenues. Amounts already recorded in an adjustment as part of the operations of the prior period are thereby automatically excluded from the current totals.

11.07 Budgetary Comparisons

According to GASB Cod. Sec. 2400.102 - .105 (Section 2400, paragraph .102 - .105), local governments should prepare a budgetary comparison for the general fund and each major special revenue fund for which it legally adopts an annual budget. If the local government legally adopts a budget for any of its other funds, it may present a budgetary comparison for those funds in its financial report, but it is not generally required.

Original Budget

The *original budget* is the first complete appropriated budget. The amounts in the original budget column of a ledger come from the budget originally adopted for the year including automatic carryovers of appropriations as authorized by law. The original budget numbers may also reflect legally authorized adjustments made to the adopted budget subsequent to adoption but prior to the beginning of the fiscal year. Examples include adjustments to reserves, transfers, allocations, and supplemental appropriations.

Final Budget

The *final budget* is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable to the fiscal year.

Budgets are revised over the course of a year to take into account external factors, such as timing changes regarding the assumptions made or changes in policy, such as a decision to reduce staffing due to expected tax shortfalls. The final budget reflects the sum of all legal adjustments made to the budget by the government since the start of the fiscal year until the appropriation is closed.

Required Budgetary Comparison Schedules or Reports

Budgetary comparisons should be presented for the general fund and each major special revenue fund that has a legally adopted budget. Budgetary comparison reports contain actual amounts of outflows and inflows alongside the corresponding budgetary amounts.

If the local government is unable to present comparisons for the general fund and each major special revenue fund due to reporting perspectives, then comparisons should be based on the perspective of its legally approved and adopted budget. These comparisons should be included as schedules in the Required Supplementary Information section (RSI). Where legal compliance may not be in conformity with GAAP, additional schedules or a separate legal-basis report may become necessary.

The budgetary comparison schedules, also commonly known as a variance report, compare the actual budget against the amounts in the governmental funds statement of revenues, expenditures, and changes in fund balance.

For information on the required budget schedules applicable to counties and dependent special districts, refer to the State Controller's Office (SCO), *County Budget Guide*, which can be found at the SCO website for local government publications at https://www.sco.ca.gov/pubs_guides.html.

The following table (Table 5.1) is an illustrative example of a budgetary comparison schedule for a local government's general fund.

Table 5.1 Government Entity
Budgetary Comparison Schedule for the General Fund
For the Year Ended June 30, 2xxx

	Budgeted Amounts		Actual Amounts	Variances Positive (Negative)		Budget to GAAP	Actual Amounts
	Original	Final	Budgetary Reports	Original to Final	Final to Actual	Reconciliation	GAAP Reports
REVENUES							
Property Taxes	$52,017,833	$51,853,018	$51,173,436	$ (164,815)	$ (679,582)	$ -----	$51,173,436
Other Taxes	12,841,209	12,836,024	13,025,392	(5,185)	189,368	-----	13,025,392
Fees and Fines	718,800	718,800	606,946	-----	(111,854)	-----	606,946
Licenses and Permits	2,126,600	2,126,600	2,287,794	-----	161,194	-----	2,287,794
Intergovernmental	6,905,898	6,571,360	6,119,938	(334,538)	(451,422)	-----	6,119,938
Charges for Services	12,392,972	11,202,150	11,374,460	(1,190,822)	172,310	-----	11,374,460
Interest	1,015,945	550,000	552,325	(465,945)	2,325	-----	552,325
Miscellaneous	3,024,292	1,220,991	881,874	(1,803,301)	(339,117)	-----	881,874
Total Revenues	91,043,549	87,078,943	86,022,165	(3,964,606)	(1,056,778)	-----	86,022,165
EXPENDITURES							
Current:							
General Governmental	11,837,534	9,468,155	8,621,500	2,369,379	846,655	9,335	8,630,835
Public Safety	33,050,966	33,983,706	33,799,709	(932,740)	183,997	(70,086)	33,729,623
Public Works	5,215,630	5,025,848	4,993,187	189,782	32,661	(17,412)	4,975,775
Engineering Services	1,296,275	1,296,990	1,296,990	(715)	-----	2,655	1,299,645
Health and Sanitation	5,756,250	6,174,653	6,174,653	(418,403)	-----	104,621	6,070,032
Cemetery	724,500	724,500	706,305	-----	18,195	-----	706,305
Culture and Recreation	11,059,140	11,368,070	11,289,146	(308,930)	78,924	(122,539)	11,411,685
Education	22,000,000	22,000,000	21,893,273	-----	106,727	-----	21,893,273
Total Expenditures	90,940,295	90,041,922	88,774,763	898,373	1,267,159	(57,590)	88,717,173
Excess of Revenues	103,254	(2,962,979)	(2,752,598)	(3,066,233)	210,381	57,590	(2,695,008)
OTHER FINANCING SOURCES							
Transfer In	939,525	130,000	129,323	(809,525)	(677)	-----	129,323
Transfer Out	(2,970,256)	(2,163,759)	(2,163,759)	806,497	-----	-----	(2,163,759)
Total Other Financing Sources	(2,030,731)	(2,033,759)	(2,034,436)	(3,028)	(677)	-----	(2,034,436)
SPECIAL ITEM							
Proceeds from Sale of Park Land	1,355,250	3,500,000	3,476,488	2,144,750	(23,512)	-----	3,476,488
Net Change in Fund Balance	(572,227)	(1,496,736)	(1,310,546)	(924,511)	186,192	57,590	(1,252,956)
Fund Balances – Beginning	3,528,750	2,742,799	2,742,799	(785,951)	-----	165,523	2,908,322
Fund Balances – Ending	$ 2,956,523	$ 1,246,061	$ 1,432,253	$(1,710,462)	$ 186,192	$ 223,113	$ 1,655,366

Explanation of Differences:

(1) The government entity's budgets for claims and compensated absences only to the extent expected to be paid, rather than on the modified accrual basis.	$ (129,100)
Encumbrances for goods and services ordered but not received are reported as expenditures in the year the orders are placed for budgetary purposes but are reported in the year the goods and services are received for GAAP purposes.	186,690
	$ 57,590

(2) The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting and in preparing the government entity's budget. This amount differs from the fund balance reported in the statement of revenues, expenditures, and changes in fund balances because of the cumulative effect of transactions such as those described above.

Interim Financial Reporting

11.08 Interim and Annual Financial Reports

Appropriate interim financial statements and other pertinent reports should be prepared to facilitate management control of financial operations, legislative oversight, and, where necessary or desired, for external reporting purposes.

Interim financial reports are typically prepared for periods under one year and are most frequently for internal use. These reports typically reflect the current financial position of a local government entity and are prepared on a budgetary basis. While interim financial reporting is not a necessity, it does serve as a good tool to monitor and control finances and operations.

EXAMPLES OF FINANCIAL REPORTING
Introduction and Management Discussion and Analysis

Example 01 Table of Contents

GOVERNMENT ENTITY

BASIC FINANCIAL STATEMENTS

For the Years Ended June 30, 20xx and 20xx-1

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Example 02 Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Government Entity
Oakland, California

Report on Financial Statements

We have audited the accompanying financial statements of each major fund and the discretely presented component unit, of the Government Entity as of and for the years ended June 30, 20xx and 20xx, and the related notes to the financial statements, which collectively comprise the Government Entity's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Government Entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Government Entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial positions of each major fund and the discretely presented component unit of the Government Entity as of June 30, 20xx and 20xx-1, and the respective changes in the financial positions and cash flows, where applicable, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended June 30, 20xx and required the restatement of net position as discussed in Note xx to the financial statements:

- Statement No. xx – Accounting and Financial Reporting for topic.

The emphasis of this matter does not constitute modifications to our opinion.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and certain schedules related to the Pension and Post Employment Healthcare Plans be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to this information in accordance with generally accepted auditing standards in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Government Entity's basic financial statements as a whole. The Supplemental Information as listed in the Table of Contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The Supplemental Information is the responsibility of management, was derived from, and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with generally accepted auditing standards in the United States of America. In our opinion, the Supplemental Information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 20xx on our consideration of the Government Entity's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Government Entity's internal control over financial reporting and compliance.

Auditor

Name of Firm

City, California

August 27, 20xx

Example 03 Overview of Basic Financial Statements

This section presents management's analysis of the Government Entity's (the Government Entity) financial condition and activities as of and for the year ended 5. Management's Discussion and Analysis (MDA) is intended to serve as an introduction to the Government Entity's basic financial statements.

This information should be read in conjunction with the audited financial statements that follow this section. The Government Entity, as the primary governmental entity, includes within the financial statements, the financial position and activities of the Government Entity's Employees' Retirement System (Employees' Retirement System) as a component unit. The Employees' Retirement System issues its own financial statements and MDA under separate cover. Significant matters pertaining to the Employees' Retirement System have been included in the notes to the financial statements as deemed appropriate.

The information in this MDA is presented under the following headings:

Organization and Business

Overview of the Basic Financial Statements

Financial Analysis

Capital Assets

Debt Administration

Request for Information

ORGANIZATION AND BUSINESS

The Government Entity provides utility services to industrial, commercial, residential and public authority users. The Utility System collects, transmits, treats, and distributes high-quality utility to approximately xx% (xxx square miles) of the developed area within counties of California and serves a population of about x million. The Government Entity recovers cost of service primarily through user fees.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The Government Entity's basic financial statements are comprised of two components: (1) Fund Financial Statements and (2) Notes to Basic Financial Statements. The report also contains other required supplementary information in addition to the basic financial statements.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Government Entity, like other special purpose governments, uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements.

Proprietary Funds. The Government Entity's proprietary funds consist of xx enterprise funds, the Utility System and the utility System. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises—where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The Government Entity's proprietary fund statements include:

The *Statement of Net Position/Statement of Net Position/Balance Sheet* presents information on the Government Entity's assets and deferred outflows, and liabilities and deferred inflows, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Government Entity is improving or deteriorating.

While the Statement of Net Position/Balance Sheet provides information about the nature and amount of resources and obligations at year-end, the *Statement of Revenues, Expenses, and Changes in Net Position* presents the results of the Government Entity's operations over the course of the fiscal year and information as to how the net position changed during the year. This statement can be used as an indicator of the extent to which the Government Entity has successfully recovered its costs through user fees and other charges. All changes in net position are reported during the period in which the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods, such as delayed collection of operating revenues and the expense of employee earned but unused vacation leave.

The *Statement of Cash Flows* presents changes in cash and cash equivalents resulting from operational, capital, noncapital, and investing activities. This statement summarizes the annual flow of cash receipts and cash payments, without consideration of the timing of the event giving rise to the obligation or receipt and excludes noncash accounting measures of depreciation or amortization of assets.

Fiduciary Fund. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Government Entity's fiduciary fund consists of the Pension and Other Employee Benefit Trust fund, which is maintained to account for assets held by the Employees' Retirement System in a trustee capacity for vested and retired employees. The accounting used for fiduciary funds is much like that used for the proprietary funds.

Notes to Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to basic financial statements can be found on pages xx to xx of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *certain required supplementary information* concerning the Government Entity's progress in funding its obligation to provide pension and other post-employment healthcare benefits to its employees. Such required supplementary information can be found on pages xx to xx of this report.

Example 04 Financial Analysis: Financial Highlights

FINANCIAL ANALYSIS

Financial Highlights

In fiscal year 20xx, THE GOVERNMENT ENTITY continued to effectively manage its finances and strengthen its financial position by adopting sufficient utility rates to fund capital infrastructure improvements and to maintain strong financial performance. The Government Entity implemented Government Accounting Standards Board (GASB) Statement No. xx—Accounting and Financial Reporting for Code Changes which created a $xxx million decrease of prior period adjustment in net position. The following results of operations indicate a continuing strong and stable fiscal position. The total assets and deferred outflows of the Government Entity exceeded the total liabilities and deferred inflows by $ x billion (*net position*).

Net position increased by $xx million or x% during the fiscal year before $ xx million decrease of prior period adjustment in net position due to the implementation of GASB xx.

Capital assets increased by $ xx million or x% to $x billion.

Operating revenue increased by $x million or x% to $x million.

Operating expense decreased by $x million or x% to $x million.

Non-operating net expense decreased by $x million or x% to ($xx) million.

Capital contributions, consisting of capital facility fees, increased by $x million or x% from the prior fiscal year.

Example 05 Summary of Financial Position

Financial Position

In the current year, the Government Entity's total net position increased by $xx million or x% during the fiscal year before $xx million decrease in prior period adjustment due to the implementation of GASB xx. Current and other assets increased by $xx million or x%. Capital assets increased by $xx million or x%. By far the largest portion of the Government Entity's net position, xx % or $x billion, represents its investment in capital assets necessary to provide services.

The Utility System's net position increased by $xx million or x% during the year ended June 30, 20xx before $x million decrease in prior period adjustment due to the implementation of GASB xx.

In the previous fiscal year, the Government Entity's total net position increased by $x million or x%. Current and other assets decreased by $x million or x%. Capital assets increased by $x million or x%. By far the largest portion of the Government Entity's net position, x% or $x billion, represents its investment in capital assets necessary to provide services.

Table 1 shows the Government Entity's net position for the fiscal years ended June 30, 20xx and 20xx-1 and 20xx-1 and 20xx2:

Table 1
Net Position
District
June 30, 20xx and 20xx-1
(In thousands)

		20xx	20xx	Variance	%
Current and other assets	$	xxx,xxx	xxx,xxx	xxx,xxx	xx%
Capital assets		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Deferred outflow of resources		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Total assets and deferred outflow		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Current and other liabilities		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Long-term liabilities		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Deferred inflow of resources		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Total liabilities and deferred inflow		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Net position:					
Net investment in capital assets		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Restricted		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Unrestricted		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Total net position	$	xxx,xxx	xxx,xxx	xxx,xxx	xx%

Net Position
District
June 30, 20xx-1 and 20xx-2
(In thousands)

		20xx-1	20xx-2	Variance	%
Current and other assets	$	xxx,xxx	xxx,xxx	xxx,xxx	xx%
Capital assets		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Deferred outflow of resources		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Total assets and deferred outflow		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Current and other liabilities		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Long-term liabilities		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Deferred inflow of resources		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Total liabilities and deferred inflow		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Net position:					
Net investment in capital assets		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Restricted		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Unrestricted		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Total net position	$	xxx,xxx	xxx,xxx	xxx,xxx	xx%

Example 06 Result of Operations

Results of Operations

In the **current** fiscal year, the Government Entity's total operating revenue of $xxx million for the year increased by $x million and total operating expense of $xx million for the year decreased by $xx million. The change in net position (including capital contributions) increased from $xx million in the previous fiscal year to $x million in the current fiscal year. The Government Entity's total net position decreased from $x million to $x million during the current fiscal year after $x million prior period adjustment due to the implementation of GASB xx.

The major components of the Government Entity's results of operations in the current fiscal year were:

Utility revenues decreased by $x million, mainly reflecting an x% decrease in billed utility consumption offset by a x% utility rate increase in the current fiscal year.

Operating expense decreased by $x million, primarily as a result of negative $x million pension expense due to the implementation of GASB xx in fiscal year 20xx. Due to the current utility expenses increased by of $x million and utility treatment and distribution expenses increased by $x million as a result of purchase of additional supply and additional expenses incurred to address the issue. General administration expenses decreased by $x million primarily as a result of a $x million decrease in amortization expenses and additional $x million capitalized administration expenses.

Non-operating net expense decreased by $x million primarily due to the $x million increase in bond interest expense paid for advance refunding offset by the $x million reclassification of the change of equity in JPA partnership fund from amortization expense to non-operating expense in the prior fiscal year.

Capital contributions increased by $x million, primarily reflecting an increase of $x million in system capacity charges and $x million in earned contributions on constructions received in the current fiscal year compared to the prior year. Page xx contains additional capital contributions information.

In the **prior** fiscal year, the Government Entity's total operating revenue of $xxx million for the prior year increased by $x million and total operating expense of $xx million for the year decreased by $xx million. The change in net position (including capital contributions) increased from $xx million in the previous fiscal year to $x million in the prior fiscal year. The Government Entity's total net position decreased from $x million to $x million during the prior fiscal year after $x million prior period adjustment due to the implementation of GASB xx.

The major components of the Government Entity's results of operations in the prior fiscal year were:
Utility revenues decreased by $x million, mainly reflecting an x% decrease in billed utility consumption offset by a x% utility rate increase in the prior fiscal year.

Operating expense decreased by $x million, primarily as a result of negative $x million pension expense due to the implementation of GASB xx in fiscal year 20xx. Due to the current utility, expenses increased by $x million and utility treatment and distribution expenses increased by $x million as a result of purchase of additional supply and additional expenses incurred to address issue.

General administration expenses decreased by $x million primarily as a result of a $x million decrease in amortization expenses and additional $x million capitalized administration expenses. Non-operating net expense decreased by $x million primarily due to the $x million increase in bond interest expense paid for advance refunding offset by the $x million reclassification of the change of equity in JPA partnership fund from amortization expense to non-operating expense in the prior fiscal year.

- Capital contributions increased by $x million primarily reflecting an increase of $x million in system capacity charges and $x million in earned contributions on constructions received in current fiscal year compared to the prior year. Page xx contains additional capital contributions information.

Table 2 shows changes in the Government Entity's net position for the fiscal years ended June 30, 20xx, 20xx-1, and 20xx-2:

Table 2
Changes in Net Position
District
June 30, 20xx and 20xx-1
(In thousands)

		20xx	20xx-1	Variance	%
Operating Revenue:					
Fee Sales	$	xxx,xxx	xxx,xxx	xxx,xxx	xx%
Other Sales		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Property Taxes		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Total operating revenue		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Operating Expense:					
Raw Product		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Disribution		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Recreation areas, net		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Customer accounting & collecting		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Financial and risk management		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Facilities management		xxx,xxx	xxx,xxx	xxx,xxx	xx%
General administration		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Pension expense		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Depreciation (excluding amounts reported within the Other Operating activites above)		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Total operating expense		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Net operating income (expense)		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Nonoperating income (expense):					
Investment income		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Taxes & subventions		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Interest & amortization of bond expenses, net		(xxx,xxx)	(xxx,xxx)	(xxx,xxx)	xx%
Increase (decrease) of Equity in partnership fund		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Other income		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Total nonoperating income (expense), net		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Income (loss) before contributions		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Capital contributions		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Change in net position		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Total net position – beginning		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Prior period adjustment per implementation GASB		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Total net position – ending	$	xxx,xxx	xxx,xxx	xxx,xxx	xx%

Table 2 Continued

Changes in Net Position

District

June 30, 20xx-1 and 20xx-2

(In thousands)

		20xx-1	20xx-2	Variance	%
Operating Revenue:					
Fee Sales	$	xxx,xxx	xxx,xxx	xxx,xxx	xx%
Other Sales		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Property Taxes		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Total operating revenue		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Operating Expense:					
Raw Product		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Disribution		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Recreation areas, net		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Customer accounting & collecting		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Financial and risk management		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Facilities management		xxx,xxx	xxx,xxx	xxx,xxx	xx%
General administration		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Pension expense		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Depreciation (excluding amounts reported within the Other Operating activites above)		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Total operating expense		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Net operating income (expense)		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Nonoperating income (expense):					
Investment income		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Taxes & subventions		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Interest & amortization of bond expenses, net		(xxx,xxx)	(xxx,xxx)	(xxx,xxx)	xx%
Increase (decrease) of Equity in partnership fund		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Other income		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Total nonoperating income (expense), net		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Income (loss) before contributions		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Capital contributions		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Change in net position		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Total net position – beginning		xxx,xxx	xxx,xxx	xxx,xxx	xx%
Total net position – ending	$	xxx,xxx	xxx,xxx	xxx,xxx	xx%

Example 07 Cash Management Policies and Cash Flow Activities

Liquidity

The Government Entity had $xx million in combined current and non-current Government Entity Cash and Investments as of June 30, 20xx, an increase of $x million compared to $xx million as of June 30, 20xx-1. Components of cash and investments for the year ended June 30, 20xx were:

- Utility System total combined current and non-current Cash and Investments increased by $xx million or x% from $x million as of June 30, 20xx-1 to $xx million as of June 30, 20xx. Net increase (decrease) in cash and cash equivalents increased by $xx million compared to the prior year. This was primarily due to an increase of $ xx million from capital and related financing activities as a result of new revenue bonds issuances and an increase of $xx million from the reallocation of investments between short-term and long-term, offset by decrease of $xx million in cash provided from operating activities. Net increase (decrease) in investments decreased by $xx million also primarily due to reallocation of investments between short-term and long-term.

Table 3 shows the Government Entity's cash flow for the fiscal years ended June 30, 20xx, 20xx-1 and 20xx-2:

Table 3
Cash Flows
District
June 30, 20xx and 20xx-1
(In thousands)

	20xx	**20xx-1**	**Variance**	**%**
Cash and cash equivalents:				
Beginning of year	xxx,xxx	xxx,xxx	xxx,xxx	xx%
Net cash provided by operating activities	xxx,xxx	xxx,xxx	xxx,xxx	xx%
Net cash provided by financing activities	xxx,xxx	xxx,xxx	xxx,xxx	xx%
Net cash provided by (used in) capital and related financing activities	-xxx,xxx	-xxx,xxx	xxx,xxx	xx%
Net cash provided by (used in) investing activities	xxx,xxx	xxx,xxx	xxx,xxx	xx%
Net increase (decrease) in cash and cash equivalents	xxx,xxx	xxx,xxx	xxx,xxx	xx%
End of period	xxx,xxx	xxx,xxx	xxx,xxx	xx%
Investments:				
Beginning of year	xxx,xxx	xxx,xxx	xxx,xxx	xx%
Net increase (decrease) in investments	-xxx,xxx	-xxx,xxx	xxx,xxx	xx%
End of period	xxx,xxx	xxx,xxx	xxx,xxx	xx%
Total District Cash and Investments	xxx,xxx	xxx,xxx	xxx,xxx	xx%

Table 3 continued

Cash Flows

District

June 30, 20xx-1 and 20xx-2

(In thousands)

	20xx-1	20xx-2	Variance	%
Cash and cash equivalents:				
Beginning of year	xxx,xxx	xxx,xxx	xxx,xxx	xx%
Net cash provided by operating activities	xxx,xxx	xxx,xxx	xxx,xxx	xx%
Net cash provided by financing activities	xxx,xxx	xxx,xxx	xxx,xxx	xx%
Net cash provided by (used in) capital and related financing activities	-xxx,xxx	-xxx,xxx	xxx,xxx	xx%
Net cash provided by (used in) investing activities	xxx,xxx	xxx,xxx	xxx,xxx	xx%
Net increase (decrease) in cash and cash equivalents	xxx,xxx	xxx,xxx	xxx,xxx	xx%
End of period	xxx,xxx	xxx,xxx	xxx,xxx	xx%
Investments:				
Beginning of year	xxx,xxx	xxx,xxx	xxx,xxx	xx%
Net increase (decrease) in investments	-xxx,xxx	-xxx,xxx	xxx,xxx	xx%
End of period	xxx,xxx	xxx,xxx	xxx,xxx	xx%
Total District Cash and Investments	xxx,xxx	xxx,xxx	xxx,xxx	xx%

Example 08 Restricted and Unrestricted Cash and Investments, and Capital Contributions

Cash and Investments by Fund

In fiscal years 20xxand 20xx-1, total cash and investments available for operating and capital activities are reported in current and noncurrent assets as unrestricted and restricted funds. Significant activities were as follows: Utility System reserved an additional $xx million in revenues in the rate stabilization fund, additional $x million in working capital, additional $xx million in capital reserve, and released $xx million debt service reserve fund due to revenue bonds' refunding.

In the previous fiscal year, significant activities were as follows: Utility System reserved an additional $xx million in revenue in the rate stabilization funds and used $14 million in capital reserves to fund capital projects. Operating and Capital Reserves are components of Unrestricted Cash and Investments. Individual funds within Operating and Capital Reserves are funded pursuant to Board policy but are unrestricted as to use. For additional information see Note 1H on page xx. Table 4 shows the Government Entity's cash and investment by fund for the fiscal years ended June 30, 20xx, 20xx-1and 20xx-2:

Table 4

Cash and Investment by Fund

District

June 30, 20xx and 20xx-1

(In thousands)

	District		Increase (decrease)	
	20xx	20xx-1	Amount	%
Unrestricted cash and investment				
Operating reserves:				
Rate stabilization fund	$ xxx,xxx	xxx,xxx	xxx,xxx	xx%
Working capital reserve	xxx,xxx	xxx,xxx	xxx,xxx	xx%
Self-insurance	xxx,xxx	xxx,xxx	xxx,xxx	xx%
Workers compensation	xxx,xxx	xxx,xxx	xxx,xxx	xx%
Total operating reserves	xxx,xxx	xxx,xxx	xxx,xxx	xx%
Capital reserves:				
Reserved for capital projects	xxx,xxx	xxx,xxx	xxx,xxx	xx%
Reserve funded CIP - Wastewater	xxx,xxx	xxx,xxx	xxx,xxx	xx%
Vehicle replacements	xxx,xxx	xxx,xxx	xxx,xxx	xx%
Equipment replacements	xxx,xxx	xxx,xxx	xxx,xxx	xx%
Total capital reserves	xxx,xxx	xxx,xxx	xxx,xxx	xx%
Total Unrestricted cash and investment	xxx,xxx	xxx,xxx	xxx,xxx	xx%
Restricted Cash and Investments				
Bond interest and redemption fund	xxx,xxx	xxx,xxx	xxx,xxx	xx%
Debt service reserve fund	xxx,xxx	xxx,xxx	xxx,xxx	xx%
Funds received for construction	xxx,xxx	xxx,xxx	xxx,xxx	xx%
FERC partnership fund	xxx,xxx	xxx,xxx	xxx,xxx	xx%
Monetary reserve	xxx,xxx	xxx,xxx	xxx,xxx	xx%
ABAG program restricted fund	xxx,xxx	xxx,xxx	xxx,xxx	xx%
Total restricted cash and investments	xxx,xxx	xxx,xxx	xxx,xxx	xx%

Capital Contributions

Capital contributions primarily consist of System Capacity Charges (SCC) and Seismic Improvement Program (SIP) surcharges. Additionally, the Government Entity receives contributions when the Government Entity's facilities need to be relocated during construction projects. The Government Entity also receives state and federal grants to fund capital projects.

The Utility System's SCC consists of charges collected from all applicants who request a new utility service connection or a larger utility meter size, and varies depending on geographic region. The SCC pays for the applicant's share of the capital facilities, including those that serve the entire utility system such as the aqueducts and raw utility facilities, regional facilities such as treatment plants and distribution facilities, and future utility supply upgrades needed to meet long-term increases in utility demand created by new customers. The portion of the SCC that pays for the future utility supply is restricted and the remainder is unrestricted.

The Waste Utility System's Capacity Fee is treated as unrestricted funds and pays for the share of Waste Utility facilities attributed to new customers.

A flat Seismic Improvement Program (SIP) surcharge is imposed on each Single Family Residential or Multiple Family Residential account to pay for system-wide seismic improvements of the Utility System being made from 1995-2025. The SIP surcharge is designed to recover costs of the SIP, the objective of which is to provide fire flow availability for real property, and provide continued utility service to residential, commercial, industrial and public authority customers after a seismic event. SIP program costs are being paid over 30 years; the charge is effective on each utility bill through February 28, 2025.

System capacity charges increased by $xx million and earned contributions on construction increased by $xx million due to rising development activities as the housing industry continues its rebound from the most recent recession.

Table 5 shows the Government Entity's capital contributions received for the fiscal years ended June 30, 20xx, 20xx-1and 20xx-2:

Table 5
Capital Contributions
District
June 30, 201xx and 20xx-1
(In thousands)

		District		Increase (decrease)	
		20xx	**2014**	**Amount**	**%**
System capacity charges	$	xx,xxx	xx,xxx	xx,xxx	xx%
Earned contributions on construction		xx,xxx	xx,xxx	xx,xxx	xx%
Seismic improvement surcharge		xx,xxx	xx,xxx	xx,xxx	xx%
Grants and other reimbursements		xx,xxx	xx,xxx	xx,xxx	xx%
Totals	$	xx,xxx	xx,xxx	xx,xxx	xx%

Capital Contributions
District
June 30, 201xx-1 and 20xx-2
(In thousands)

		District		Increase (decrease)	
		20xx-1	**20xx-2**	**Amount**	**%**
System capacity charges	$	xx,xxx	xx,xxx	xx,xxx	xx%
Earned contributions on construction		xx,xxx	xx,xxx	xx,xxx	xx%
Seismic improvement surcharge		xx,xxx	xx,xxx	xx,xxx	xx%
Grants and other reimbursements		xx,xxx	xx,xxx	xx,xxx	xx%
Totals	$	xx,xxx	xx,xxx	xx,xxx	xx%

Example 09 Summary of Capital Assets, Net of Depreciation and Capital Activities

CAPITAL ASSETS

Table 6 shows the Government Entity's capital assets for the fiscal years ended June 30, 20xx, 20xx-1and 20xx-2:

District

June 30, 20xx and 20xx-1

(In thousands)

		District		**Increase/(decrease)**	
		20xx	**20xx-1**	**Amount**	**%**
Structures, buildings, and equipment	$	x,xxx,xxx	x,xxx,xxx	xxx,xxx	xx%
Land and rights of way		x,xxx,xxx	x,xxx,xxx	xxx,xxx	xx%
Construction work in progress		x,xxx,xxx	x,xxx,xxx	xxx,xxx	xx%
Totals	$	x,xxx,xxx	x,xxx,xxx	xxx,xxx	xx%

Table 6

Capital Assets, Net of Depreciation

District

June 30, 20xx-1 and 20xx-2

(In thousands)

		District		**Increase/(decrease)**	
		20xx-1	**20xx-2**	**Amount**	**%**
Structures, buildings, and equipment	$	x,xxx,xxx	x,xxx,xxx	xxx,xxx	xx%
Land and rights of way		x,xxx,xxx	x,xxx,xxx	xxx,xxx	xx%
Construction work in progress		x,xxx,xxx	x,xxx,xxx	xxx,xxx	xx%
Totals	$	x,xxx,xxx	x,xxx,xxx	xxx,xxx	xx%

The Government Entity had $x billion (net of accumulated depreciation) invested in a broad range of utility capital assets as of June 30, 20xx. Total capital assets were $xx billion as of June 30, 20xx-1. The investment in capital assets includes land, buildings, improvements, utility treatment plants, filter plants, aqueducts, utility transmission and distribution mains, utility storage facilities, pump stations, utility reclamation facilities, waste utility and wet weather treatment facilities, machinery and equipment (*see Table 6 above*). In the current fiscal year, capital assets increased by $xx million or x% over the prior fiscal year. In fiscal year 20xx-1, capital assets increased $xx million or x% over fiscal year 20xx-2. Annual changes are consistent with the Government Entity's capital improvement program.

The Utility System had $x billion (net of accumulated depreciation) invested in a broad range of utility capital assets as of June 30, 20xx. The investment in capital assets includes land, buildings, improvements, utility treatment plants, filter plants, aqueducts, utility transmission and distribution mains, utility storage facilities, power generation, pump stations, utility reclamation facilities, machinery and equipment. The Government Entity's net revenue, long-term debt, and contributions from customers are used to finance capital investments. More detailed information about the Government Entity's capital assets is presented in Note 3 to the basic financial statements.

This year's major capital expenditures included:

District		
Project A	$	45,821
Project B		44,802
Project D		32,710
Project xyz		19,658
Adm Bldg Modifications		14,249
Main Facility Rehab/Maintenance		12,745
Summit Improve		10,182
SRVProgram		9,979
Equipment		9,463

Example 10 Long-Term Debt Administration

DEBT ADMINISTRATION

The Government Entity had total long-term debt outstanding of $xx billion as of June 30, 20xx, a x% increase from June 30, 20xx-1. Total long-term debt outstanding was $x billion as of June 30, 20xx-1, x% increase from June 30, 20xx-2. Components of the Government Entity's long-term debt portfolio as of June 30, 20xx are:

- The Utility System had total long-term debt outstanding of $x billion. During fiscal year 20xx, the Government Entity issued a total of $x million Utility System Revenue Bonds, of which $xx million was issued to refund a total of $xx million Utility System Subordinated Revenue Refunding Bond Series 20aa, 20bb, and 20cc.

Table 7 shows the Government Entity's long-term debt outstanding for the fiscal years ended June 30, 20xx, 20xx-1and 20xx-2:

Long -Term Debt
(Net of Unamortized Costs)
District
June 30, 20xx and 20xx-1
(In thousands)

		District		Increase (decrease)	
		20xx	20xx-1	Amount	%
General obligation bonds	$	—	xxx	-xxx	xxx%
Revenue bonds		x,xxx,xxx	x,xxx,xxx	xxx	xxx%
Extendable commercial paper		x,xxx,xxx	x,xxx,xxx	xxx	xxx%
Loans		xxx	xxx	xxx	xxx%
Totals	$	x,xxx,xxx	x,xxx,xxx	xxx	xxx%

Long -Term Debt
(Net of Unamortized Costs)
District
June 30, 20xx-1 and 20xx-2
(In thousands)

		District		Increase (decrease)	
		20xx-1	20xx-2	Amount	%
General obligation bonds	$	xxx	xxx	xxx	xxx%
Revenue bonds		x,xxx,xxx	x,xxx,xxx	xxx	xxx%
Extendable commercial paper		x,xxx,xxx	x,xxx,xxx	xxx	xxx%
Loans		xxx	xxx	xxx	xxx%
Totals	$	x,xxx,xxx	x,xxx,xxx	xxx	xxx%

It is the policy of the Government Entity to maintain a reasonable balance between debt and current revenue financing of capital projects. The following targets provide the framework for financing capital projects:

Debt Service Coverage Ratio: Maintain an annual revenue bond debt coverage ratio of at least 1.6 times coverage. As of 6/30/20xx, the coverage ratio for the overall Government Entity's ratio was 1.xx.

Debt-Funded Capital Spending: Limit debt-funded capital to no more than xx% of the total capital program over each five-year planning period. As of 6/30/20xx, the percentage of debt-funded capital spending for the overall Government Entity's percentage was xx%.

Extended Commercial Paper and Un-hedged Variable Rate Debt: Limit to xx% of outstanding long-term debt. As of 6/30/20xx, the percentage of extended commercial paper and un-hedged variable rate debt compared to total outstanding long-term debt for the overall Government Entity's percentage was xx%.

Example 11 Credit Rating

The Government Entity's credit ratings are outlined in Table 8.

Table 8

Credit Ratings

District

June 30, 20xx

District debt by type	Rating by Standard & Poor's	Rating by Moody's Investors Service	Rating by Fitch
District:			
Fixed Rate Revenue Bonds	AA	Aa	AA
Variable Rate Revenue Bonds			
Long-term Underlying Rating	AA+	Aa1	-
Short-Term Rating	A-1+	VMIG-1	-
Extendable Commercial Paper	A-1+	P-1	F1+

For detail credit rating by bond issue, visit our website at http://www.the Government Entity.com.

Revenue-supported debt authorization for the Government Entity can be approved by the Government Entity's board of directors, subject to a referendum process. At xx, the Utility System had $xxx million in authorized but unissued revenue bonds. Additional information on the Government Entity's long-term debt can be found in Note 6 to the financial statements.

Example 12 Currently Known Facts Bearing on the Future

An example of some type of explanation is allowed but not required. There is no restriction on content. The Authority provides eligible retired employees with health insurance coverage equal to what they had during their active employment, under a written plan adopted by the Authority. In 20xx, the Authority implemented GASB Statement No. 45*, Accounting and Financial Reporting Employers for Postemployment Benefits Other Than Pensions*, as amended. One of the immediate effects of GASB Statement No. 45, as amended, was that the Authority was required to recognize a more comprehensive measure of the cost of providing retiree health insurance when preparing its financial statements. Consequently, the Authority considered the higher OPEB expenses it was reporting when establishing its budget and airline rates and charges.

The Authority began to retain revenues based upon inclusion of this expense in its airline revenue-sharing calculation under its signatory airline lease agreement. During 20xx, the Authority created a legally separate trust to accumulate the resources it was collecting to fund its obligation to provide for retired employee healthcare insurance. In late 20xx, the Authority contributed the amounts it had budgeted for this expense in 20xx and 20xx, which reflected the actuarially determined cost when it did not have a trust. After creating and funding the Sleepy Hollow Airport Authority OPEB Trust (the Trust), the Authority recalculated its liability and annual expense for its obligation to fund retiree healthcare benefits.

The Authority is negotiating with the unions representing its employees regarding achieving potential cost savings for the OPEB provided to current and future retirees. The Authority also is monitoring actions in the state legislature regarding pensions. Several bills have been introduced and are pending that would create new pension plan tiers to (1) further increase retirement age, (2) lengthen vesting periods, (3) extend the final period upon which pension payments are based to prevent salary spiking, and (4) change contribution rates, as well as other actions intended to reduce the cost of pension benefits for future hires.

Example 13 Request for Information

REQUEST FOR INFORMATION

This financial report is designed to provide ratepayers and creditors with a general overview of the Government Entity's finances and demonstrate the Government Entity's accountability for the monies it receives. If you have any questions about this report or need additional information contact: Finance, Attention: XXX, P.O. Box xxxx, City, CA xxxxx-xxxx or visit our website at http://www.the Government Entity.com.

Fund Financial Statements

Example 14 Statement of Net Position

Statement of Net Position

June 30, 2017
(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current assets:				
Cash and pooled investments	$ 35,186,647	$ 7,820,089	$ 43,006,736	$ 2,820,694
Amount on deposit with U.S. Treasury	—	11,730	11,730	—
Investments	607,262	2,080,478	2,687,740	8,477,085
Restricted assets:				
Cash and pooled investments	638,075	1,033,576	1,671,651	386,587
Investments	—	—	—	47,996
Due from other governments	—	100,385	100,385	—
Net investment in direct financing leases	36,877	11,055	47,932	—
Receivables (net)	19,848,799	2,006,463	21,855,262	4,565,340
Internal balances	272,508	(272,508)	—	—
Due from primary government	—	—	—	204,062
Due from other governments	20,068,777	234,313	20,303,090	123,896
Prepaid items	218,010	55,981	273,991	5,001
Inventories	79,801	16,671	96,472	226,995
Recoverable power costs (net)	—	106,000	106,000	—
Other current assets	45,253	6,601	51,854	379,000
Total current assets	77,002,009	13,210,834	90,212,843	17,236,656
Noncurrent assets:				
Restricted assets:				
Cash and pooled investments	176,851	716,720	893,571	34,934
Investments	—	361,913	361,913	80,329
Loans receivable	—	1,276,297	1,276,297	—
Investments	—	2,446,159	2,446,159	28,321,247
Net investment in direct financing leases	289,525	241,333	530,858	—
Receivables (net)	2,076,165	418,821	2,494,986	2,523,282
Loans receivable	4,581,163	3,586,044	8,167,207	3,104,780
Recoverable power costs (net)	—	2,467,000	2,467,000	—
Long-term prepaid charges	2,030	1,222,745	1,224,775	—
Capital assets:				
Land	19,715,991	258,295	19,974,286	1,318,690
State highway infrastructure	75,071,022	—	75,071,022	—
Collections – nondepreciable	22,627	22,086	44,713	468,308
Buildings and other depreciable property	31,115,033	13,717,614	44,832,647	51,543,464
Intangible assets – amortizable	2,075,973	420,480	2,496,453	1,029,465
Less: accumulated depreciation/amortization	(14,304,302)	(5,616,235)	(19,920,537)	(25,042,875)
Construction/development in progress	15,870,690	1,750,443	17,621,133	2,560,457
Intangible assets – nonamortizable	428,676	117,068	545,744	5,411
Other noncurrent assets	—	23,920	23,920	221,663
Total noncurrent assets	137,121,444	23,430,703	160,552,147	66,169,155
Total assets	214,123,453	36,641,537	250,764,990	83,405,811
DEFERRED OUTFLOWS OF RESOURCES	17,172,864	2,350,512	19,523,376	5,623,947
Total assets and deferred outflows of resources	$ 231,296,317	$ 38,992,049	$ 270,288,366	$ 89,029,758

The notes to the financial statements are an integral part of this statement.

Statement of Net Position (continued)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
LIABILITIES				
Current liabilities:				
Accounts payable	$ 24,823,392	$ 468,035	$ 25,291,427	$ 3,295,919
Due to component units	204,062	—	204,062	—
Due to other governments	6,887,502	132,040	7,019,542	—
Revenues received in advance	1,595,429	375,215	1,970,644	1,348,905
Tax overpayments	5,144,945	—	5,144,945	—
Deposits	489,888	—	489,888	858,006
Contracts and notes payable	1,036	—	1,036	9,457
Unclaimed property liability	937,822	—	937,822	—
Interest payable	1,166,841	64,976	1,231,817	36,850
Securities lending obligations	—	—	—	1,121,899
Benefits payable	—	457,305	457,305	—
Current portion of long-term obligations	5,940,497	2,674,355	8,614,852	4,025,103
Other current liabilities	645,346	528,147	1,173,493	1,397,983
Total current liabilities	47,836,760	4,700,073	52,536,833	12,094,122
Noncurrent liabilities:				
Lottery prizes and annuities	—	684,997	684,997	—
Compensated absences payable	3,510,653	205,082	3,715,735	354,494
Workers' compensation benefits payable	3,642,228	3,639	3,645,867	445,251
Commercial paper and other borrowings	1,158,080	147,365	1,305,445	200
Capital lease obligations	358,964	309,716	668,680	422,661
General obligation bonds payable	75,329,254	666,999	75,996,253	—
Revenue bonds payable	16,087,416	13,868,527	29,955,943	20,321,545
Mandated cost claims payable	2,453,039	—	2,453,039	—
Net other postemployment benefits obligation	28,181,028	978,204	29,159,232	147,636
Net other postemployment benefits liability	—	—	—	19,290,424
Net pension liability	77,278,086	8,786,887	86,064,973	10,987,614
Revenues received in advance	—	10,840	10,840	—
Other noncurrent liabilities	1,371,771	225,301	1,597,072	2,010,815
Total noncurrent liabilities	209,370,519	25,887,557	235,258,076	53,980,640
Total liabilities	**257,207,279**	**30,587,630**	**287,794,909**	**66,074,762**
DEFERRED INFLOWS OF RESOURCES	2,714,215	1,121,317	3,835,532	6,315,880
Total liabilities and deferred inflows of resources	**$ 259,921,494**	**$ 31,708,947**	**$ 291,630,441**	**$ 72,390,642**

(continued)

The notes to the financial statements are an integral part of this statement.

Statement of Net Position (continued)

June 30, 2017
(amounts in thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
NET POSITION				
Net investment in capital assets	$ 107,042,274	$ 2,295,270	$ 109,337,544	$ 13,922,202
Restricted:				
Nonexpendable – endowments	—	1,746	1,746	6,420,741
Expendable:				
Endowments and gifts	—	—	—	11,254,940
General government	3,902,047	210,549	4,112,596	—
Education	829,516	140,220	969,736	1,304,254
Health and human services	4,758,357	170,828	4,929,185	—
Natural resources and environmental protection	4,741,159	1,917,575	6,658,734	—
Business, consumer services, and housing	4,022,533	22,465	4,044,998	—
Transportation	8,829,656	6,778	8,836,434	—
Corrections and rehabilitation	35,542	2,017	37,559	—
Unemployment programs	—	3,836,786	3,836,786	—
Indenture	—	—	—	576,548
Statute	—	—	—	1,636,242
Other purposes	6,713,422	—	6,713,422	29,016
Total expendable	33,832,232	6,307,218	40,139,450	14,801,000
Unrestricted	(169,499,683)	(1,321,132)	(170,820,815)	(18,504,827)
Total net position (deficit)	**(28,625,177)**	**7,283,102**	**(21,342,075)**	**16,639,116**
Total liabilities, deferred inflows of resources, and net position	**$ 231,296,317**	**$ 38,992,049**	**$ 270,288,366**	**$ 89,029,758**

(concluded)

The notes to the financial statements are an integral part of this statement.

Example 15 Balance Sheet

Assets Page

DISTRICT
BALANCE SHEETS
JUNE 30, 20xx AND JUNE 30, 20xx-1
(DOLLARS IN THOUSANDS)

	District	
	June 30, 20xx	June 30, 20xx-1
Current assets:		
Cash and cash equivalents (Note 2)	$ xxx,xxx	$ xxx,xxx
Investments (Note 2)	xxx,xxx	xxx,xxx
Receivables:		
Customer	xxx,xxx	xxx,xxx
Interest and other	xxx,xxx	xxx,xxx
Materials and supplies	xxx,xxx	xxx,xxx
Prepaid Insurance	xxx,xxx	xxx,xxx
Total current assets	xxx,xxx	xxx,xxx
Noncurrent assets:		
Restricted cash and investments (Note 2):		
Cash and cash equivalents	xxx,xxx	xxx,xxx
Investments	xxx,xxx	xxx,xxx
Total restricted cash and investments	xxx,xxx	xxx,xxx
Other assets:		
Equity in JPA partnership fund (Note 2I)	xxx,xxx	xxx,xxx
Other	xxx,xxx	xxx,xxx
Total other assets	xxx,xxx	xxx,xxx
Capital assets (Note 3):		
Structures, buildings, and equipment	xxx,xxx	xxx,xxx
Less accumulated depreciation	(xxx,xxx)	(xxx,xxx)
Subtotal	xxx,xxx	xxx,xxx
Land and rights-of-way	xxx,xxx	xxx,xxx
Construction in progress	xxx,xxx	xxx,xxx
Total capital assets, net	xxx,xxx	xxx,xxx
Total noncurrent assets	xxx,xxx	xxx,xxx
Total assets	xxx,xxx	xxx,xxx
Deferred outflows of resources:		
Accumulated decrease in fair value of hedging derivatives (Note 6)	xxx,xxx	xxx,xxx
Pension related (Note 8G)	xxx,xxx	xxx,xxx
Total deferred outflows	xxx,xxx	xxx,xxx
Total assets and deferred outflows	$ xxx,xxx	$ xxx,xxx

Liabilities and Net Position Page

DISTRICT
BALANCE SHEETS
JUNE 30, 20xx AND JUNE 30, 20xx-1
(DOLLARS IN THOUSANDS)

	District	
	June 30, 20xx	June 30, 20xx-1
Current liabilities:		
Current maturities of long-term debt and Commercial Paper (Note 5 & 6)	$ xxx,xxx	$ xxx,xxx
Accounts payable and accrued expenses (Note 4)	xxx,xxx	xxx,xxx
Current reserve for claims (Note 9)	xxx,xxx	xxx,xxx
Accrued interest	xxx,xxx	xxx,xxx
Total current liabilities	xxx,xxx	xxx,xxx
Noncurrent liabilities:		
Advances for construction	xxx,xxx	xxx,xxx
OPEB liabilities (Note 8)	xxx,xxx	xxx,xxx
Reserve for claims (Note 9)	xxx,xxx	xxx,xxx
Net pension liability (Note 8G)	xxx,xxx	xxx,xxx
Other liabilities	xxx,xxx	xxx,xxx
Long-term liabilities, net of current maturities (Note 5 & 6)	xxx,xxx	xxx,xxx
Total noncurrent liabilities	xxx,xxx	xxx,xxx
Total liabilities	xxx,xxx	xxx,xxx
Deferred inflows of resources		
Derivative instrument (Note 6)	xxx,xxx	xxx,xxx
Swap Novation (Note 6F)	xxx,xxx	xxx,xxx
Pension related (Note 8G)	xxx,xxx	xxx,xxx
Total deferred inflows	xxx,xxx	xxx,xxx
Total liabilities and deferred inflows	xxx,xxx	xxx,xxx
Net position (Note 7):		
Net investment in capital assets	xxx,xxx	xxx,xxx
Restricted for construction (Note 1G)	xxx,xxx	xxx,xxx
Restricted for debt service (Note 1G)	xxx,xxx	xxx,xxx
Restricted for JPA	xxx,xxx	xxx,xxx
Restricted - other (Note 1G)	xxx,xxx	xxx,xxx
Unrestricted	xxx,xxx	xxx,xxx
Total net position	xxx,xxx	xxx,xxx
Total liabilities and net position	$ xxx,xxx	$ xxx,xxx

See accompanying notes to financial statements

Example 16 Statement of Activities

Year Ended June 30, 2017
(amounts in thousands)

	Program Revenues				Net (Expenses) Revenues and Changes in Net Position			
					Primary Government			
FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Units
Primary government								
Governmental activities:								
General government	$ 17,400,482	$ 5,825,533	$ 929,306	$ —	$ (10,645,643)		$ (10,645,643)	
Education	67,377,805	74,548	7,413,197	—	(59,890,060)		(59,890,060)	
Health and human services	135,090,171	11,638,503	77,917,754	—	(45,533,914)		(45,533,914)	
Natural resources and environmental protection	7,342,079	3,998,751	424,586	—	(2,918,742)		(2,918,742)	
Business, consumer services, and housing	1,163,511	844,445	84,406	—	(234,660)		(234,660)	
Transportation	12,947,296	4,611,244	2,603,508	3,027,780	(2,704,764)		(2,704,764)	
Corrections and rehabilitation	13,086,499	17,988	124,533	—	(12,943,978)		(12,943,978)	
Interest on long-term debt	4,191,283	—	—	—	(4,191,283)		(4,191,283)	
Total governmental activities	258,599,126	27,011,012	89,497,290	3,027,780	(139,063,044)		(139,063,044)	
Business-type activities:								
Electric Power	945,000	945,000	—	—		$ —	—	
Water Resources	1,223,340	1,223,340	—	—		—	—	
State Lottery	6,271,875	6,213,074	—	—		(58,801)	(58,801)	
Unemployment Programs	11,907,623	14,437,094	—	—		2,529,471	2,529,471	
California State University	8,001,396	3,224,919	1,805,406	—		(2,971,071)	(2,971,071)	
State Water Pollution Control Revolving	17,112	75,912	—	61,027		119,827	119,827	
Housing Loan	62,885	52,842	—	—		(10,043)	(10,043)	
Other enterprise programs	75,397	93,177	—	—		17,780	17,780	
Total business-type activities	28,504,628	26,265,358	1,805,406	61,027		(372,837)	(372,837)	
Total primary government	**$ 287,103,754**	**$ 53,276,370**	**$ 91,302,696**	**$ 3,088,807**	**$ (139,063,044)**	**$ (372,837)**	**$ (139,436,881)**	
Component Units								
University of California	34,270,286	21,777,538	9,422,754	86,776				$ (2,983,218)
California Housing Finance Agency	208,118	95,432	—	—				(112,686)
Nonmajor component units	2,125,925	1,079,450	639,510	12,142				(394,823)
Total component units	**$ 36,604,329**	**$ 22,952,420**	**$ 10,062,264**	**$ 98,918**				**$ (3,490,727)**
General revenues:								
Personal income taxes					$ 85,712,013	$ —	$ 85,712,013	$ —
Sales and use taxes					38,726,332	—	38,726,332	—
Corporation taxes					11,128,198	—	11,128,198	—
Motor vehicle excise tax					4,878,953	—	4,878,953	—
Insurance taxes					2,719,489	—	2,719,489	—
Managed care organization enrollment tax					2,282,313	—	2,282,313	—
Other taxes					2,574,456	—	2,574,456	—
Investment and interest income (loss)					149,135	—	149,135	3,485,177
Escheat					325,755	—	325,755	—
Other					—	—	—	2,657,655
Gain on early extinguishment of debt					30,986	—	30,986	—
Transfers					(3,083,437)	3,083,437	—	—
Total general revenues and transfers					**145,444,193**	**3,083,437**	**148,527,630**	**6,142,832**
Change in net position					6,381,149	2,710,600	9,091,749	2,652,105
Net position (deficit) – beginning					**(35,006,326)***	**4,572,502**	**(30,433,824)**	**13,987,011 ***
Net position (deficit) – ending					**$ (28,625,177)**	**$ 7,283,102**	**$ (21,342,075)**	**$ 16,639,116**

* Restated

The notes to the financial statements are an integral part of this statement.

Example 17 Statement of Revenues, Expenses and Changes in Fund Net Position

Proprietary Funds

Year Ended June 30, 2017
(amounts in thousands)

	Business-type Activities – Enterprise Funds							Governmental Activities
	Electric Power	Water Resources	State Lottery	Unemployment Programs	California State University	Nonmajor Enterprise	Total	Internal Service Funds
OPERATING REVENUES								
Unemployment and disability insurance	$ —	$ —	$ —	$ 14,410,450	$ —	$ —	$ 14,410,450	$ —
Lottery ticket sales	—	—	6,233,468	—	—	—	6,233,468	—
Power sales	(29,000)	85,089	—	—	—	—	56,089	—
Student tuition and fees	—	—	—	—	2,185,443	—	2,185,443	—
Services and sales	—	1,138,251	—	—	547,580	104,052	1,789,883	2,802,643
Investment and interest	—	—	—	—	—	107,670	107,670	10,515
Rent	—	—	—	—	—	108	108	437,203
Grants and contracts	—	—	—	—	71,277	—	71,277	—
Other	—	—	—	—	208,480	1,971	210,451	—
Total operating revenues	(29,000)	1,223,340	6,233,468	14,410,450	3,012,780	213,801	25,064,839	3,250,361
OPERATING EXPENSES								
Lottery prizes	—	—	3,963,453	—	—	—	3,963,453	—
Power purchases (net of recoverable power costs)	(42,000)	339,993	—	—	—	—	297,993	—
Personal services	—	367,083	91,254	184,019	5,168,665	36,851	5,847,872	891,258
Supplies	—	—	18,037	—	1,454,430	37,266	1,509,733	10,306
Services and charges	13,000	177,842	649,656	87,017	—	35,695	963,210	2,036,439
Depreciation	—	77,265	16,890	11,585	330,187	468	436,395	56,092
Scholarships and fellowships	—	—	—	—	844,019	—	844,019	—
Distributions to beneficiaries	—	—	—	11,615,853	—	—	11,615,853	—
Interest expense	—	—	—	—	—	31,604	31,604	402,506
Amortization of long-term prepaid charges	—	—	—	—	—	—	—	238
Other	—	57,066	—	9,149	—	350	66,565	—
Total operating expenses	(29,000)	1,019,249	4,739,290	11,907,623	7,797,301	142,234	25,576,697	3,396,839
Operating income (loss)	—	204,091	1,494,178	2,502,827	(4,784,521)	71,567	(511,858)	(146,478)
NONOPERATING REVENUES (EXPENSES)								
Donations and grants	—	—	—	—	1,805,406	—	1,805,406	—
Private gifts	—	—	—	—	54,526	—	54,526	—
Investment and interest income (loss)	974,000	—	(20,488)	26,644	52,662	7,405	1,040,223	1,911
Interest expense and fiscal charges	(974,000)	(105,768)	(33,580)	—	(204,095)	(12,458)	(1,329,901)	(16)
Lottery payments for education	—	—	(1,499,005)	—	—	—	(1,499,005)	—
Other	—	(98,323)	94	—	104,951	23	6,745	(1,939)
Total nonoperating revenues (expenses)	—	(204,091)	(1,552,979)	26,644	1,813,450	(5,030)	77,994	(44)
Income (loss) before capital contributions and transfers	—	—	(58,801)	2,529,471	(2,971,071)	66,537	(433,864)	(146,522)
Capital contributions	—	—	—	—	—	61,027	61,027	125
Transfers in	—	—	—	—	3,083,437	—	3,083,437	4,500
Transfers out	—	—	—	—	—	—	—	(122,509)
Change in net position	—	—	(58,801)	2,529,471	112,366	127,564	2,710,600	(264,406)
Total net position (deficit) – beginning	—	1,205,428	55,963	1,535,175	(2,576,689)	4,352,625	4,572,502	(367,407)*
Total net position (deficit) – ending	$ —	$ 1,205,428	$ (2,838)	$ 4,064,646	$ (2,464,323)	$ 4,480,189	$ 7,283,102	$ (631,813)

* Restated

The notes to the financial statements are an integral part of this statement.

Example 18 Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental Funds

Year Ended June 30, 2017

(amounts in thousands)

	General	Federal	Transportation	Environmental and Natural Resources	Nonmajor Governmental	Total
REVENUES						
Personal income taxes	$ 84,253,851	$ —	$ —	$ —	$ 1,484,054	$ 85,737,905
Sales and use taxes	24,921,347	—	427,333	—	13,393,035	38,741,715
Corporation taxes	11,125,198	—	—	—	—	11,125,198
Motor vehicle excise taxes	80,033	—	4,674,274	57,649	66,997	4,878,953
Insurance taxes	2,427,851	—	—	—	291,638	2,719,489
Managed care organization enrollment tax	—	—	—	—	2,282,313	2,282,313
Other taxes	604,685	—	—	158,893	1,802,350	2,565,928
Intergovernmental	—	92,505,515	—	—	3,204,269	95,709,784
Licenses and permits	5,563	—	4,460,973	441,286	3,205,720	8,113,542
Charges for services	298,997	—	146,249	128,746	286,249	860,241
Fees	242,054	—	20,631	2,575,522	7,646,908	10,485,115
Penalties	288,560	67	35,611	75,271	687,310	1,086,819
Investment and interest	106,614	—	39,339	74,972	97,577	318,502
Escheat	325,638	—	2	—	1,974	327,614
Other	441,253	—	81,810	1,167,464	1,243,630	2,934,157
Total revenues	125,121,644	92,505,582	9,886,222	4,679,803	35,694,024	267,887,275
EXPENDITURES						
Current:						
General government	5,177,883	956,915	518,262	143,595	10,454,065	17,250,720
Education	59,445,776	7,393,711	3,987	2,677	378,645	67,224,796
Health and human services	32,975,439	77,411,341	2,344	80,154	23,902,816	134,372,094
Natural resources and environmental protection	1,652,353	252,264	249,374	4,310,057	248,790	6,712,838
Business, consumer services, and housing	29,732	76,530	95,881	85,158	816,393	1,103,694
Transportation	3,888	5,619,898	9,079,331	297,439	7,083	15,007,639
Corrections and rehabilitation	10,574,249	124,533	—	—	1,577,609	12,276,391
Capital outlay	988,680	—	—	199,865	50,155	1,238,700
Debt service:						
Bond and commercial paper retirement	2,583,630	9,360	683,216	1,072,282	5,016,062	9,364,550
Interest and fiscal charges	2,828,409	2,030	11,984	18,862	1,124,985	3,986,270
Total expenditures	116,260,039	91,846,582	10,644,379	6,210,089	43,576,603	268,537,692
Excess (deficiency) of revenues over (under) expenditures	8,861,605	659,000	(758,157)	(1,530,286)	(7,882,579)	(650,417)
OTHER FINANCING SOURCES (USES)						
General obligation bonds and commercial paper issued	—	—	2,118,245	1,227,295	979,535	4,325,075
Refunding debt issued	—	—	693,570	1,070,045	5,210,610	6,974,225
Payment to refund long-term debt	—	—	(406,247)	(660,166)	(1,871,868)	(2,938,281)
Premium on bonds issued	52,438	—	133,342	218,253	905,221	1,309,254
Remarketing bonds issued	—	—	100,000	—	—	100,000
Payment to remarket long-term debt	—	—	(100,000)	—	—	(100,000)
Capital leases	988,680	—	—	—	—	988,680
Transfers in	876,015	—	30,026	228,620	3,451,538	4,586,199
Transfers out	(5,330,080)	(678,955)	(1,261,432)	(13,136)	(268,024)	(7,551,627)
Total other financing sources (uses)	(3,412,947)	(678,955)	1,307,504	2,070,911	8,407,012	7,693,525
Net change in fund balances	5,448,658	(19,955)	549,347	540,625	524,433	7,043,108
Fund balances (deficit) – beginning	361,728	247,834	8,538,917	10,127,094	11,590,026 *	30,865,599
Fund balances – ending	$ 5,810,386	$ 227,879	$ 9,088,264	$ 10,667,719	$ 12,114,459	$ 37,908,707

* Restated

The notes to the financial statements are an integral part of this statement.

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Example 19 Statement of Cash Flows

Page 1 of 2: Statement of Cash and Cash Equivalents

DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 20xx AND 20xx-1
(DOLLARS IN THOUSANDS)

	District	
	June 30, 20xx	June 30, 20xx
Cash flows from operating activities		
Cash received from customers	$ xxx,xxx	$ xxx,xxx
Cash received from other income	xxx,xxx	xxx,xxx
Cash payments for judgments and claims	(xxx,xxx)	(xxx,xxx)
Cash payments to suppliers for goods and services	(xxx,xxx)	(xxx,xxx)
Cash payments to employees for services	(xxx,xxx)	(xxx,xxx)
Net cash provided by operating activities	xxx,xxx	xxx,xxx
Cash flows from noncapital financing activities:		
Tax receipts	xxx,xxx	xxx,xxx
Net cash provided by financing activities	xxx,xxx	xxx,xxx
Capital and related financing activities:		
Capital contributions	xxx,xxx	xxx,xxx
Proceeds from advances for construction	(xxx,xxx)	(xxx,xxx)
Proceeds from sale of capital assets	xxx,xxx	xxx,xxx
Net proceeds and premiums from sale of bonds	xxx,xxx	xxx,xxx
Acquisition and construction of capital assets	(xxx,xxx)	(xxx,xxx)
Change in Investment in JPA	(xxx,xxx)	(xxx,xxx)
Principal retirement on long-term debt and commercial paper	(xxx,xxx)	(xxx,xxx)
Amount paid to refunding bond escrow agent	(xxx,xxx)	(xxx,xxx)
Costs and discounts from issuance on long-term debt	(xxx,xxx)	(xxx,xxx)
Interest paid on long-term debt	(xxx,xxx)	(xxx,xxx)
Net cash provided by (used in) capital and related financing activities	(xxx,xxx)	(xxx,xxx)
Cash flows from investing activities:		
Proceeds from securities	xxx,xxx	xxx,xxx
Expenditures from purchases of securities	(xxx,xxx)	(xxx,xxx)
Interest received on investments	xxx,xxx	xxx,xxx
Net cash provided by (used in) investing activities	xxx,xxx	xxx,xxx
Net increase (decrease) in cash and cash equivalents	xxx,xxx	xxx,xxx
Cash and cash equivalents:		
Beginning of year	xxx,xxx	xxx,xxx
End of period	$ xxx,xxx	$ xxx,xxx

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Page 2 of 2: Reconciliation of Operating Income to Net Cash provided by Operating Activities

DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 20xx AND 20xx-1
(DOLLARS IN THOUSANDS)

	District	
	June 30, 20xx	June 30, 20xx-1
Reconciliation of net operating income to net cash provided by operating activities:		
Net operating income	$ xxx,xxx	$ xxx,xxx
Adjustments to reconcile net operating income to net cash provided by operating activities:		
Pension expense	xxx,xxx	xxx,xxx
Depreciation on utility plant and vehichle	xxx,xxx	xxx,xxx
Depreciation within recreation areas	xxx,xxx	xxx,xxx
Amortization	xxx,xxx	xxx,xxx
Other income	xxx,xxx	xxx,xxx
Changes in assets/liabilities:		
Materials and supplies	xxx,xxx	xxx,xxx
Prepaid insurance	xxx,xxx	xxx,xxx
Customer receivables	xxx,xxx	xxx,xxx
Other assets	xxx,xxx	xxx,xxx
OPEB liability	xxx,xxx	xxx,xxx
Reserve for claims	xxx,xxx	xxx,xxx
Accounts payable and accrued expenses	xxx,xxx	xxx,xxx
Net cash provided by operating activities	$ xxx,xxx	$ xxx,xxx
Schedule of Non-Cash Activities		
Change in Fair Value	$ xxx,xxx	$ xxx,xxx

Fiduciary Funds Financial Statements

Example 20 Statement of Fiduciary Net Position

Government ABC
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 20X2
(in thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds	Custodial Funds
ASSETS				
Cash and cash equivalents	$ 184,351	$ 840,693	$ 104,747	$ 58,196
Receivables:				
Employee	2,123	—	—	—
Employer	83,004	—	—	—
Taxes for other governments	—	—	—	206,937
Interest and dividends	175,402	12,166	—	—
Sale of investments	30,879	—	—	—
Total receivables	291,408	12,166	—	206,937
Investments at fair value:				
Short-term investments	2,268,960	241,645	61,591	—
Bonds, notes, mortgages, and preferred stock	14,115,391	804,576	187,650	—
Common stock	20,342,440	—	520,196	—
Real estate	3,408,145	—	—	—
International investments	1,723,961	—	—	—
Mutual funds	72,315	178,046	—	—
Pooled investment funds	23,128	—	—	—
Total investments	41,954,330	1,224,267	769,437	—
Securities lending collateral	1,746,544	—	—	—
Other assets	13,519	181	81,157	361
Total assets	44,190,152	2,077,307	955,341	265,494
LIABILITIES				
Accounts payable and other liabilities	130,846	1,361	61,447	1,451
Due to local governments	—	—	—	164,201
Obligations under securities lending	1,346,544	—	—	—
Other long-term liabilities	1,617	—	7,870	—
Total liabilities	1,479,007	1,361	69,317	165,652
NET POSITION				
Restricted for:				
Pensions	29,897,802	—	—	—
Postemployment benefits other than pensions	12,813,343	—	—	—
Pool participants	—	2,075,946	—	—
Individuals, organizations, and other governments	—	—	886,024	99,842
Total net position	$ 42,711,145	$ 2,075,946	$ 886,024	$ 99,842

Source: *Governmental Accounting Standards Board (2017), Statement No. 84, Fiduciary Activities, p. 39*

Example 21 Statement of Changes in Fiduciary Net Position

Government ABC
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
for the Year Ended June 30, 20X2
(in thousands)

	Pension (and Other Employee Benefit) Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds	Custodial Funds
ADDITIONS				
Contributions:				
Members	$ 297,846	$ —	$ —	$ —
Employers	1,259,384	—	—	—
Other plans	148,792	—	—	—
Gifts and bequests	—	—	197,258	—
Total contributions	1,706,022	—	197,258	—
Investment earnings:				
Net increase in fair value of investments	1,852,408	64,663	33,702	—
Interest, dividends, and other	1,416,448	58,465	30,378	—
Securities lending income	76,075	—	—	—
Total investment earnings	3,344,931	123,128	64,080	—
Less investment costs:				
Investment activity costs	32,281	50,236	63	—
Securities lending costs	73,642	—	—	—
Net investment earnings	3,239,008	72,892	64,017	—
Capital share and individual account transactions:				
Shares sold	—	2,817,210	—	—
Reinvested distributions	—	72,892	—	—
Shares redeemed	—	(2,776,843)	—	—
Net capital share and individual account transactions	—	113,259	—	—
Sales tax collections for other governments	—	—	—	1,811,120
Miscellaneous	1,130	—	—	1,468
Total additions	4,946,160	186,151	261,275	1,812,588
DEDUCTIONS				
Benefits paid to participants or beneficiaries	1,963,047	—	—	—
Medical, dental, and life insurance for retirees	536,027	—	—	—
Refunds and transfers to other systems	170,514	—	—	—
Administrative expense	19,920	—	43	293
Beneficiary payments to individuals	—	—	211,179	—
Payments of sales tax to other governments	—	—	—	1,811,120
Distributions to shareholders	—	72,892	—	—
Total deductions	2,689,508	72,892	211,222	1,811,413
Net increase (decrease) in fiduciary net position	2,256,652	113,259	50,053	1,175
Net position—beginning	40,454,493	1,962,687	835,971	98,667
Net position—ending	$ 42,711,145	$ 2,075,946	$ 886,024	$ 99,842

Source: *Governmental Accounting Standards Board (2017), Statement No. 84, Fiduciary Activities, p. 40*

Notes to Financial Statements

Example 22 Summary of Significant Accounting Policies

NOTE 1— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Primary Government

The Government Entity (the Government Entity) was formed in xxxx under the provisions of the Act of 19xx or resolution xxxx, as amended in 19xx. The Government Entity is comprised of the xxxx System. This entity is governed by the same elected seven-member board of directors which determines such matters as rates and charges for services, approval of contracts, and the Government Entity's policies.

B. Description of the Component Unit

The Government Entity's Employees' Retirement System (the System) has been reported as a Pension and Other Employee Benefit Trust fund (a fiduciary fund) in the accompanying basic financial statements and is discretely presented. The System provides retirement, disability, survivorship, and post-employment health insurance benefits for eligible directors, officers, and employees of the Government Entity. The System is administered by a Retirement Board composed of three members appointed by the board of directors of the Government Entity, two members elected by and from the active membership, and one (nonvoting) member elected by and from the retired membership of the System. Retirement Ordinance No. xx (Ordinance) assigns the authority to establish Plan benefit provisions to the Government Entity's board of directors.

Copies of the audited financial statements of the Employees' Retirement System may be obtained by writing to the Controller, P.O. Box xxxxx, City, CA xxxxx or visit our website at http://www.governmententity.com.

C. Basis of Presentation

The accounts of the Government Entity are organized and operated on a fund basis. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, net position, revenues, and expenses.

The basic financial statements include prior year comparative information. A complete presentation of the prior year information can be found in the Government Entity's financial statements for the year ended June 30, 20xx-1.

The Government Entity reports the following major proprietary (enterprise) funds:

The Government Entity is engaged in the collection, transmission, and distribution of water to communities within xxxxxx and xxxxxx counties of California.

Additionally, the Government Entity reports the following fiduciary fund:

The **Pension and Other Employee Benefit Trust** is used to account for the resources held by the Employees' Retirement System which provides retirement, disability, and survivorship benefits for eligible directors, officers, and employees of the Government Entity.

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises—where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The Pension and Other Employee Benefit Trust fund is maintained to account for assets held by the Employees' Retirement System in a trustee capacity.

D. Basis of Accounting

Proprietary funds and the Pension and Other Employee Benefit Trust fund are accounted for on a flow of economic resources measurement focus, using the full accrual basis of accounting. Under this method, all assets, deferred outflows, liabilities and deferred inflows associated with operations are included on the balance sheet, and revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Government Entity are charges to customers for sales and services. The Government Entity also recognizes wet weather facilities charges as operating revenue. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Government Entity's policy to use restricted resources first, then unrestricted resources as they are needed.

In addition, the accounting policies of the Government Entity conform to accounting policies generally accepted in the United States of America for water utilities. The accounts are maintained substantially in accordance with the Uniform System of Accounts for Utilities followed by investor-owned and major municipally owned utilities.

Balance Sheet – The balance sheet is designed to display the financial position of the Government Entity. The Government Entity's fund equity is reported as net position, which is broken down into three categories defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets and related deferred inflows and outflows.
- Restricted – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or law or regulations of other governments. It also pertains to constraints imposed by law or constitutional provisions or enabling legislation.
- Unrestricted – This component of net position consists of net assets that do not meet the definition of "restricted" or "net investment in capital assets."

Statement of Revenues, Expenses, and Changes in Net Position – The statement of revenues, expenses, and changes in net position is the operating statement for proprietary funds. Revenues are reported by major source. This statement distinguishes between operating and non-operating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses, and other income.

E. Use of Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F. Capital Assets

Utility Plant – at Original Cost

The cost of additions to utility plant and replacement of retired units of property are capitalized. Cost includes material, direct labor and fringe benefits, transportation, and such indirect items as engineering, supervision, and interest on borrowed funds during construction, net of interest earned on unspent construction proceeds. Repairs, maintenance, and minor purchases of equipment are charged to expenses as incurred.

The depreciated cost of capital assets, plus removal costs, less salvage, is charged to expense upon retirement.

Supply Management Program

Costs incurred in this program are debt funded and capitalized as construction in progress. These costs are transferred to the utility plant upon completion of the project and depreciated over their useful life. Debt service costs on the debt used to finance the program are recovered in future through connection fees and rates and charges for service to those benefiting from the program.

Preliminary Survey and Investigation Costs

The Government Entity capitalizes initial costs incurred to study and evaluate certain potential long-term capital projects. These costs are transferred to the property, plant and equipment account upon completion of the project and are depreciated over the life of the asset. In the event the project is abandoned, these costs are expensed.

Contract Use Rights

The Government Entity has contracted with the U.S. for supply deliveries from the CV Project through February 20xx (Long Term Renewal Contract), with the anticipation of subsequent renewals of 40 year terms. Payments under the contract include reimbursement based on the amounts of water delivered to Government Entity of capital costs for CVP storage and conveyance facilities (Government Entity's' current allocation is $x,xxx) and the Operation & Maintenance Deficit

(Government Entity's' current balance is $x,xxx). The Enterprise Fund capitalized the two components.

G. Depreciation

Depreciation of capital assets is computed on a straight-line basis using the estimated service lives of the related assets (5 to 100 years).

H. Restricted Assets

The Government Entity segregates cash and investments into funds that are "Restricted" and "Unrestricted." Funds are "restricted" when limitations on use of the resources are imposed by creditors, grantors, contributors, laws, or regulations of other governments, or imposed by law through constitutional provision or by enabling legislation. "Unrestricted" resources are committed by the Board of Directors through the passage of a resolution, or constrained for a specific purpose by committees or officials with authority delegated by the Board. The exception is the Reserve for Capital Projects which is anticipated but not committed or constrained to be used for the Government Entity's capital improvement program.

Unrestricted cash and investments are further categorized into Operating and Capital Reserves:

Operating Reserves:

- Rate Stabilization Fund (RSF) reserve is established by Policy xx.x, as adopted by the Board of Directors in the bi-annual budget, to maintain at least 20% of projected revenues.

- Working Capital reserve is established by Policy xx.x, as adopted by the Board of Directors in the bi-annual budget, to maintain at least three times the Government Entity's monthly net operating and maintenance expenses.

- Self-insurance reserve is established by Policy xx.x, as adopted by the Board of Directors in the bi-annual budget, to maintain 1.25 times the expected annual costs.

- Workers' compensation reserve is established by Policy xx.x, as adopted by the Board of Directors in the bi-annual budget, to maintain a level equal to the estimated future liability for workers' compensation claims.

Capital Reserves:

- Reserve for Capital Projects comprises the resources available for cash funding of the Government Entity's capital improvement program as projected in conjunction with the bi-annual budget.

- Vehicle Replacement Fund [Board Motion xx-sss] is financed by deposits based on internal user rate charges, and used to reimburse operational expenditures and vehicle replacement purchases.

- Equipment Replacement Fund was established by the Government Entity with the implementation of the Capacity Fees effective July 1, 19xx. The balance in this account represents funds set aside for future department equipment replacements.

Restricted funds include the following:

- Debt funded construction funds are the proceeds of bond or commercial paper issues that are restricted for use on eligible projects in the Government Entity's capital program. The current year balance is $xx,xxx.

- Capitalized Interest fund is restricted by the Government Entity's bond indenture for the purpose of defraying that bond issue's debt service payments for a specified period. The current year balance is $0.00.

- Bond Interest and Redemption fund is required, under the Government Entity's bond indentures, in order for the Government Entity to transfer funds to the Trustee for the payment of principal and interest on the outstanding bonds one business day prior to the date such payment is due. The Government Entity uses the Bond Interest and Redemption Fund to segregate funds accumulated for such payments. In addition, under certain of the interest rate swap agreements related to the Government Entity's outstanding bonds, the Government Entity is required to post collateral to the swap counterparty to the extent that the Government Entity's total exposure for termination payments under the swap agreement exceeds the threshold amount specified in the applicable swap agreement. The Government Entity also uses the Bond Interest and Redemption Fund to segregate the Government Entity funds held by the applicable custodian to satisfy this collateral posting obligation. As of June 30, 20xx and 20xx, respectively, the balances were $xx,xxx and $xx,xxx.

- Debt Service Reserve fund is created and required to be maintained at a specified level in connection with certain series of the Government Entity's outstanding bonds. Amounts in a Bond Reserve Fund may only be used (a) for the payment of principal of and interest on the related series of bonds in the event the Government Entity fails to transfer the required payment from the related system Revenue Fund (the respective designated part of the General Fund) (b) for the payment of redemption of all of the related series of bonds then outstanding or (c) for the payment of the final principal and interest payments on the related series of bonds. As of June 30, 20xx and 20xx, respectively, the balances were $xx,xxx and $xx,xxx.

- Funds received for construction reflect advances received from applicants for work to be performed by the Government Entity. This fund is used for the construction of major facilities, applicant requested services, and the design and construction of supply improvement program projects. The balance as of June 30, 20xx was $xx,xxx for Future projects and $x,xxx for Applicant Work. The balance as of June 30, 2014 was $xx,xxx for Future projects, $x,xxx for Applicant Work.

- JPA partnership fund of $x million was established January 11, 1xxx, in compliance with Federal Energy Regulatory Commission (FERC) order which brought resolution. The Government Entity manages the fund and income derived from investing the funds provides operating support to Joint Settlement Agreement with US to protect the Ecosystem. The principal and any unused earnings shall remain the property of the Government Entity and will revert to the Government Entity upon expiration of the agreement in March 20xx or upon withdrawal of any party to the agreement. As of June 30, 20xx and 20xx-1, respectively, the balances were $x,xxx and $x,xxx for Water.

I. Deferred Amount on Bond Refunding's

Gains and losses incurred in connection with debt refunding transactions are deferred and amortized over the shorter of the life of the refunded debt or the new debt.

J. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Government Entity considers all highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents.

K. Government Entity Investments

Investments are stated at fair value. Included in investment income (loss) is the net change in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) of those investments.

Measurement of the fair value of investments is based upon quoted market prices, if available. The estimated fair value of investments that have no quoted market price is determined based on equivalent yields for such securities or for securities of comparable maturity, quality, and type as obtained from market makers.

Each of the financial instruments invested in by the Government Entity represents a potential concentration of credit risk. However, as the portfolio and the components of the various instruments are diversified, and issuers of securities are dispersed throughout many industries and geographic locations, the concentrations of credit risk are limited.

L. Retirement System Investments

Investments are reported at fair value. Securities and bonds traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that have no quoted market price are reported at estimated fair value, which is determined based on yields equivalent for such securities or for securities of comparable maturity, quality, and type as obtained from market makers. Measurement of the fair value of real estate investments is estimated by the investment managers and reflects both internal and independent appraisals of real estate properties.

The System presents in the Statements of Changes in Plan Net Position the net change in the fair value of its investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the full accrual basis. Dividends are recorded on the ex-dividend date.

Each of the financial instruments invested in by the System represents a potential concentration of credit risk. However, as the portfolio and the components of the various instruments are diversified and issuers of securities are dispersed throughout many industries and geographical locations, the concentrations of credit risk are limited.

Retirement Board policies permit the Employees' Retirement System to use investments of the pension plan to enter into securities lending transactions, which are loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return collateral for the same securities in the future. The System's securities custodian is an agent in lending the Plan's securities for cash collateral, U.S. government securities, and irrevocable letters of credit of 102% for domestic securities lent and 105% for international securities lent. As of June 30, 20xx, the Employees' Retirement System had no credit risk exposure to borrowers because the amounts the Employees' Retirement System owes the borrowers exceed the amounts the borrowers owe the Employees' Retirement System.

Contracts with the lending agent require them to indemnify the Employees' Retirement System under certain circumstances if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the System for income distributions by the securities issuers while the securities are on loan. The risk of any loss of collateral or investment of cash collateral (including a loss of income or principal, or loss of market value thereon) lies with the System, except for losses resulting from negligence or intentional misconduct of the agent in performing the duties allocated under the securities lending agreement with respect to collateral. During the year ended June 30, 20xx, there were no violations of legal or contractual provisions, and no borrower or lending agent default losses known to the securities lending agent.

In lending securities, cash collateral is invested in the lending agent's short-term investment pool, which as of June 30, 20xx, had a weighted average maturity of 26 days. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the System cannot determine. Cash collateral may also be invested separately in term loans, in which case the maturity of the collateral investment generally matches the term of the loan. Noncash collateral cannot be pledged or sold unless the borrower defaults. All securities loans can be terminated on demand by either the lender or the borrower, although the average term of overall loans for the System was approximately 110 days. There are no dividends or coupon payments owing on the securities lent. Cash received as collateral on securities lending transactions is reported as an asset of the System with a corresponding liability.

As of June 30, 20xx, the fair value of securities on loan, which was comprised of Global Equities, US Corporate Fixed Equities, US Equities, and US Government Fixed Equities, was $xxx,xxx. The total cash collateral held by the System's custodian to secure these securities on loan was valued at $xxx,xxx.

M. Material and Supplies

Material and supplies inventories are valued at cost, which approximates market, using the average-cost method.

N. Compensated Absences

Compensated absences as of June 30, 20xx, are included on the balance sheet in accounts payable and accrued expenses. In previous years, trends have shown that the Government Entity's employees utilize the accruals annually; therefore, amounts payable are accrued and reported as a current liability on the financial statements.

The changes in compensated absences were as follows:

	June 30 20XX	**June 30 20XX-1**
Beginning Balance	$xxx,xxx	$xxx,xxx
Additions	xx,xxx	xx,xxx
Payments	xx,xxx	xx,xxx
Ending Balance	$xxx,xxx	$xxx,xxx

O. Revenue

Billings include charges for fees, and a monthly charge. Customer accounts are read on a cyclical basis throughout a monthly or bimonthly period. Bills are rendered and revenue is recognized in the period that accounts are read.

P. Interest Rate Swap

The Government Entity enters into interest rate swap agreements to modify interest rates on some outstanding debt. The net interest is recorded in the financial statements annually.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The statement specifically requires governments to measure and report most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the full accrual basis of accounting. The requirement of reporting the derivative instruments at fair value on the face of the basic financial statements gives the users of those statements a clearer look into the risks their governments are sometimes exposed to when they enter into these transactions and how those risks are managed. The statement also addresses hedge accounting requirements and improves disclosures, providing a summary of the government's derivative instrument activity, its objectives for entering into derivative instruments, and their significant terms and risks. The Government Entity implemented GASB Statement No. 53, as amended, in fiscal year 2010.

Q. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time.

In addition to liabilities, the statement of financial position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

R. Implementation of Governmental Accounting Standards Board (GASB) Pronouncements

GASB Statement No. 68—In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The requirements of this Statement will improve the decision-usefulness of information in employer and governmental non-employer contributing entity financial reports and will enhance its value for assessing accountability and inter-period equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014, therefore, the Government Entity implemented this Statement in the fiscal year ending June 30, 2015, which required a restatement to the Government Entity's financial statements. The financial statements for the fiscal year ended June 30, 2014 could not be restated as the information required to do so was not readily available. See Note 8 for additional information.

GASB Statement No. 70—In 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Non-exchange Finance Guarantees*. This Statement requires a government that extends a non-exchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more than likely than not the government will be required to make a payment on that guarantee. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013, therefore, the Government Entity implemented this statement for fiscal year ended June 30, 2015, and had no impact on the financial statements.

Example 23 Cash and Investment Note Disclosures

NOTE 2—CASH AND INVESTMENTS

A. Classification

Reconciliations of cash and investments reported on the financial statements as of June 30, 20xx, are as follows:

	Total
Government Entity Enterprise Funds:	
Cash and investments included in current assets	$xxx,xxx
Cash and investments included in restricted investments	xx,xxx
Total Government Entity cash and investments	xxx,xxx
Less investments	(xxx,xxx)
Cash and cash equivalents	$ xxx,xxx
System Pension Trust Funds:	
Cash and cash equivalent	$xx,xxx
Invested securities lending collateral	xxx,xxx
Retirement system investments	x,xxx,xxx
Total System cash and investments	$x,xxx,xxx

B. *Government Entity Enterprise Fund Investments Authorized by the California Government Code and the Government Entity's Investment Policy*

The Government Entity's Investment Policy and the California Government Code allow the Government Entity to invest in the following investment types, provided the credit ratings of the issuers are acceptable to the Government Entity; and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code, or the Government Entity's Investment Policy where the Government Entity's Investment Policy is more restrictive and provides information as to the limitations as they relate to interest rate risk, credit risk and concentration risk.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum in Portfolio	Maximum Investment In One Issuer
Repurchase Agreements	270 Days	N/A	20%	10%
State of California Local Agency Investment Fund (LAIF Pool)	Upon Demand	N/A	$50,000 per account	N/A
U. S. Treasury Bonds, Notes and Bills	5 Years	N/A	0 to 100%	N/A
U.S. Government Agency and U.S. Government-Sponsored Enterprise Obligations	5 Years	N/A	0 to 100%	40% in each Agency
Bankers' Acceptances	180 Days	N/A	40%	10%
Commercial Paper	270 Days	A1, P1 or F1	25%	10%
Negotiable Certificates of Deposit	5 Years	AA	30%	10%
Time Certificates of Deposit – Banks or Savings and Loans	5 Years	N/A	30%	10%
Medium Term Corporate Notes	5 Years	AA	30%	10%
Money Market Mutual Funds	N/A	AAA	40%	10%
Municipal Bonds	5 Years	AA	40%	10%
Calif Asset Management Pgm (CAMP)	Upon Demand	Highest Rating	10%	10%

The Government Entity does not enter into reverse repurchase agreements.

C. Government Entity Enterprise Fund Investments Authorized by Debt Agreements

The Government Entity must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the Government Entity fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with Government Entity resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Minimum Credit Quality
Repurchase Agreements	Top Four Short term Rating Category
U.S. Treasury Bonds, Notes and Bills	N/A
U.S. Government Agency and U.S. Government-Sponsored Enterprise Obligation	N/A
State Obligations	Not lower than District's bond rating
Commercial Paper	Top Rating Category
Negotiable Certificates of Deposit	FDIC insured or collateralised
Time Certificates of Deposits - Banks or Savings and Loans	FDIC insured or collateralised
Corporate Notes and Bonds	Not lower than District's bond rating
Variable Rate Obligations	Not lower than District's bond rating
Cash Swap Agreements	Top Rating Category
Guaranteed Investement Contract	Not lower than District's bond rating
Shares of Beneficial Interest	Top Rating Category

D. Employees Retirement System Authorized Investment Strategy

The System's investment policies authorize the System to invest in financial instruments in three broad investment categories: equity, fixed income, and real estate. These financial instruments can include, but are not limited to, corporate bonds, commercial paper, U.S. government securities, common and preferred stock, real estate investment trusts, and mutual funds. Fixed income investments may include futures and options contracts in order to provide added flexibility in managing the fixed income portfolio. The following is a summary of the System investment policy adopted by the System with *Resolution No. xxxx.*

The Retirement Board is authorized to designate multiple investment managers to manage the assets under their supervision subject to the laws of the State of California and the Investment Guidelines established by the Retirement Board. Allocation of assets to the investment managers shall be determined by the Retirement Board to accommodate changing conditions and laws. The long-range asset allocation goal is as follows:

Core Fixed Income	10%
Non-Core Fixed Income	10%
Domestic Equity	40%
Covered Calls	20%
International Equity	15%
Real Estate	5%
Allocation to Cash	0%

The composite asset allocation goal will be pursued by the Retirement System on a long-term basis and be revised if significant changes occur within the economic and/or capital market environment. Progress toward the goal will be reviewed at least annually.

The Director of Finance is authorized to transfer assets from any asset class which exceeds the long-term asset allocation goal by more than 3% at the end of two or more consecutive quarters, allocating the excess assets to a manager or group of managers with the exception of real estate managers. The Director of Finance is further authorized to withdraw assets from assigned managers as necessary to efficiently meet operating needs.

The equity and fixed income asset allocations may vary by up to ± 5% from the long-range asset allocation goals.

The core fixed income target allocation (10% of the total portfolio) will primarily consist of U.S. denominated fixed income securities. Individual managers may invest up to 20% of their assets in international fixed income securities.

The non-core fixed income target allocation (10% of the total portfolio) will primarily consist of U.S. denominated fixed income securities. Individual managers may invest up to 35% of their assets in international fixed income securities. It is expected that this allocation may have a material allocation to below investment grade securities.

The domestic equity allocation target (40% of the total portfolio) will consist of approximately 37% in large cap market related growth and value (average risk) securities, 3% in small capitalized securities, and 20% in international securities. The international equity allocation target will consist of approximately 17% international equities and 3% emerging markets. It is expected this allocation will allow for exposure to mid-cap securities based on tactical decisions by the Retirement Fund's large cap and small cap domestic equity managers.

The covered calls target allocation (20% of the total portfolio) may consist of a combination of Chicago Board Options Exchange S&P 500 Buy Write Index (the "BXM Index") replication strategy and/or active non-replication strategies and their underlying domestic equity portfolios.

The international equity target allocation (15% of the total portfolio) will consist of approximately 12% in international equities and 3% in emerging markets equities.

The real estate target allocation (5% of the total portfolio) will consist of either equity (ownership) and/or fixed income participation in commercial, industrial, or residential properties. Investments may include interests in mortgages pools secured by loans of underlying properties.

The allocation goal recognizes that at any time equity and fixed income managers may have transactional cash on hand and the Government Entity will maintain enough cash as working capital to effectively meet cash flow demands on the system. However, there is no specific allocation for cash as all investable cash is allocated to specific investment disciplines.

Holdings of securities issued by the United States Government or any of its agencies need not be diversified. Securities of any one issuer with maturities of more than one year, other than the United States Government or any of its agencies, shall not exceed 5% of the value of the total portfolio. Securities of any one issuer of foreign government issues shall not exceed 10% of the value of the total portfolio at the time of purchase. Fixed income managers have the authority to make international investments, not to exceed 20% of their total portfolio.

The use of futures and options in the fixed income accounts may be used as part of their portfolio management strategy and will be incidental to their securities trading activities. The resulting aggregate risk profile (volatility) of the portfolio will not be different from that permissible by using securities only.

Short (sold) options positions will generally be hedged, either with current portfolio security holdings, other options or futures options. Mortgage derivatives with significant short option characteristics will not exceed 5% of the portfolio, and will generally be a) offset by positions in other mortgage derivatives, or b) offset by other portfolio positions.

No derivatives will be executed that will increase the value at risk of the portfolio by more than 25 basis points of the portfolio's market value.

Structured notes with significant short options positions or increasing leverage will not be purchased, and in no case will structured notes exceed 5% of portfolio value. Structured notes issued by the U.S. Government (treasuries and agencies) will be considered allowable investments, and are restricted to 25%.

Fixed income managers are authorized to use futures and options contracts to supplement their investment capabilities to provide flexibility in managing the fixed income portfolios and reduce the cost of implementing strategies to respond to changing market conditions without incurring the higher transaction costs associated with buying and selling specific securities. These transactions are authorized to enable the manager to reduce the exposure of the portfolio to interest rate changes by reducing or increasing the duration of the portfolio without selling any of the actual holdings.

No more than 5% of the portfolio will be invested in original futures margin and options premiums, exclusive of any in-the-money portion of the premiums.

Each equity portfolio shall be diversified. When fully invested in equities or at its normal level of investment, a minimum of 20 securities should be held. At no time may a single equity investment exceed 5% of the value of the total retirement fund.

Each international equity portfolio shall be diversified. When fully invested in international equities or at its normal level of investment, a minimum of 20 securities should be held. At no time may a single international equity investment exceed 5% of the value of the total retirement fund.

E. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the market value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its market value to changes in market interest rates. The Government Entity generally manages its interest rate risk by holding investments to maturity.

Information about the sensitivity of the market values of the Government Entity's and System's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the Government Entity's investments by maturity or earliest call date.

Government Entity Enterprise Funds:

Investment Type	12 Months or less	13 to 24 Months	25 to 60 Months	Total
Asset Back Securities	$ xxx	$ xxx	$ xxx	$ x, xxx
Equity Securities	$xxx			xxx
Mortgage Backed Securities		xxx	xxx	x,xxx
Corporate Bonds	xxx	xxx	xxx	x,xxx
Government Agencies	xx,xxx	xxx		xx,xxx
Short Term investments	xxx	xxx		xxx
Municipal Bonds	xxx	xxx		x,xxx
Mutual Funds	xx,xxx	xxx		x,xxx
Real Estate	xx,xxx			xx,xxx
Demand Deposits	xx,xxx			xx,xxx
LAIF	xx,xxx			xx,xxx
CAMP	xx,xxx			xx,xxx
Total Investments	$xxx,xxx	$x,xxx	$xxx	xxx,xxx
Cash In Banks				xx,xxx
Total Cash and Investments				$xxx,xxx

System Pension Trust Fund:

Investment Type	Less than 12 months	12 to 72 Months	72 to 120 Months	More than 120 Months	Maturity no determined	Total
Asset Back Securities	$ xxx	$ xxx	$ xxx	$ xxx		$ x, xxx
Equity Securities	$xxx					xxx
Mortgage Backed Securities		xxx	xxx	xxx		x,xxx
Corporate Bonds	xxx	xxx	xxx	xxx	xxx	x,xxx
Government Agencies	xx,xxx	xxx		xxx		xx,xxx
Short Term investments	xxx	xxx			xxx	xxx
Municipal Bonds				xxx		x,xxx
Mutual Funds				xxx		x,xxx
Real Estate					xx,xxx	xx,xxx
Demand Deposits	xx,xxx					xx,xxx
LAIF	xx,xxx					xx,xxx
CAMP	xx,xxx					xx,xxx
Total Investments	$xxx,xxx	$x,xxx	$x,xxx	$x,xxx	$x,xxx	xxx,xxx
Cash In Banks						xx,xxx
Total Cash and Investments						$xxx,xxx

The Government Entity and System are participants in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code section 16429 under the oversight of the Treasurer of the State of California. They report their investment in LAIF at the market value amount provided by LAIF, which is the same as the value of the pool share.

The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. On June 30, 20xx, these investments matured in an average of 239 days.

The System's investments include the following investments that are highly sensitive to interest rate fluctuations to a greater degree than already indicated above:

Highly Sensitive Investments	Fair Value at Year End
Commercial Mortgage - Back Securities	$x,xxx
Government Mortgage - Back Securities	$x,xxx
Government issued Commercial Mortgage - Back Securities	$x,xxx

F. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical credit rating organization. Presented below is the actual rating as of June 30, 20xx, for each investment type as provided by Moody's.

Government Entity Enterprise Funds:

Investment Type	Aaa	Aa1	Aa2	Aa3	Baa	Ba	Total
Asset Back Securities	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx	$ x, xxx
Equity Securities							xxx
Mortgage Backed Securities		xxx	xxx				x,xxx
Corporate Bonds	xxx	xxx	xxx	xxx	xxx		x,xxx
Government Agencies							xx,xxx
Short Term investments							xxx
Municipal Bonds	xxx	xxx					x,xxx
Mutual Funds		xxx	xxx				x,xxx
Real Estate							xx,xxx
Not rated							
Demand Deposits							xx,xxx
LAIF							xx,xxx
CAMP							xx,xxx
Cash In Banks							xx,xxx
Total Cash and Investments	$x,xxx	$x,xxx	$x,xxx	$x,xxx	$x,xxx	$xxx	$xxx,xxx

System Pension Trust Fund:

Investment Type	Aaa	Aa1	Aa2	Aa3	Baa	Ba	US Government Guaranteed	Not Rated	Total
Asset Back Securities	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx	$ xxx		$ xxx	$ x, xxx
Equity Securities								xxx	xxx
Mortgage Backed Securities		xxx	xxx					xxx	x,xxx
Corporate Bonds	xxx	xxx	xxx	xxx	xxx			xxx	x,xxx
Government Agencies							xx,xxx		xx,xxx
Short Term investments								xxx	xxx
Municipal Bonds	xxx	xxx							x,xxx
Mutual Funds		xxx	xxx					x,xxx	x,xxx
Real Estate								xx,xxx	xx,xxx
Demand Deposits								xx,xxx	xx,xxx
LAIF								xx,xxx	xx,xxx
CAMP								xx,xxx	xx,xxx
Cash In Banks								xx,xxx	xx,xxx
Total Investments	$x,xxx	$x,xxx	$x,xxx	$x,xxx	$x,xxx	$xxx	$xx,xxx	$xxx,xxx	$xxx,xxx

G. Concentration Risk

Significant Government Entity investments in the securities of any individual issuers, other than U. S. Treasury securities, LAIF, and mutual funds, are set forth below:

Government Entity Enterprise Funds:

Reporting unit	Issuer	Investment Type	Reported amount
Government Entity-Wide:	FHLB	Federal Agency Securities	$xx,xxx
	FNMA	Federal Agency Securities	$xx,xxx
	FFCB	Federal Agency Securities	$xx,xxx

System Pension Trust Fund:

Significant System Pension Trust Fund investments are:

Nature of Investment	Fair Value Year End
Trustee Collective Daily Benchmark index fund	$xx,xxx

H. *Foreign Currency Risk*

System Pension Trust Fund:

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit. Presented below in US dollars is the fair market value of the System's foreign investments at June 30, 20xx:

Foreign Currency	Equity Securities Investment Type
Euro	$62,140
British Pound Sterling	37,114
Hong Kong Dollar	19,960
Swiss Franc	15,726
Japanese Yen	13,744
South Korean Won	7,783
Danish Krone	5,223
Canadian Dollar	4,638
Singapore Dollar	2,858
Australian Dollar	2,830
Brazilian Real	2,307
Swedish Krona	1,792
Norwegian Krone	1,384
Indonesian Rupiah	1,251
Mexican Peso	915
Thai Baht	811
Turkish Lira	633
Total	$181,109

The Fund's investment policy permits it to invest up to 20% of total investment on foreign currency-denominated investments. The Fund's current position is xx%.

I. *Custodial Credit Risk*

Custodial credit risk for *cash on deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the Government Entity or System will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

California Law requires banks, savings, and loan institutions to pledge government securities with a market value of 110% of the Government Entity's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the Government Entity's name and places the Government Entity ahead of general creditors of the institution.

The Government Entity and the System invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to increase security, the Government Entity and the System employ the Trust Department of a bank or trustee as the custodian of certain Government Entity and System managed investments, regardless of their form.

As of June 30, 20xx and 20xx-1, the System's brokers/dealers held $xxx and $xx, respectively, in cash and US government bonds exposed to custodial credit risk.

Example 24 Receivable Note Disclosure

Receivables at June 30, 20xx for the Government Entity consist of the following amounts.

	Current	Noncurrent	Total
General	$x,xxx	$0	$x,xxx
interest	x,xxx	0	x,xxx
Allowance for doubtful accounts	(xxx)	0	(xxx)
Accounts Receivable, net	x,xxx	0	x,xxx
Grants and Contracts	x,xxx	x,xxx	x,xxx
Due from other agencies	x,xxx	x,xxx	x,xxx
Subtotal	x,xxx	x,xxx	x,xxx
Total Receivables	$x,xxx	$x,xxx	$x,xxx

Example 25 Capital Assets Note Disclosure

A. Summary

The Government Entity capitalizes all assets with a historical cost of at least $5 thousand and a useful life of at least three years. Contributed property is recorded at estimated fair market value at the date of donation.

The purpose of depreciation is to spread the cost of capital assets equitably among all customers over the life of these assets, so that each customer's bill includes a pro rata share of the cost of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of depreciable capital assets.

Depreciation of all capital assets in service, excluding land, is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the balance sheet as a reduction in the book value of the capital assets.

Capital assets are depreciated using the straight line method of depreciation, which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The Government Entity has assigned the useful lives listed below to capital assets:

Utility plant:	Years
Source of supply	25-100
Raw water transmission and storage	20-100
Interception and outfall	60-75
Pumping	25-75
Treatment	20-75
Distribution	25-75
Power Generation	25-75
Equipment	5-20
Plant Structures	25-75
Other	5-40

B. Additions and Retirements

Capital assets activity for all business-type activities for the year ended June 30, 20xx, was as follows:

	Balance at June 30, 20xx-1	Additions and Transfers, net	Retirements and Transfers, net	Balance at June 30, 20xx
Government Entity:				
Capital Assets not being depreciated:				
Land	$xx,xxx	$x,xxx	($xx)	$xx,xxx
Rights-of-way	x,xxx	xx		x,xxx
Construction in Progress - Land	xxx	x,xxx	(x,xxx)	xxx
Construction in Progress	xxx,xxx	xxx,xxx	(xxx,xxx)	xxx,xxx
Total capital assets not being depreciated	xxx,xxx	xxx,xxx	(xxx,xxx)	xxx,xxx
Capital assets being depreciated:				
Buildings and improvements	xxx,xxx	x,xxx	(xxx)	xxx,xxx
Infrastructure and improvements	x,xxx,xxx	xxx,xxx	(xx,xxx)	x,xxx,xxx
Machinery and equipment	xx,xxx	x,xxx	(x,xxx)	xx,xxx
Total capital assets being depreciated	x,xxx,xxx	xxx,xxx	(xx,xxx)	x,xxx,xxx
LESS: accumulated depreciation for				
Buildings and improvements	(xx,xxx)	(x,xxx)	xxx	(xx,xxx)
Infrastructure and improvements	(x,xxx,xxx)	(xx,xxx)	xxx	(x,xxx,xxx)
Machinery and equipment	(xx,xxx)	(x,xxx)	x,xxx	(xx,xxx)
Total accumulated depreciation	(x,xxx,xxx)	(xx,xxx)	x,xxx	(x,xxx,xxx)
Total capital assets being depreciated, net	x,xxx,xxx	xx,xxx	(xx,xxx)	x,xxx,xxx
Government Entity capital assets, net	$ x,xxx,xxx	$ xxx,xxx	($xxx,xxx)	$x,xxx,xxx

C. Construction in Progress

Construction in Progress in fiscal 20xx-1–20xx comprises:

District	Expended to date
Project A	$ xxx,xxx
Project B	xxx,xxx
Project D	xx,xxx
Project xyz	xx,xxx
Adm Bldg Modifications	xx,xxx
Main Facility Rehab/Maintenance	xx,xxx
Summit Improve	xx,xxx
SRVProgram	x,xxx
Equipment	x,xxx
Total Construction in Progress	$xxx,xxx

At June 30, 20xx, the Government Entity's remaining current major project commitments are estimated to be $xx,xxx.

At June 30, 20xx, the Government Entity's remaining current major project commitments are estimated to be $xx,xxx.

Example 26 Payables and Accrued Expenses Note Disclosure

Accounts payable and accrued expenses at June 30, 20xx and 20xx-1 consist of:

	June 30	**June 30**
	20XX	**20XX-4**
Accounts Payable	$xx,xxx	$xx,xxx
Accrued Salaries	xx,xxx	xx,xxx
Accrued Absences	xx,xxx	xx,xxx
Other	xx,xxx	xx,xxx
Total	$xx,xxx	$xx,xxx

Example 27 Long-term Liabilities Note Disclosure

NOTE 5—EXTENDABLE COMMERCIAL PAPER NOTES

The Government Entity's Board of Directors has authorized a short-term commercial paper borrowing program of up to the lesser of either (1) the average of the total annual revenue for the three preceding years or (2) 25% of the Government Entity's total outstanding bonds. As of June 30, 20xx, the Government Entity had $xxx million authorized for this program. The proceeds from the issuance of commercial paper are restricted as to use. Under this program, which must be authorized by the Board of Directors every seven years and is subject to the right of referendum, the Government Entity may issue commercial paper and bank notes at prevailing interest rates for periods of not more than 270 days from the date of issuance. The program was last authorized on March 10, 2xxx.

The Government Entity replaced the commercial paper program with an extendable commercial paper program in March 2xxx. Under the extendable commercial paper program, no liquidity support agreement (line of credit) with a commercial bank is needed. Instead, the Government Entity limits the term of the extendable commercial paper to 120 days, and the investor agrees to extend the maturity of their investment by 150 days at a higher interest rate in the event of a failed remarketing, giving the Government Entity sufficient time to find a replacement investor or refund the extendable commercial paper with a different form of debt (e.g. fixed or variable rate revenue bonds) to repay the investor.

As of June 30, 20xx, $xxx million commercial paper notes were outstanding under this program. The Water Series included terms of 68 to 120 days and interest rates ranging from 0.0x% to 0.xx% as of June 30, 20xx, and terms of 50 to 119 days and interest rates ranging from 0.0x% to 0.xx% as of June 30, 20xx-1.

NOTE 6—LONG-TERM DEBT

A. Composition and Changes

The Government Entity generally incurs long-term debt to finance projects or purchase assets that will have useful lives equal to or greater than the related debt. The Government Entity's debt issues and transactions are summarized below and discussed in detail thereafter.

	Original Issue Amount	Balance June 30, 2014	Additions	Retirements	Balance June 30, 2015	Amount due within one year
Revenue Bonds						
20xx						
2.51%, due 1/1/xx	$ x,xxx,xxx	$xxx,xxx		$xxx	$xxx,xxx	$xxx
20xx-1						
2.40%, due 4/1/28	xxx,xxx	xxx,xxx		xxx	xxx,xxx	xxx
Long-Term Bonds		x,xxx,xxx		xxx	x,xxx,xxx	xxx
Loans	xxx,xxx	xx,xxx		xxx	xx,xxx	xx
Commercial Paper (see Note 5)		xxx,xxx	x,xxx,xxx	x,xxx,xxx	xxx,xxx	xxx,xxx
Amount due within one year		(xx,xxx)	(xx,xxx)		(xx,xxx)	
Add: Unamortized premium, net		xxx,xxx	xxx,xxx	xx,xxx	xxx,xxx	
Total long-term liabilities, net		$x,xxx,xxx	$x,xxx,xxx	$x,xxx,xxx	$x,xxx,xxx	$xx,xxx

B. Description of the Government Entity's Long-Term Debt Issues

General obligation and revenue bonds are generally callable at future dates. The general obligation bonds are repaid from property taxes levied on property within the Government Entity.

Revenue-supported debt can be authorized by the Government Entity's Board of Directors, subject to a referendum process.

The net revenues of the Government Entity are pledged toward the repayment of the Revenue Bonds and the Water Resources Control Board Parity Loans.

The Government Entity is subject to certain revenue bond covenants on outstanding debt that require the setting of rates and charges to yield net revenues equal to at least 110% of the current annual debt service requirements for all revenue bonds and other parity obligations. The Government Entity has designated $xx million of operating reserves as a rate stabilization fund, which is available to satisfy the coverage requirements for debt service in future years. There have never been any draws for this purpose.

Debt Issuance During the Year

20xx Revenue Refunding Bonds, Series 20xx—The Government Entity issued $xxx million principal amount of Series 20xx Bonds on March 3, 20xx, to provide funds, together with certain other available monies, to refund $xx million principal amount of the Government Entity's Subordinated Revenue Bonds Series 20x5, and $xxx million principal amount of the Government Entity's Subordinated Revenue Bonds Series 20x7A to fund the costs of terminating certain interest rate swap agreements relating to the Government Entity's outstanding variable rate Revenue Bonds to be refunded, and to pay the costs of issuance in connection with the Series 20x5 Bonds. The Series 20xx Bonds are special obligations of the Government Entity and are payable solely from and secured by a pledge of Subordinated Revenues. Principal payments commence on June 1, 2x23 and are payable annually on June 1 thereafter. Interest payments are payable on June 1st and December 1st of each year, commencing June 1, 2x15.

The refunding of Revenue Bonds, Series 20xx created an economic gain of $xx.x million.

C. Debt Service Requirements

Annual debt service requirements, including the swap payments discussed in F., are shown below for the above debt issues:

For the Year Ending June 30	Principal	Interest
2016	$xx,xxx	$ x,xxx
2017	xx,xxx	x,xxx
2018	xx,xxx	x,xxx
2019	xx,xxx	x,xxx
2020	xx,xxx	x,xxx
2021 - 2025	xxx,xxx	xx,xxx
2026 - 2030	xxx,xxx	xx,xxx
2031 - 2035	xxx,xxx	x,xxx
2036 - 2038	xx,xxx	x,xxx
Totals	$ x,xxx,xxx	$xxx,xxx

Interest payments on debt subject to swap agreements were calculated using the variable rates at June 30, 20xx.

E. *Prior-Year Defeasances*

In prior years, the Government Entity Defeased certain debt issues by placing proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the Defeased debt are not included in the Government Entity's financial statements. On June 30, 20xx, $xxx million of the bonds outstanding are considered Defeased.

E. *Variable Rate Debt*

The Government Entity has a number of bond issues with variable interest rates. The Series 20xx Bonds are subject to purchase on the demand of the holder with seven days prior notice at a price equal to the principal plus accrued interest. The remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to 100 percent of the principal amount by adjusting the interest rate. In the event that they not sold, under Standby Bond Purchase Agreements (SBPAs) issued by banks for the above variable rate debt issues, the trustee or the remarketing agent is entitled to draw an amount sufficient to pay the purchase price of delivered bonds. The Government Entity is required to pay an annual commitment fee to the banks issuing SBPAs. Expiration dates of these SBPAs are presented below by debt issue. In addition, the remarketing agent receives an annual fee of seven basis points of the outstanding principal amount of the bonds.

Standby Purchase Agreement terms

Issue	Expiration Date	Interest Rate	Rate Swap Rate
Revenue 20xx series 1	6/19/2x16	Reset Weekly	See Below
Revenue 20xx series 2	7/2/2x17	Reset Weekly	See Below
Revenue 20xx series 3	7/8/2x19	Reset Weekly	See Below

F. *Interest Rate Swap Agreements*

The Government Entity has entered into a number of matched interest rate swap contracts with providers in which the Government Entity contracted to pay a fixed rate on the nominal amount of outstanding bonds, in exchange for a floating rate payment, set monthly on the first day of each calendar month for its LIBOR based swaps. The combination of variable rate bonds and a floating-rate swap creates synthetic fixed-rate debt for the Government Entity. The synthetic fixed rate on the bonds protects the Government Entity against increases in short-term interest rates. The terms, fair value, and credit risk of each of the swap agreements are discussed below.

Term and credit risks. The terms and credit ratings of the outstanding swaps, as of June 30, 20xx, are included below. The Government Entity's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds.

Related Bond Issue	Notional Amount	Effective Date	Counterparty	Counterparty Credit Ratings (Moody's/S&P)	Issuer Pays	Issuer Receives	Maturity/ Termination Date
20xx Refunding	xx,xxx	6/2/2xxx	J Q Leavitt	Aa3/A+	3.10%	60% of 30 day Libor	6/1/2x30
20xx A Refunding	x,xxx	6/1/2xxx	Bank of USA	A1/1	3.10%	60% of 30 day Libor	6/1/2x30
20xx A Refunding	xx,xxx	6/1/2xxx	Orange Bank	Baa1/A-	3.10%	60% of 30 day Libor	6/1/2x30

The effect of these transactions is structured to result in the approximate equivalent of the Government Entity paying a fixed rate on the bonds, since the inflow of payments from the LIBOR based swaps are anticipated to approximate the outflow of payments on the variable rate bonds. Only the net difference in interest payments to the swap providers is made under the swap contracts.

Fair value. The fair value of the swaps takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

The fair values of each swap at June 30, 20xx, are included below:

Related Bond Issuance	Fair Value	
	20xx	20xx-1
District		
200xx Refunding Bonds	($xx,xxx)	($xx,xxx)
20xxA Refunding Bonds	-	($xx,xxx)
Total District	($xx,xxx)	($xx,xxx)

Credit risk. As of June 30, 20xx, the Government Entity was not exposed to credit risk on its outstanding swaps because the swaps had a negative fair value of $xx million. The Government Entity faces a maximum possible loss equivalent to the swaps' fair value. However, if interest rates increase and the fair value of the swaps were to become positive, the Government Entity would be exposed to credit risk.

The Government Entity will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated. The swap agreements contain provisions that determine if and when the Government Entity or the counterparty must provide collateral. The agreements require full collateralization of the fair value of the swap should the counterparty's credit rating fall below a certain threshold. As of June 30, 20xx, the Government Entity was not required to provide collateral to any SWAP counterparty.

Basis risk. Basis risk is the risk that the interest rate paid by the Government Entity on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The Government Entity is exposed to basis risk as the Government Entity receives payments based on LIBOR rates to offset the actual variable interest rate the Government Entity pays on its bonds. The Government Entity is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the Government Entity pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary. As of June 30, 20xx, the Government Entity has a basis difference on its swaps of a positive x basis points (the Government Entity receives more from its swap floating rate payment than it pays out on its variable rate debt).

Termination risk. The Government Entity or the counterparty may terminate if the other party fails to perform under the terms of the SWAP contract. The Government Entity will be exposed to variable rates if the providers to the swap contracts default or if the swap contracts are terminated as it will lose the hedge provided by the SWAP. A termination of the swap contracts may also result in the Government Entities making or receiving a termination payment based on market interest rates at the time of the termination. If at the time of termination the swap has a negative fair value, the Government Entity would be liable to the counterparty for a payment equal to the swap's fair value.

Swap payments and associated debt. Using rates as of June 30, 2015, debt service requirements of the Government Entity's outstanding variable-rate debt and net swap payments are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary. These payments below are included in the Debt Service Requirements at C. above:

For the Year Ending	Variable-Rate Bonds		Interest Rate Swaps, Net	
June 30	Principal	Interest	Interest	Total
2016	-	$ xx	$x,xxx	$x,xxx
2017	-	xx	x,xxx	x,xxx
2018	-	xx	x,xxx	x,xxx
2019	-	xx	x,xxx	x,xxx
2020	-	xx	x,xxx	x,xxx
2021 - 2025	-	xx	xx,xxx	xx,xxx
2026 - 2030	-	xx	xx,xxx	xx,xxx
2031 - 2035	$xx,xxx	xx	xx,xxx	xx,xxx
2036 - 2038	xx,xxx	xx	x,xxx	xx,xxx
Totals	$ xxx,xxx	$xx	$ xxx,xxx	$ xxx,xxx

Example 28 Net Position Note Disclosure

NOTE 7 – NET POSITION

Net Position is the excess of all the Government Entity's assets and deferred outflows over all its liabilities and deferred inflows, regardless of fund. Net Position is divided into three captions. These captions apply only to Net Position and are described below:

Net Investment in Capital Assets describes the portion of Net Position that is represented by the current net book value of the Government Entity's capital assets, less the outstanding balance of any debt issued to finance these assets and any related deferred outflows and inflows.

Restricted describes the portion of Net Position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Government Entity cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and fees charged for the provision of future water resources.

Unrestricted describes the portion of Net Position which is not restricted to use.

Example 29 Pension and OPEB Note Disclosure

NOTE 8—EMPLOYEES' RETIREMENT PLAN

A. Description

The Employees' Retirement System is a single-employer, contributory, defined benefit pension plan (the Plan) which provides retirement, disability, survivorship, and post-employment healthcare benefits for eligible directors, officers, and employees of the Government Entity. The Plan is administered by a Retirement Board composed of three members appointed by the Government Entity's Board of Directors and two members elected by and from the active membership of the Plan, and a nonvoting member elected by the retirees of the Plan. Retirement Ordinance No. xx assigns the authority to establish Plan benefit provisions to the Government Entity's Board of Directors. A stand-alone financial report of the Employees' Retirement System is available. To request a copy of the plan, contact the Controller, Accounting Division, P.O. Box xxxx, City, CA xxxxx-xxxx or visit the Government Entity website, at http://www.governmententity.com.

All regular full-time employees of the Government Entity are members of the Plan. In accordance with the ordinance governing the Plan, eligible employees become members on the first day they are physically on the job. Government Entity-defined benefits vest in part with members after completion of five years of continuous, full-time employment.

The Plan is funded by contributions from its members and from the Government Entity. Government Entity contribution percentages are recommended by the Retirement Board; employee contribution rates are established by the Board of Directors pursuant to the Ordinance, giving consideration to actuarial recommendations and prospective changes in factors which affect funding.

B. Retirement Benefits and Allowances

There are two tiers in effect currently, the Plan A and the PEPRA Plan. Employees who became Members of the retirement system prior to January 1, 20xx, or who have reciprocal Membership are in the Plan A. Employees who became Members on or after January 1, 2013 are in the PEPRA Plan.

Plan A Members may elect voluntary reduced service retirement upon attaining the age of 54 and completing 5 years of continuous full-time employment. Members may elect voluntary unreduced service retirement upon attaining the age of 62 and completing 5 years of continuous full-time employment or age 65 without restriction. Members who continue to work upon attaining the normal retirement age of 65 continue to contribute to the Plan, and at the time they retire, computation of their retirement allowance is based upon their compensation and length of service as of the date of retirement. Service retirement allowances are computed by formulas specified in the Ordinance and are based on date of employment, length of employment, age at date of retirement, and compensation earned during employment.

PEPRA Plan Members may elect voluntary reduced service upon attaining the age of 52 and completing 5 years of continuous full-time employment. Members may elect voluntary unreduced service retirement upon attaining the age of 67, and completing 5 years of continuous full-time employment. Members who continue to work upon attaining the normal retirement age of 67 continue to contribute to the Plan, and at the time they retire, computation of their allowance is based upon their compensation and length of service as of the date of retirement. Service retirement allowances are computed by formulas specified in the Ordinance and are based on length of service, age at retirement, and compensation earned during employment.

C. Post-employment Healthcare Cost

In addition to retirement benefits, the Government Entity provides post-employment health benefits assistance (administered by the Employees' Retirement System) for employees who retire from the Government Entity or to their surviving spouses. As of June 30, 20xx, there were xxx participants receiving these health care benefits.

Effective July 1, 19xx, a 20-year vesting schedule for full benefits was implemented for all new participants. Effective January 1, 19xx, retired members who had separated from the Government Entity prior to their retirement and who had at least 10 years of service also became eligible for the post-employment health benefits based on the same sliding scale. The scale provides for 25% of healthcare benefits for service from 5 through 10 years, 50% of healthcare benefits for service from 10 through 15 years, 75% of healthcare benefits for service from 15 through 20 years, and 100% of healthcare benefits for service of 20 years or more. Effective July 1, 20xx, the Government Entity reimbursed ….., for membership of a spouse or registered domestic partner) for any health, dental, or long-term care insurance premiums paid by the retiree for themselves, current spouse, or domestic partner, or any health, dental, or long-term care insurance premiums paid by the eligible surviving spouse of a retiree. These benefits are paid from a separate post-employment healthcare benefits fund which up until June 17, 20xx, was advance funded entirely by the Government Entity on an actuarially determined basis. Cash reimbursement of these benefits totaled $xxx in the year ended June 30, 20xx. Effective June 18, 20xx, a portion of the post-employment healthcare benefit costs is recovered through employee contributions.

Through June 30, 19xx, the medical premium subsidy was not a vested benefit and the Government Entity reserved the right to modify or terminate the benefit at any time. If the medical subsidy were terminated, assets accumulated from contributions made for the subsidy would be used to provide other pension benefits. Effective July 1, 1999, the medical premium subsidy became a vested benefit on monthly basis for retiree's, their spouse or registered domestic partner.

D. Actuarial Assumptions and Funding Policy

The Plan's funding policy provides for periodic Government Entity contributions at actuarially determined amounts sufficient to accumulate the necessary assets to pay benefits when due as specified by ordinance. The individual entry age normal method is used to determine the normal cost for other post-employment benefits (OPEB) and service cost for pension, and the OPEB unfunded actuarial accrued liability (past service liability) is amortized as a level percentage of future payroll over 30 years open period.

Government Entity contributions for the year ended June 30, 20xx are as follows:

19xx Plan:	
Pension plan:	
Employer service cost	xx.xx%
Toward unfunded pension liability	xx.xx%
Other post-employment benefits:	
Employer normal cost	x.xx%
Unfunded actuarial accrued liability	x.xx%
PEPRA:	
Pension plan:	
Employer service cost	x.xx%
Toward unfunded pension liability	xx.xx%
Other post-employment benefits:	
Employer normal cost	x.xx%
Unfunded actuarial accrued liability	x.xx%

Effective June 30, 20xx, contributions for fiscal year 20xx/20xx+1 are as follows:

19xx Plan:

Pension plan:		
	Employer service cost	xx.xx%
	Toward unfunded pension liability	xx.xx%
Other post-employment benefits:		
	Employer normal cost	x.xx%
	Unfunded actuarial accrued liability	x.xx%

PEPRA:

Pension plan:		
	Employer service cost	x.xx%
	Toward unfunded pension liability	xx.xx%
Other post-employment benefits:		
	Employer normal cost	x.xx%
	Unfunded actuarial accrued liability	x.xx%

Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing the costs between the employer and plan members to that point.

Significant assumptions used to compute contribution requirements from the latest unaudited actuarial are as follows:

Valuation date	June 30, 2014
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percent of payroll
Remaining amortization period	Plan changes are amortized over separate decreasing 15-year periods; assumptions changes are amortized over separate decreasing 25-year periods; experience gains/ losses are amortized over separate decreasing 20-year periods.
Assets valuation method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five year period, further adjusted, if necessary, to be within 30% of the market value.
Actuarial assumptions:	
Investment rate of return	7.50%
Average projected salary increases*	Ranges from 4.00% to 9.50% based on years of service*
Inflation rate	3.00%
Cost-of-living adjustments	3.00%
Mortality	Healthy: RP-2000 Combinded Healthy Mortality Table projected with scale AA to 2016, set back one year for males and set back two years for females
Annual healthcare costs trend rates	6.875% reduced by increments to a rate of 5% after 10 years

All assumptions are the same for the post-employment health care benefits except for the discount rate, assumed at a rate of x% for the funded and unfunded portions.

E. Contributions Required and Contributions Made

Contributions for the years ended June 30, based on the actuarial valuation, were as follows:

	20xx			20xx-1
	Pension	Healthcare Benefit Plan	Totals	Totals
Regular Contributions:				
Government Entity contributions	$ xx,xxx	$ xx,xxx	$ xx,xxx	$ xx,xxx
Member contributions	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Subtotal	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Other contributions:				
Member buybacks	xx	xx	xx	xx
Totals	xx,xxx	xx,xxx	xx,xxx	xx,xxx

Regular Government Entity and member contributions in fiscal year 20xx represent an aggregate of xx.xx% and x.xx% of covered payroll, respectively. The Government Entity's contributions include amounts for post-employment healthcare benefits at a rate of x.xx% of covered payroll, determined by the actuarial dated June 30, 20xx-1. The actual payroll for the Government Entity employees covered by the Plan for the year ended June 30, 20xx, was $xxx,xxx which was xx.xx% of the total Government Entity payroll of $xxx,xxx.

The total Government Entity contribution of $xx,xxx as of June 30, 20xx, consisted of $xx,xxx regular contribution ($xx,xxx for normal cost and service cost also includes $xx,xxx for amortization of the unfunded actuarial accrued liability and payment to reduce the net pension liability) and $xxx interest on contribution.

Regular Government Entity and member contributions in fiscal 20xx-1 represent an aggregate of xx.xx% and x.xx% of covered payroll, respectively. The Government Entity's contributions include amounts for post-employment healthcare benefits at a rate of x.xx% of covered payroll, determined by the actuarial dated June 30, 20xx-2. The actual payroll for the Government Entity employees covered by the Plan for the year ended June 30, 20xx-1, was $xxx,xxx which was xx.xx% of the total Government Entity payroll of $xxx,xxx.

The total Government Entity contribution of $xx,xxx as of June 30, 20xx-1, consisted of $xx,xxx regular contribution ($xx,xxx for normal cost and service cost also includes $xx,xxx for amortization of the unfunded actuarial accrued liability and payment to reduce the net pension liability) and $xxx interest on contribution.

Member buyback contributions relate to prior years' service credits for Plan participants. The Plan was amended in 19xx for limited temporary construction workers and in 20xx for intermittent employees to allow current members, who previously worked for the Government Entity in a status that did not qualify for membership in the System, to establish retirement service credit for prior service with payments over a period of two to eight years.

F. Schedule of Employer Contributions

The Government Entity's annual OPEB costs and schedules of contributions for the past three years are as follows:

Health Insurance Benefit Plan:

Year ended June 30	Actual Contribution	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
20xx-2	$ xx,xxx	$ xx,xxx	xx%	$ xx,xxx
20xx-1	xx,xxx	xx,xxx	xx%	xx,xxx
20xx	xx,xxx	xx,xxx	xx%	xx,xxx

The annual required contributions for fiscal years ended June 30, 20xx, 20xx-1 and 20xx-2, include amounts for the pay-as-you-go amounts for post-employment healthcare benefits.

Health Insurance Benefit Plan:

During the fiscal year ended June 30, 20xx, the Government Entity made contributions to the Health Insurance Benefit Plan toward the Annual Required Contribution (ARC) amounting to $x,xxx which represented x.x% of the $xxx,xxx total Government Entity payroll. During the fiscal year ended June 30, 20xx-1, the Government Entity made contributions toward the ARC amounting to $x,xxx to the plan which represented x.x% of the $xxx,xxx total Government Entity payroll. As a result, the Government Entity has recorded the Net OPEB Obligation (NOO), representing the difference between the ARC and actual contributions, as presented below:

Net OPEN Obligation at June 30, 20xx-2		$ xx,xxx
Annual required contribution (ARC)	$ xx,xxx	
Interest on net OPEB Obligation	x,xxx	
Adjustments to the ARC	(x,xxx)	
Annual OPEB cost - fiscal 20xx-2	xx,xxx	
Less contributions made during fiscal year:		
Contributions to Trustee Bank	(x,xxx)	
Interest on Contributions to Trustee	(xxx)	
Contributions	(x,xxx)	
Contributions less ARC		x,xxx
Net OPEB obligation at June 30, 20xx-1		$ xx,xxx
Annual required contribution (ARC)	$ xx,xxx	
Interest on net OPEB Obligation	x,xxx	
Adjustments to the ARC	(x,xxx)	
Annual OPEB cost - fiscal 20xx-1	xx,xxx	
Less contributions made during fiscal year:		
Contributions to Trustee Bank	(x,xxx)	
Interest on Contributions to Trustee	(xxx)	
Contributions	(x,xxx)	
Contributions less ARC		x,xxx
Net OPEB obligation at June 30, 20xx		$ xx,xxx

A schedule of funding progress for the retirement and post-employment healthcare plans presenting multiple-year trend information as to whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time is presented immediately following the notes to basic financial statements in the Required Supplementary information section.

G. *Net Pension Liability*

The net pension liability (i.e., the Plan's liability determined in accordance with GASB Statement No. 68, as amended, less the fiduciary net position) as of June 30 is as shown below:

	20xx	20xx-1
Total pension liability	$x,xxx,xxx	$x,xxx,xxx
Plan fiduciary net position	(x,xxx,xxx)	(x,xxx,xxx)
Net pension liability	$ xxx,xxx	$ xxx,xxx
Plan fiduciary net position as a percentage of total pension liability	xx.xx%	xx.xx%
Covered employee payroll	$xxx,xxx	$xxx,xxx
Liability as percentage of covered employee payroll	xxx.xx%	xxx.xx%

Actuarial valuation of the ongoing System involves estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Employers' net pension liability presents multi-year trend information about whether the plan fiduciary net positions are increasing or decreasing over time relative to the total pension liability. These schedules are presented in the Required Supplementary Information section. The net pension liabilities measured as of June 30, 20xx-1 and 20xx-2 and are not adjusted or rolled forward to the June 30, 20xx and 20xx-1 reporting dates, respectively.

For the year ended June 30, 20xx, the Government Entity recognized pension expense as follows:

	Government Entity
Contributions made after measurement date:	($xx,xxx)
Current year changes in the net pension liability:	
Service cost	xx,xxx
Interest on total pension liability	xxx,xxx
Member contributions	(xx,xxx)
Projected earnings on investments	(xx,xxx)
Difference in expected and actual earnings	(xx,xxx)
Other	x,xxx
Total current year activity	xx,xxx
Total pension expense	($xx,xxx)

At June 30, 20xx, the Government Entity reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ xx,xxx	
Differences between expected and actual experience	xxx	
Changes in assumptions	xx,xxx	
Change in proportion and differences between employer contributions and proportionate share of contributions	x,xxx	
Net difference between projected and actual earnings on pension plan investments		xx,xxx
Total pension expense	$ xx,xxx	$ xx,xxx

A total of $xx,xxx was reported as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 20xx+1. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	Deferred Outflows of Resources	Deferred Inflows of Resources
20xx+1	$ xx,xxx	$ xx,xxx
20xx+2	$ xx,xxx	$ xx,xxx
20xx+3	$ xx,xxx	$ xx,xxx
20xx+4	$ xx,xxx	$ xx,xxx

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and projected arithmetic real rates of return, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption for each major asset class are summarized below.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Large Cap Equity	xx%	x.xx%
Domestic Small Cap Equity	xx%	x.xx%
Developed International Equity	xx%	x.xx%
Emerging Markets Equity	xx%	x.xx%
Domestic Bonds	xx%	x.xx%
Non-core Fixed Income	xx%	x.xx%
Real Estate	xx%	x.xx%
Covered Calls	xx%	x.xx%
Total	100%	

The discount rates used to measure the total pension liability were x.xx% and x.xx% as of June 30, 20xx and June 30, 20xx-1, respectively. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of both June 30, 20xx and June 30, 20xx-1.

In accordance with GASB Statement No. 68, as amended, regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the following table presents the net pension liability of the Plan as of June 30, 20xx, calculated using the discount rate of x.xx%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (x.50%) or 1-percentage-point higher (x.50%) than the current rate:

	1% decrease 6.50%	Current Discount 7.50%	1% increase 8.5
Net Pension Liability	$xxx,xxx	$xxx,xxx	$xxx,xxx

H. Public Employees' Pension Reform Act (PEPRA)

Assembly Bill 340 (AB 340) created the Public Employees' Pension Reform Act (PEPRA) that implemented new benefit formulas and final compensation periods, as well as new contribution requirements for new employees hired on or after January 1, 2013, who meet the definition of new member under PEPRA.

The following table provides the details of the new provisions.

Benefit Formula	2.5% at Age 67
Final Compensation Period	Average of last 3 years
Employer Contribution Rate as a percentage payroll	8.65% of Reportable Compensation
Member Contribution Rate as a percentage of payroll	8.75% of Reportable Compensation

The employer contribution rate listed above was in effect until June 30, 2015. In accordance with the provisions of AB 340, the member contribution rate shown above was set at 50% of the expected total normal cost rate for the benefits that will apply to new members on January 1, 2013. The total normal cost rate used for this calculation is xx.xx% of payroll for new members.

Example 30 Risk Management Note Disclosure

NOTE 9—RISK MANAGEMENT

The Government Entity has purchased commercial insurance for general, property, public officials' liability and workers' compensation. During the fiscal year ended June 30, 20xx, the Government Entity paid $x,xxx for current year coverage.

The Government Entity's liability, property, and workers' compensation risks are insured by commercial insurance carriers, all of which are subject to the Government Entity's self-insurance retentions, which vary by type of coverage.

Selected other coverages are:

Coverage	Policy Limit	Self-insurance Retention
Workers' Compensation	Statutory Limit	$5,000
All risk Property	$ xxx,xxx	500
Flood	xx,xxx	1,500
Liability	xx,xxx	10,000
Crime	xx,xxx	25
Boiler and Machinery	xx,xxx	25
Facilities	xx,xxx	25

Settled claims have not exceeded the Government Entity's policy limits in any of the past five fiscal years.

Claim expenses and liabilities are recorded when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. As of June 30, 20xx, the amount of these liabilities was $xx,xxx. This amount (which has not been discounted) has been actuarially determined and includes an estimate of incurred but not reported losses. Changes in the reported liability are as follows:

	20XX	20xx-1
Liability at beginning of year	$xx,xxx	$xx,xxx
Current claims and estimates	x,xxx	x,xxx
Payment of claims	(x,xxx)	(x,xxx)
Liability at end of year	$xx,xxx	$xx,xxx
Estimated liability:		
Due within one year	$ x,xxx	$ x,xxx
Due in more than one year	xx,xxx	xx,xxx
Liability at end of year	$xx,xxx	$xx,xxx

Example 31 Known Environmental Matters Note Disclosure

Following is a summary of the Government Entity's known environmental matters as of June 30, 20xx, that meets the requirements of GASB Statement No. 49, as amended:

- Under a Nxxx permit issued by the Regional Water Quality Control Board, discharges from the Government Entity's facilities are prohibited. In 20xx, the Government Entity signed a Consent Decree on this matter that focuses on the excess flow entering the Government Entity's system and allows continued discharges while work to reduce them is performed. The Consent Decree requires the Government Entity and its satellite agencies to …….. The Government Entity's cost to meet the requirements in the Consent Decree is approximately $xM year.

- The Government Entity operates many facilities throughout Northern California that have NPDES permits, discharge requirements, and air permits. The total estimated liability for all known violations is less than $xx thousand.

Example 32 Contingent Liabilities Note Disclosure

NOTE 11—CONTINGENT LIABILITIES

The Government Entity is a defendant in a number of lawsuits that have arisen in the normal course of business including challenges over certain rates and charges. The ultimate outcome of these matters is not presently determinable. In the opinion of the Government Entity, these actions when finally adjudicated will not have a material adverse effect on the financial position of the Government Entity.

Example 33 Commitments and Contingencies Note Disclosure

Example: Central Valley Project

In December 1970, the Government Entity entered into a contract with the US Bureau of Reclamation to…. Deliveries to the Government Entity are limited to a xxx acre-foot total over any three successive dry years. In years in which the Government Entity takes delivery of CVP water, the Government Entity's allocated CVP capital cost and the Government Entity's operations and maintenance deficit balance will be paid down commensurately with the quantity of water delivered. For example, if the Government Entity had to take delivery of xxx acre-feet in fiscal year 15, the Government Entity's CVP capital and deficit balances would each be reduced by approximately xx%. The balances must be paid off by 2030.

Required Supplementary Information—Pension

Example 34 Schedule of Changes in Employer's Net Pension Liability

(1) Pension Plan

Schedule of Changes in Employer's Net Pension Liability (in thousands):

	20xx	20xx-1
Total Pension Liability		
Service Costs	$xxx,xxx	$xxx,xxx
Interest	xxx,xxx	xxx,xxx
Change of Benefit terms		xxx,xxx
Differences between Expected and Actual Experience	xxx,xxx	xxx,xxx
Changes in assumptions	xxx,xxx	xxx,xxx
Benefit payments, including refunds of employee contributions	(xx,xxx)	(xx,xxx)
Net Change in total pension liability	xxx,xxx	xxx,xxx
Total pension liability - beginning	x,xxx,xxx	x,xxx,xxx
Total pension liability - ending (a)	$x,xxx,xxx	$x,xxx,xxx
Plan fiduciary net position		
Contributions- employer	$xxx,xxx	$xxx,xxx
Contributions- employee	xxx,xxx	xxx,xxx
Net investment income	xxx,xxx	xxx,xxx
Benefit payments, including refunds of employee contributions	(xxx,xxx)	(xxx,xxx)
Administrative expense	(xx,xxx)	(xx,xxx)
Net Change in plan fiduciary position	xxx,xxx	xxx,xxx
Plan fiduciary net position - beginning	x,xxx,xxx	x,xxx,xxx
Plan fiduciary net position - ending (b)	$x,xxx,xxx	$x,xxx,xxx
Plan's net pension liability - ending (a) - (b)	$xxx,xxx	$xxx,xxx

Example 35 Schedule of Employer's Net Pension Liability

(2) Pension Plan

Schedule of Employer's Net Pension Liability (in thousands):

	20xx	20xx-1
Total Pension Liability	$ x,xxx,xxx	$ x,xxx,xxx
Plan Fiduciary Net Position	(x,xxx,xxx)	(x,xxx,xxx)
Net Pension Liability	$ xxx,xxx	$ xxx,xxx
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	xx.xx%	xx.xx%
Covered Payroll*	$ xxx,xxx	$ xxx,xxx
Plan Net Position Liability as a Percentage of Covered Payroll	xxx.xx%	xxx.xx%

*These amounts may be different from the actual payrolls of the Government Entity.

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Example 36 Schedule of Employer's Contribution

(3) Pension Plan

Schedule of Employer's Contribution (in thousands):

Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contributions	Contributions Deficiency (Excess)	Covered Payroll*	Recognized Contributions as a Percentage of Covered Payroll
6/30/20xx-9	$ XX,XXX	$ XX,XXX	$ 0	$ XXX,XXX	XX.X%
6/30/20xx-8	XX,XXX	XX,XXX	0	XXX,XXX	XX.X%
6/30/20xx-7	XX,XXX	XX,XXX	0	XXX,XXX	XX.X%
6/30/20xx-6	XX,XXX	XX,XXX	0	XXX,XXX	XX.X%
6/30/20xx-5	XX,XXX	XX,XXX	0	XXX,XXX	XX.X%
6/30/20xx-4	XX,XXX	XX,XXX	0	XXX,XXX	XX.X%
6/30/20xx-3	XX,XXX	XX,XXX	0	XXX,XXX	XX.X%
6/30/20xx-2	XX,XXX	XX,XXX	0	XXX,XXX	XX.X%
6/30/20xx-1	XX,XXX	XX,XXX	0	XXX,XXX	XX.X%
6/30/20xx	XX,XXX	XX,XXX	0	XXX,XXX	XX.X%

*These amounts may be different from the actual payrolls of the Government Entity.

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Example 37 Schedule of Investment Returns

(4) Pension Plan

Schedule of Investment Returns:

	20xx	20xx-1
Annual Money weighted rate of return, net of investment expense	x.xx%	x.xx%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Required Supplementary Information—OPEB

Example 38 Schedule of Funding Progress (OPEB)

(5) Post-Employment Healthcare Plan

Schedule of funding progress for the post-employment healthcare plan (in thousands):

Actuarial Valuation Date	Actuarial OPEB Fiduciary Net Position **(a)**	Actuarial Total OPEB Liability **(b)**	Net OPEB Liability **(b-a)**	OPEB Fiduciary Net Position as a Percentage of Total Liability **(a/b)**	Covered Payroll* **(c)**	Net OPEB Liability as a Percentage of Covered Payroll **((b-a)/c)**
6/30/20xx-9	$ X,XXX	$ XX,XXX	$ XX,XXX	X.X%	$ XXX,XXX	XX.X%
6/30/20xx-8	X,XXX	XX,XXX	XX,XXX	X.X%	XXX,XXX	XX.X%
6/30/20xx-7	X,XXX	XX,XXX	XX,XXX	X.X%	XXX,XXX	XX.X%
6/30/20xx-6	X,XXX	XXX,XXX	XXX,XXX	XX.X%	XXX,XXX	XX.X%
6/30/20xx-5	XX,XXX	XXX,XXX	XXX,XXX	XX.X%	XXX,XXX	XX.X%
6/30/20xx-4	XX,XXX	XXX,XXX	XXX,XXX	XX.X%	XXX,XXX	XX.X%
6/30/20xx-3	XX,XXX	XXX,XXX	XXX,XXX	XX.X%	XXX,XXX	XX.X%
6/30/20xx-2	XX,XXX	XXX,XXX	XXX,XXX	XX.X%	XXX,XXX	XX.X%
6/30/20xx-1	XX,XXX	XXX,XXX	XXX,XXX	XX.X%	XXX,XXX	XX.X%
6/30/20xx	XX,XXX	XXX,XXX	XXX,XXX	XX.X%	XXX,XXX	XX.X%

*These amounts may be different from the actual payrolls of the Government Entity.

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Example 39 Notes to Required Supplementary Information

(6) Notes to Required Supplementary Information

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2014
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percent of payroll
Remaining amortization period	Plan changes are amortized over separate decreasing 15-year periods; assumptions changes are amortized over separate decreasing 25-year periods; experience gains/ losses are amortized over separate decreasing 20-year periods.
Assets valuation method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five year period, further adjusted, if necessary, to be within 30% of the market value.
Actuarial assumptions:	
Investment rate of return	7.50%
Average projected salary increases*	Ranges from 4.00% to 9.50% based on years of service*
Inflation rate	3.00%
Cost-of-living adjustments	3.00%
Mortality	Healthy: RP-2000 Combinded Healthy Mortality Table projected with scale AA to 2016, set back one year for males and set back two years for females
Annual healthcare costs trend rates	6.875% reduced by increments to a rate of 5% after 10 years

All assumptions are the same for the post-employment health care benefits except for the discount rate, assumed at a rate of 7.00%, for the funded and unfunded portions.

Example 40 Modified Approach Information

ILLUSTRATION OF REQUIRED SUPPLEMENTARY INFORMATION FOR GOVERNMENTS THAT USE THE MODIFIED APPROACH FOR INFRASTRUCTURE ASSETS

Government Entity's that use the modified approach for eligible infrastructure assets are required to present information about those assets in the MD&A. An illustration of a MD&A for a bridge network is presented below:

> The Government Entity manages its bridge network using its Bridge Management and Inspection Program and accounts for them using the modified approach. The bridge condition rating is a numerical condition scale ranging from 1 (impaired or load restricted) to 7 (new). A bridge is considered "deficient"—that is, needs maintenance or preservation—when its condition falls below 5. A bridge is unsafe—impaired or load restricted—when it falls below condition level 2. It is the Government Entity's policy to keep the number and square footage of deck area of unsafe bridges below 1 percent. The most recent condition assessment shows that the condition of the Government Entity's bridges is in accordance with the Government Entity's policy. Actual maintenance and preservation costs were less than estimated by approximately 12 percent. Due to an unusually mild winter in the previous year, less maintenance and preservation efforts were necessary to keep the Government Entity's bridges at or above the established condition level.

Government Entities should also present the information in the following schedules, derived from the asset management system, as required supplementary information for all eligible infrastructure assets that are reported using the modified approach.

Illustration of Required Supplementary Information for Governments That Use the Modified Approach for Infrastructure Assets

		Number of Bridges					
	BMIP Condition	2002		2000		1998	
	Rating	Number	%	Number	%	Number	%
Acceptable	5.0–7.0	15,582	89.8%	15,182	87.5%	14,835	85.5%
Marginally deficient	4.0–4.9	1,232	7.1	1,544	8.9	1,666	9.6
Moderately deficient	2.0–3.9	504	2.9	538	3.1	781	4.5
Severely deficient	1.0–1.9	33	0.2	87	0.5	69	0.4
Total		17,351	100.0%	17,351	100.0%	17,351	100.0%

		Square Feet of Deck Area (1,000s of square feet)					
		2002		2000		1998	
	BMIP Condition Rating	Square Feet	%	Square Feet	%	Square Feet	%
Acceptable	5.0–7.0	124,656	85.8%	127,102	87.5%	125,649	86.5%
Marginally deficient	4.0–4.9	9,856	6.8	8,570	5.9	11,040	7.6
Moderately deficient	2.0–3.9	10,452	7.2	8,570	5.9	7,408	5.1
Severely deficient	1.0–1.9	295	0.2	1,017	0.7	1,162	0.8
Total		145,259	100.0%	145,259	100.0%	145,259	100.0%

Comparison of Estimated-to-Actual Maintenance/Preservation (in Thousands)

	2002	2001	2000	1999	1998
Estimated	$2,650	$2,798	$2,541	$2,487	$2,301
Actual	2,322	2,623	2,765	2,245	2,105

The condition of the Government Entity's bridges is determined using its Bridge Management and Inspection Program (BMIP). The bridge condition rating, which is a weighted average of an assessment of the ability of individual components to function structurally, uses a numerical condition scale ranging from 1.0 (impaired or load restricted) to 7.0 (new). It is the Government Entity's policy to keep the number and square footage of deck area of bridges with a condition rating of 1.0 to 1.9 below 1 percent. All bridges are inspected every two years.

Required Supplementary Information—Supplemental Information

Example 41 Combining Statements

Government Entity
Employee Retirement System Trust Fund
Combining Balance Sheet
For Year Ended June 30, 20xx
(with summarized comparative financial information as of June 30, 20xx-1)
(Dollars in thousands)

	20xx			
	Pension plan benefits	Post-Employment healthcare benefits	Total	20xx-1 Total
Assets:				
Cash and cash equivalents, at fair value	$ xx,xxx	$ x,xxx	$ xx,xxx	$ xx,xxx
Invested securities lending collateral	xx,xxx	x,xxx	xx,xxx	xx,xxx
Receivables:				
Brokers, securities sold	x,xxx	x,xxx	x,xxx	x,xxx
Employer	x,xxx	x,xxx	x,xxx	x,xxx
Plan members	x,xxx	x,xxx	x,xxx	x,xxx
Interest and dividends	x,xxx	x,xxx	x,xxx	x,xxx
Others	x,xxx	x,xxx	x,xxx	x,xxx
Prepaid expenses				
Investments, at fair value: (Note x)				
U.S. Government obligations	xx,xxx,xxx	xx,xxx	xx,xxx,xxx	xx,xxx,xxx
Municipal Bond	xx,xxx,xxx	xx,xxx	xx,xxx,xxx	xx,xxx,xxx
Domestic corporate bonds	xx,xxx,xxx	xx,xxx	xx,xxx,xxx	xx,xxx,xxx
International bonds	xx,xxx,xxx	xx,xxx	xx,xxx,xxx	xx,xxx,xxx
Domestic stocks	xx,xxx,xxx	xx,xxx	xx,xxx,xxx	xx,xxx,xxx
International stocks	xx,xxx,xxx	xx,xxx	xx,xxx,xxx	xx,xxx,xxx
Real estate	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Total investments	xxx,xxx	xx,xxx	xxx,xxx	xxx,xxx
Total assets	x,xxx,xxx	xx,xxx	x,xxx,xxx	x,xxx,xxx

Liabilities:				
Accounts payable and accrued expenses	x,xxx	x,xxx	x,xxx	x,xxx
Retirement System Liabilities	x,xxx	x,xxx	x,xxx	x,xxx
Securities lending collateral	xxx,xxx	xx,xxx	xxx,xxx	xxx,xxx
Total liabilities	xxx,xxx	xx,xxx	xxx,xxx	xxx,xxx
Net Position:				
Net assets held in trust for pension benefits and post-employment health care benefits	$x,xxx,xxx	$ xxx,xxx	$x,xxx,xxx	$x,xxx,xxx

See accompanying notes to financial statements.

Combining Statement of Changes in Net Position

Government Entity
Employee Retirement System Trust Fund
Combining Statement of Changes in Net Position
For Year Ended June 30, 20xx
(with summarized comparative financial information as of June 30, 20xx-1)
(Dollars in thousands)

	20xx			
	Pension plan benefits	Post-Employment healthcare benefits	Total	20xx-1 Total
Additions:				
Contributions				
Employer	$ xx,xxx	$ xx,xxx	$ xx,xxx	$ xx,xxx
Plan Members	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Total contributions	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Investment income:				
Net appreciation (depreciation) in fair value of investments				
investments:				
Traded securities	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Real estate	x,xxx	x,xxx	x,xxx	x,xxx
Interest	x,xxx	x,xxx	x,xxx	x,xxx
Dividends	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Real estate operating income, net	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Total investment income	xxx,xxx	xx,xxx	xxx,xxx	xxx,xxx
Less:				
Investment Expense	(x,xxx)	(x,xxx)	(x,xxx)	(x,xxx)
Borrowers' rebates and other agent fees on securities lending transactions	(x,xxx)	(x,xxx)	(x,xxx)	(x,xxx)
Net Investment Income	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Total Additions, net	xxx,xxx	xx,xxx	xxx,xxx	xxx,xxx
Deductions:				
Benefits paid	x,xxx	x,xxx	x,xxx	x,xxx
Refunds of contributions	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Administrative expenses	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Total deductions	xxx,xxx	xx,xxx	xxx,xxx	xxx,xxx
Change in Net Position	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Net Position:				
Beginning of year	x,xxx,xxx	xxx,xxx	x,xxx,xxx	x,xxx,xxx
End of Year	$ x,xxx,xxx	$xxx,xxx	$x,xxx,xxx	$x,xxx,xxx

Examples by Revenue Statements by Type of Enterprise Activity

Example 42 Statement—Other

GENERAL DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 20xx AND 20xx-1
(DOLLARS IN THOUSANDS)

	District	
	June 30, 20xx	June 30, 20xx-1
Operating revenue:		
Charges for Services	$xxx,xxx	$xxx,xxx
Governmental Aid	xx,xxx	xx,xxx
Miscellaneous	x,xxx	x,xxx
Total operating revenue	xxx,xxx	xxx,xxx
Operating expense:		
Personal Services, including annual net pension fund expense	xx,xxx	xx,xxx
Material	xx,xxx	xx,xxx
Professional Services	xx,xxx	xx,xxx
Utilities	xx,xxx	xx,xxx
Fuel	xx,xxx	xx,xxx
Repairs and Maintenance	xx,xxx	xx,xxx
Other Service and Supplies	xx,xxx	xx,xxx
Insurance Expense	(xx,xxx)	(xx,xxx)
Depreciation on utility plant and vehicle	xx,xxx	xx,xxx
Total operating expense	xxx,xxx	xxx,xxx
Net operating income	x,xxx	x,xxx
Nonoperating income (expense):		
Investment income	x,xxx	x,xxx
Taxes and subventions	xx,xxx	xx,xxx
Interest and amortization of bond expenses, net of capitalized interest of $x,xxx and $x,xxx for the Water System in 2015 and 2014, respectively	(xx,xxx)	(xx,xxx)
Revenue from service concession arrangement	x,xxx	x,xxx
x,xxx	xx,xxx	xx,xxx
Total nonoperating income (expense), net	xx,xxx	xx,xxx
Income (loss) before capital contributions	xx,xxx	xx,xxx
Capital contributions	xx,xxx	xx,xxx
Change in net position	xx,xxx	xx,xxx
Total net position - beginning	x,xxx,xxx	x,xxx,xxx
Prior period adjustment per implementation of GASB 68 (Note 1R)	(xxx,xxx)	(xxx,xxx)
Total net position - ending	$ x,xxx,xxx	$ x,xxx,xxx

See accompanying notes to financial statements

Example 43 Statement—Water Utility

WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 20xx AND 20xx-1
(DOLLARS IN THOUSANDS)

	Water District	
	June 30, 20xx	June 30, 20xx-1
Operating revenue:		
Water	$xxx,xxx	$xxx,xxx
Power	x,xxx	x,xxx
Total operating revenue	xxx,xxx	xxx,xxx
Operating expense:		
Raw water and water purchases	xx,xxx	xx,xxx
Water treatment and distribution	xx,xxx	xx,xxx
Recreation areas, net	xx,xxx	xx,xxx
Customer accounting and collecting	xx,xxx	xx,xxx
Financial and risk management	xx,xxx	xx,xxx
Facilities management	xx,xxx	xx,xxx
General administration	xx,xxx	xx,xxx
Pension expense (Note 8G)	(xx,xxx)	(xx,xxx)
Depreciation on utility plant and vehicle	xx,xxx	xx,xxx
Total operating expense	xxx,xxx	xxx,xxx
Net operating income	x,xxx	x,xxx
Nonoperating income (expense):		
Investment income	x,xxx	x,xxx
Taxes and subventions	xx,xxx	xx,xxx
Interest and amortization of bond expenses, net of capitalized interest of $x,xxx and $x,xxx for the Water System in 2015 and 2014, respectively	(xx,xxx)	(xx,xxx)
Increase (decrease) of equity in JPA partnership fund	(x,xxx)	(x,xxx)
Other income	xx,xxx	xx,xxx
Total nonoperating income (expense), net	xx,xxx	xx,xxx
Income (loss) before capital contributions	xx,xxx	xx,xxx
Capital contributions	xx,xxx	xx,xxx
Change in net position	xx,xxx	xx,xxx
Total net position - beginning	x,xxx,xxx	x,xxx,xxx
Prior period adjustment per implementation of GASB 68 (Note 1R)	(xxx,xxx)	(xxx,xxx)
Total net position - ending	$ x,xxx,xxx	$ x,xxx,xxx

See accompanying notes to financial statements

Example 44 Statement—Harbor and Port

HARBOR AND PORT DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 20xx AND 20xx-1
(DOLLARS IN THOUSANDS)

	Harbor and Port	
	June 30, 20xx	June 30, 20xx-1
Operating revenue:		
Marine	$xxx,xxx	$xxx,xxx
Harbor	x,xxx	x,xxx
Other Sales	xxx	xxx
Total operating revenue	xxx,xxx	xxx,xxx
Operating expense:		
Operating and Security	xx,xxx	xx,xxx
Maintenance	xx,xxx	xx,xxx
Customer accounting and collecting	xx,xxx	xx,xxx
Financial and risk management	xx,xxx	xx,xxx
Facilities management	xx,xxx	xx,xxx
General administration	xx,xxx	xx,xxx
Pension expense (Note 8G)	(xx,xxx)	(xx,xxx)
Depreciation on utility plant and vehicle	xx,xxx	xx,xxx
Total operating expense	xxx,xxx	xxx,xxx
Net operating income	x,xxx	x,xxx
Nonoperating income (expense):		
Investment income	x,xxx	x,xxx
Taxes and subventions	xx,xxx	xx,xxx
Interest and amortization of bond expenses, net of capitalized interest of $x,xxx and $x,xxx for the Water System in 2015 and 2014, respectively	(xx,xxx)	(xx,xxx)
Increase (decrease) of equity in JPA partnership fund	(x,xxx)	(x,xxx)
Other income	xx,xxx	xx,xxx
Total nonoperating income (expense), net	xx,xxx	xx,xxx
Income (loss) before capital contributions	xx,xxx	xx,xxx
Capital contributions	xx,xxx	xx,xxx
Change in net position	xx,xxx	xx,xxx
Total net position - beginning	x,xxx,xxx	x,xxx,xxx
Prior period adjustment per implementation of GASB 68 (Note 1R)	(xxx,xxx)	(xxx,xxx)
Total net position - ending	$ x,xxx,xxx	$ x,xxx,xxx

See accompanying notes to financial statements

Example 45 Statement—Transit

TRANSIT DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 20xx AND 20xx-1
(DOLLARS IN THOUSANDS)

	Transit	
	June 30, 20xx	June 30, 20xx-1
Operating revenue:		
Passanger Fairs	$xxx,xxx	$xxx,xxx
Special Transit Fairs	x,xxx	x,xxx
School Bus Revnues	x,xxx	x,xxx
Freight Tariffs	x,xxx	x,xxx
Charter Service	xxx	xxx
Total operating revenue	xxx,xxx	xxx,xxx
Operating expense:		
Labor	xx,xxx	xx,xxx
Fringe Benefits	xx,xxx	xx,xxx
Services	xx,xxx	xx,xxx
Materials and Supplies	xx,xxx	xx,xxx
Utilities	xx,xxx	xx,xxx
Causalty and Liability	xx,xxx	xx,xxx
Taxes	xx,xxx	xx,xxx
Service Purchased	xx,xxx	xx,xxx
Memberships and Travel	xx,xxx	xx,xxx
Expense Transfer	xx,xxx	xx,xxx
Lease and Rentals	xx,xxx	xx,xxx
Pension expense (Note 8G)	(xx,xxx)	(xx,xxx)
Depreciation on utility plant and vehicle	xx,xxx	xx,xxx
Total operating expense	xxx,xxx	xxx,xxx
Net operating income	x,xxx	x,xxx
Nonoperating income (expense):		
Investment income	x,xxx	x,xxx
Taxes and subventions	xx,xxx	xx,xxx
Interest and amortization of bond expenses, net of capitalized interest of $x,xxx and $x,xxx for the Water System in 2015 and 2014, respectively	(xx,xxx)	(xx,xxx)
Other income including gain and loss on disposal of assets	xx,xxx	xx,xxx
Total nonoperating income (expense), net	xx,xxx	xx,xxx
Income (loss) before capital contributions	xx,xxx	xx,xxx
Capital contributions	xx,xxx	xx,xxx
Change in net position	xx,xxx	xx,xxx
Total net position - beginning	x,xxx,xxx	x,xxx,xxx
Prior period adjustment per implementation of GASB 68 (Note 1R)	(xxx,xxx)	(xxx,xxx)
Total net position - ending	$ x,xxx,xxx	$ x,xxx,xxx

See accompanying notes to financial statements

Example 46 Statement—Airport

AIRPORT DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 20xx AND 20xx-1
(DOLLARS IN THOUSANDS)

	Airport	
	June 30, 20xx	June 30, 20xx-1
Operating revenue:		
Landing Fees	$xxx,xxx	$xxx,xxx
Aircraft Storage Fees	x,xxx	x,xxx
Fuel Flowage Fees	x,xxx	x,xxx
Concessions	x,xxx	x,xxx
Other Sales	xxx	xxx
Total operating revenue	xxx,xxx	xxx,xxx
Operating expense:		
Landing Areas	xx,xxx	xx,xxx
Terminal Building and Areas	xx,xxx	xx,xxx
General Shops and Equipment	xx,xxx	xx,xxx
Taxes		
Financial and risk management	xx,xxx	xx,xxx
Other Operating Expenses	xx,xxx	xx,xxx
General administration	xx,xxx	xx,xxx
Pension expense (Note 8G)	(xx,xxx)	(xx,xxx)
Depreciation on utility plant and vehicle	xx,xxx	xx,xxx
Total operating expense	xxx,xxx	xxx,xxx
Net operating income	x,xxx	x,xxx
Nonoperating income (expense):		
Investment income	x,xxx	x,xxx
Taxes and subventions	xx,xxx	xx,xxx
Interest and amortization of bond expenses, net of capitalized interest of $x,xxx and $x,xxx for the Water System in 2015 and 2014, respectively	(xx,xxx)	(xx,xxx)
Other income	xx,xxx	xx,xxx
Total nonoperating income (expense), net	xx,xxx	xx,xxx
Income (loss) before capital contributions	xx,xxx	xx,xxx
Capital contributions	xx,xxx	xx,xxx
Change in net position	xx,xxx	xx,xxx
Total net position - beginning	x,xxx,xxx	x,xxx,xxx
Prior period adjustment per implementation of GASB 68 (Note 1R)	(xxx,xxx)	(xxx,xxx)
Total net position - ending	$ x,xxx,xxx	$ x,xxx,xxx

See accompanying notes to financial statements

Example 47 Statement—Electric Utility

ELECTRIC DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 20xx AND 20xx-1
(DOLLARS IN THOUSANDS)

	Electric	
	June 30, 20xx	June 30, 20xx-1
Operating revenue:		
Sales of Electricity	$xxx,xxx	$xxx,xxx
Other Revenues	x,xxx	x,xxx
Total operating revenue	xxx,xxx	xxx,xxx
Operating expense:		
Production Steam Power Generation	xx,xxx	xx,xxx
Production Nuclear Power Generation	xx,xxx	xx,xxx
Production Hydraulic Power Generation	xx,xxx	xx,xxx
Production Other Power Generation	xx,xxx	xx,xxx
Purchased Power	xx,xxx	xx,xxx
Customer Services	xx,xxx	xx,xxx
General administration	xx,xxx	xx,xxx
Pension expense (Note 8 G)	(xx,xxx)	(xx,xxx)
Depreciation on utility plant and vehicle	xx,xxx	xx,xxx
Total operating expense	xxx,xxx	xxx,xxx
Net operating income	x,xxx	x,xxx
Nonoperating income (expense):		
Investment income	x,xxx	x,xxx
Taxes and subventions	xx,xxx	xx,xxx
Interest and amortization of bond expenses, net of capitalized interest of $x,xxx and $x,xxx for the Water System in 2015 and 2014, respectively	(xx,xxx)	(xx,xxx)
Increase (decrease) of equity in JPA partnership fund	(x,xxx)	(x,xxx)
Other income	xx,xxx	xx,xxx
Total nonoperating income (expense), net	xx,xxx	xx,xxx
Income (loss) before capital contributions	xx,xxx	xx,xxx
Capital contributions	xx,xxx	xx,xxx
Change in net position	xx,xxx	xx,xxx
Total net position - beginning	x,xxx,xxx	x,xxx,xxx
Prior period adjustment per implementation of GASB 68 (Note 1 R)	(xxx,xxx)	(xxx,xxx)
Total net position - ending	$ x,xxx,xxx	$ x,xxx,xxx

See accompanying notes to financial statements

Example 48 Statement—Waste Disposal

WASTE DISPOSAL DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 20xx AND 20xx-1
(DOLLARS IN THOUSANDS)

	Waste Disposal	
	June 30, 20xx	June 30, 20xx-1
Operating revenue:		
Service Charges	$xxx,xxx	$xxx,xxx
Power	x,xxx	x,xxx
Total operating revenue	xxx,xxx	xxx,xxx
Operating expense:		
Waste - Collection	xx,xxx	xx,xxx
Waste - Treatment	xx,xxx	xx,xxx
Waste - Disposal	xx,xxx	xx,xxx
Customer accounting and collecting	xx,xxx	xx,xxx
Financial and risk management	xx,xxx	xx,xxx
Facilities management	xx,xxx	xx,xxx
General administration	xx,xxx	xx,xxx
Pension expense (Note 8G)	(xx,xxx)	(xx,xxx)
Depreciation on utility plant and vehicle	xx,xxx	xx,xxx
Total operating expense	xxx,xxx	xxx,xxx
Net operating income	x,xxx	x,xxx
Nonoperating income (expense):		
Investment income	x,xxx	x,xxx
Taxes and subventions	xx,xxx	xx,xxx
Interest and amortization of bond expenses, net of capitalized interest of $x,xxx and $x,xxx for the Water System in 2015 and 2014, respectively	(xx,xxx)	(xx,xxx)
Increase (decrease) of equity in JPA partnership fund	(x,xxx)	(x,xxx)
Other income	xx,xxx	xx,xxx
Total nonoperating income (expense), net	xx,xxx	xx,xxx
Income (loss) before capital contributions	xx,xxx	xx,xxx
Capital contributions	xx,xxx	xx,xxx
Change in net position	xx,xxx	xx,xxx
Total net position - beginning	x,xxx,xxx	x,xxx,xxx
Prior period adjustment per implementation of GASB 68 (Note 1R)	(xxx,xxx)	(xxx,xxx)
Total net position - ending	$ x,xxx,xxx	$ x,xxx,xxx

See accompanying notes to financial statements

Example 49 Statement—Multiple Enterprise

DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(DOLLARS IN THOUSANDS)

	Water System		Sewer System		Total	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Operating revenue:						
Water	$ xxx,xxx	$ xxx,xxx	-	-	$ xxx,xxx	$ xxx,xxx
Sewer	-	-	$xx,xxx	$xx,xxx	$xx,xxx	$xx,xxx
Power	x,xxx	x,xxx	x,xxx	x,xxx	xx,xxx	xx,xxx
Other facilities charges	-	-	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Total operating revenue	xxx,xxx	xxx,xxx	xx,xxx	xx,xxx	xxx,xxx	xxx,xxx
Operating expense:						
Raw water and water purchases	xx,xxx	xx,xxx	-	-	xx,xxx	xx,xxx
Water treatment and distribution	xxx,xxx	xxx,xxx	-	-	xxx,xxx	xxx,xxx
Recreation areas, net	x,xxx	x,xxx	-	-	x,xxx	x,xxx
Sewer lines and pumping	-	-	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Sewer treatment plant operations	-	-	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Customer accounting and collecting	xx,xxx	xx,xxx	x,xxx	x,xxx	xx,xxx	xx,xxx
Financial and risk management	xx,xxx	xx,xxx	xxx	xxx	xx,xxx	xx,xxx
Facilities management	x,xxx	x,xxx	-	-	x,xxx	x,xxx
General administration	xx,xxx	xx,xxx	x,xxx	x,xxx	xx,xxx	xx,xxx
Pension expense (Note 8G)	(xx,xxx)	-	(x,xxx)	-	(xx,xxx)	-
Depreciation on utility plant and vehicle	xx,xxx	xx,xxx	xx,xxx	xx,xxx	xxx,xxx	xxx,xxx
Total operating expense	xxx,xxx	xxx,xxx	xx,xxx	xx,xxx	xxx,xxx	xxx,xxx
Net operating income	xx,xxx	xx,xxx	x,xxx	x,xxx	xx,xxx	xx,xxx
Nonoperating income (expense):						
Investment income	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx	x,xxx
Taxes and subventions	xx,xxx	xx,xxx	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Interest and amortization of bond expenses, net of capitalized interest of $x,xxx and $x,xxx for the Water System and $x,xxx and $x,xxx for the Wastewater System in 20xx and 20xx-1, respectively	(xx,xxx)	(xx,xxx)	(xx,xxx)	(xx,xxx)	(xx,xxx)	(xx,xxx)
Increase (decrease) of equity in JPA partnership fund	(xxx)	(xxx)	(xxx)	(xxx)	(xxx)	(xxx)
Other income	xx,xxx	xx,xxx	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Total nonoperating income (expense), net	(xx,xxx)	(xx,xxx)	(xx,xxx)	(xx,xxx)	(xx,xxx)	(xx,xxx)
Income (loss) before capital contributions	xx,xxx	xx,xxx	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Capital contributions	xx,xxx	xx,xxx	x,xxx	x,xxx	xx,xxx	xx,xxx
Change in net position	xx,xxx	xx,xxx	xx,xxx	xx,xxx	xx,xxx	xx,xxx
Total net position - beginning	x,xxx,xxx	x,xxx,xxx	xxx,xxx	xxx,xxx	x,xxx,xxx	x,xxx,xxx
Prior period adjustment per implementation of GASB 68 (Note 1R)	(xxx,xxx)	-	(xx,xxx)	-	(xxx,xxx)	-
Total net position - ending	$x,xxx,xxx	$x,xxx,xxx	$xxx,xxx	$xxx,xxx	$x,xxx,xxx	$x,xxx,xxx

See accompanying notes to financial statements

Accounting Standards and Procedures for Counties

Chapter 12: Cash Flows Statements

Chapter Contents

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Accounting Standards and Procedures for Counties

Chapter 12: Cash Flows Statements

Introduction

The purpose of this chapter is to provide an overview of the accounting and reporting standards for reporting cash flows of proprietary funds and for those local government entities engaged in business type activities.

Cash Flows Overview

12.01 Purpose and Focus

As stated in GASB Cod. Sec. 2450.104 (Section 2450, paragraph .104):

> The primary purpose of a statement of cash flows is to provide relevant information about cash receipts and cash payments of an entity during a period. When used with related disclosures and information in the other financial statements, the information a statement of cash flows provides should help financial report users assess:
>
> a) an entity's ability to generate future net cash flows;
> b) its ability to meet its obligations as they come due;
> c) its needs for external financing;
> d) reasons for differences between operating income and associated cash receipts and payments and;
> e) the effects on the entity's financial position of both its cash and noncash investing, capital and financing transactions during the reporting period."

According to GASB Cod. Sec. 2450.105 (Section 2450, paragraph .105), the statement of cash flows should explain the change in cash and cash equivalents during the applicable period, regardless of any restrictions on their use. The cash flow statement should use descriptive terms such as cash or cash and cash equivalents rather than the term funds, which has several different meanings within governmental accounting.

As defined in GASB Cod. Sec. 2450.106 (Section 2450, paragraph .106), cash equivalents are short-term, highly liquid investments that meet both of the following criteria:

- They are readily convertible to known amounts of cash; and
- They are so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Generally, only investments with original maturities of three months or less meet the definition of cash equivalents.

12.02 Cash Flow Reporting

According to GASB Cod. Sec. 2450.112 (Section 2450, paragraph .112), a statement of cash flows should report cash receipts and payments and classify them as cash flows from:

- operating activities;
- noncapital financing activities;
- capital and related financing activities; or
- investing activities.

Pursuant to the provisions of GASB Cod. Sec. 2450.128 (Section 2450, paragraph .128), the statement of cash flows for the applicable period should report the net amount of cash provided or used in each of these four categories. Additionally, the net effect of these flows on cash and cash equivalents during the period should be reported in a manner that reconciles the account balances for beginning and ending cash and cash equivalents.

Cash Flow Activities

12.03 Cash Flows from Operating Activities

As stated in GASB Cod. Sec. 2450.113 (Section 2450, paragraph .113), cash flows from operating activities generally result from providing services and producing and delivering goods. They include all transactions and other events not defined as capital and related financing, noncapital financing, or investing activities. Operating activity cash flows are generally the cash effects of transactions and other events that factor into determining operating income.

According to GASB Cod. Sec. 2450.129 (Section 2450, paragraph .129), local governments reporting cash flows from operating activities should report major classes of gross cash receipts and gross cash payments (including their arithmetic sum), which represents the net cash flow from operating activities (also known as the Direct Method).

The provisions of GASB Cod. Sec. 2450.129 (Section 2450, paragraph .129) also state that a local government should, at a minimum, report the following classes of operating cash receipts and payments separately:

- Cash receipts from customers*;*
- Cash receipts from interfund services provided*;*
- Other operating cash receipts, if any*;*
- Cash payments to employees for services*;*
- Cash payments to other suppliers of goods and services*;*
- Cash payments for interfund services used, including payments in lieu of taxes that are payments for, and reasonably equivalent in value to, services provided*;* and
- Other operating cash payments if any.

Local governments are encouraged to provide further details of their operating cash receipts and payments, if such details may be useful.

According to GASB Cod. Sec. 2450.114 (Section 2450, paragraph .114), cash inflows from operating activities include:

- Cash inflows from sales of goods or services, including receipts from collection of accounts receivable and both short- and long-term notes receivable from customers arising from those sales;
- Cash receipts from interfund services provided.
- Cash receipts from grants for specific activities considered to be operating activities of the grantor government (A grant arrangement of this type is essentially the same as a contract for services.)
- Cash receipts from interfund reimbursements.
- All other cash receipts that do not result from transactions defined as capital and related financing, noncapital financing, or investing activities.

According to GASB Cod. Sec. 2450.115 (Section 2450, paragraph .115), cash outflows for operating activities include:

- Cash payments made to acquire materials for providing services and manufacturing goods for resale, including principal payments on accounts payable and both short- and long-term notes payable to suppliers for those materials or goods.
- Cash payments to other suppliers for other goods or services.
- Cash payments to employees for services.
- Cash payments for grants to other governments or organizations for specific activities that are considered to be operating activities of the grantor government.
- Cash payments for taxes, duties, fines, and other fees or penalties.
- Cash payments for interfund services used, including payments in lieu of taxes that are payments for, and reasonably equivalent in value to, services provided.
- All other cash payments that do not result from transactions defined as capital and related financing, noncapital financing, or investing activities.

As discussed in GASB Cod. Sec. 2450.116 (Section 2450, paragraph .116), loan activities are usually classified as investing activities, certain loan programs are not intended to be investments, but instead are undertaken to fulfill a governmental responsibility. These "program loans" are made and collected as part of a governmental program. For example, student loans or low-income housing mortgages are the operating activities of the governmental enterprise and therefore should be classified as operating activities.

All loans made and collected—including interest—should be considered operating cash outflows and inflows, respectively. If bonds are issued to finance the loan program, any proceeds and the subsequent debt service payments (principal and interest) should be classified as noncapital financing activities.

12.04 Cash Flows from Noncapital Financing Activities

As stated in GASB Cod. Sec. 2450.118 (Section 2450, paragraph .118), noncapital financing activities includes the borrowing of money for purposes other than to acquire, construct, or improve capital assets and repaying those amounts borrowed, including interest. Noncapital financing activities include the proceeds from all borrowings (e.g., revenue anticipation notes) not clearly attributable to the acquisition, construction, or improvement of capital assets, regardless of the form of the borrowing. Also recorded in this category are certain other interfund and intergovernmental receipts and payments.

Proceeds from all borrowings that are traceable to the acquisition, construction, or improvement of capital assets should be recorded under "Cash Flows from Capital and Related Financing Activities".

According to GASB Cod. Sec. 2450.119 (Section 2450, paragraph .119), cash inflows from noncapital financing activities include:

- Proceeds from issuing bonds, notes and other short- long-term borrowing not clearly attributable to the acquisition, construction, or improvement of capital assets.
- Cash receipts from grants or subsidies. The exceptions are:
  - Those specifically restricted for capital purposes; and
  - Those for specific activities that are considered to be operating activities of the grantor government.
- Cash received from other funds. The exceptions are:
  - Those amounts that are clearly attributable to acquisition, construction, or improvement of capital assets;
  - Interfund services provided; and
  - Interfund reimbursements.
- Cash received from property and other taxes collected for the governmental enterprise and not specifically restricted for capital purposes.

According to GASB Cod. Sec. 2450.120 (Section 2450, paragraph .120), cash outflows for noncapital financing activities include:

- Repayments of amounts borrowed for purposes other than acquiring, constructing, or improving capital assets.
- Interest payments to lenders and other creditors on amounts borrowed or credit extended for purposes other than acquiring, constructing, or improving capital assets.
- Cash paid as grants or subsidies to other governments or organizations, except those for specific activities that are considered to be operating activities of the grantor government.
- Cash paid to other funds, except for interfund services used.

12.05 Cash Flows from Capital and Related Financing Activities

As stated in GASB Cod. Sec. 2450.121 (Section 2450, paragraph .121), capital and related financing activities include:

- Acquiring and disposing of capital assets used in providing services or producing goods;
- Borrowing money for acquiring, constructing, or improving capital assets and repaying the amounts borrowed (including interest); and
- Paying for capital assets obtained from vendors on credit.

According to GASB Cod. Sec. 2450.122 (Section 2450, paragraph .122), cash inflows from capital and related financing activities include:

- Proceeds from issuing or refunding bonds, mortgages, notes, and other short- or long-term borrowing clearly attributable to the acquisition, construction, or improvement of capital assets;
- Receipts from capital grants awarded to the governmental enterprise.
- Receipts from contributions made by other funds, other governments, and other organizations or individuals for the specific purpose of defraying the cost of acquiring, constructing, or improving capital assets.
- Receipts from sales of capital assets; also, proceeds from insurance on capital assets that are stolen or destroyed.
- Receipts from special assessments or property and other taxes levied specifically to finance the construction, acquisition, or improvement of capital assets.

According to GASB Cod. Sec. 2450.123 (Section 2450, paragraph .123), cash outflows for capital and related financing activities include:

- Payments to acquire, construct, or improve capital assets.
- Repayments or refundings of amounts borrowed specifically to acquire, construct, or improve capital assets.
- Other principal payments to vendors who have extended credit to the governmental enterprise directly for purposes of acquiring, constructing, or improving capital assets.
- Cash payments to lenders and other creditors for interest directly related to acquiring, constructing or improving capital assets.

12.06 Cash Flows from Investing Activities

As stated in GASB Cod. Sec. 2450.124 (Section 2450, paragraph .124), investing activities include making and collecting loans (except for program loans) and acquiring and disposing of debt or equity instruments.

According to GASB Cod. Sec. 2450.125 (Section 2450, paragraph .125), cash inflows from investing activities include:

- Receipts from collections of loans (except program loans) made by the governmental enterprise and sales of other entities debt instruments (other than cash equivalents) that were purchased by the governmental enterprise.
- Receipts from sales of equity instruments and from returns of investment in those instruments;
- Interest and dividends received as returns on loans (except program loans), debt instruments of other entities, equity securities, and cash management or investment pools.
- Withdrawals from investment pools that the governmental enterprise is not using as demand accounts.

According to GASB Cod. Sec. 2450.126 (Section 2450, paragraph .126), cash outflows for investing activities include:

- Disbursements for loans (except program loans) made by the governmental enterprise and payments to acquire debt instruments of other entities (other than cash equivalents).
- Payments to acquire equity instruments.
- Deposits into investment pools that the governmental enterprise is not being used as demand accounts.

12.07 In-Substance Defeasance of Debt

The outflow of assets to a trustee or fiscal agent to defease the debt should be presented in the Cash Flows Statements in the same category as the debt service payments on the old debt to the extent that the amount does not exceed the existing debt.

Cash Flow Statement Content

12.08 Direct Method Presentation

The indirect method was a reporting option under the provisions of GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, as amended, for governments when preparing their cash flow statements.

However, with the release of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended, authoritative accounting standards recommend that governments use the direct method of presenting cash flows from operating activities (including reconciliation of operating cash flows to operating income) when preparing their cash flow statements.

12.09 Presentation of a Cash Flows Statement

A statement of cash flows for the period should report net cash provided or used in the four categories as discussed in in the preceding sections of this chapter. The statement of cash flows should also show the net effect of those flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents.

The following example of the statement of cash flows is <u>for illustrative purposes only</u>.

Example—Local Government Statement of Cash Flows for the year ended 20Y1		
Cash flows from operating activities		
Cash receipts from customers	$ 912,000	
Cash paid to suppliers for goods and services	(450,000)	
Cash paid to employees for services	(300,575)	
Claims paid	(50,000)	
Other operating revenues	25,075	
Interest paid	(10,000)	
Net cash provided by from operating activities		$ 126,500
Cash flows from noncapital financing activities		
Net borrowings (repayments) under revolving loan arrangement	(20,000)	
Interest paid on revolving loan	(1,500)	
Operating grants received	100,000	
Operating transfers-out to other funds	(75,000)	
Net cash provided by noncapital financing activities		3,500
Cash flows from capital and related financing activities		
Proceeds from sale of revenue bonds	250,000	
Acquisition and construction of capital assets	(350,000)	
Principal paid on revenue bond maturities and equipment contracts	(75,000)	
Interest paid on revenue bonds and equipment contracts	(33,500)	
Proceeds from sale of equipment	10,000	
Capital contributed by subdividers	60,000	
Net cash used for capital and related financing activities		(138,500)
Cash Flows from investing activities		
Purchase of investment securities	(125,000)	
Proceeds from sale and maturities of investment securities	75,000	
Interest and dividends on investments	9,000	
Net cash used in investing activities		(41,000)
Net increase (decrease) in cash and cash equivalents		**(49,500)**
Cash and cash equivalents at beginning of year		**175,600**
Cash and cash equivalents at end of year		**$ 126,100**

12.10 Reconciliation

The amount reported as cash flows from operating activities in the statement of cash flows will differ from the amounts reported as operating income in the statement of revenues, expenses, and changes in net position. Governmental enterprises should provide—in an accompanying schedule—a reconciliation of operating income to net cash flow from operating activities. The reconciliation should provide information about the net effects of operating transactions and other events that affect operating income and operating cash flows in different periods.

The reconciliation is presented on either the statement of cash flows, an accompanying statement, or presented in the notes to the financial statements. The intent of the reconciliation is to explain the difference between the accrual-based results of operations of a government entity and its annual cash flows. Not all revenues and expenses involve cash. Depreciation, for example, is a noncash expense; the listed value of capital assets, rather than cash, is reduced on the statement of net position. There are other expenses that similarly do not involve cash changing hands.

The reconciliation should separately report all major classes of reconciling items. At a minimum, changes during the period in receivables pertaining to operating activities, in inventory, and in payables pertaining to operating activities should be separately reported. Governmental enterprises are encouraged to provide further details of those categories if the details maybe useful.

The reconciliation schedule may be presented on the same page as the statement of cash flows, if space permits, or in an accompanying schedule as previously mentioned.

Example of Reconciliation of Net Income to Net Cash Provided by Operating Activities

Reconciliation		
Operating Income		$ 2,665,000
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	$ 125,000	
Provision for uncollectible accounts	15,000	
Changes in assets and liabilities:		
Increase in accounts receivable	(155,000)	
Increase in deferred outflows	(50,000)	
Decrease in inventories	32,000	
Decrease in prepaid expenses	34,000	
Increase in accounts payable	90,000	
Increase in Net Pension Liability	(16,000)	
Increase in deferred revenue	10,000	
Increase in Deferred Inflows	40,000	
Total adjustments		125,000
Net cash provided by operating activities		$ 2,790,000

12.11 Noncash Investing, Capital, and Financing Transactions

Information about all investing, capital, and financing activities of a local government during a period that affect recognized assets or liabilities but do not result in cash receipts or cash payments in the period should be reported in a separate schedule, as recommended in GASB Cod. Sec. 2450.133 (Section 2450, paragraph .133). This information should clearly describe the cash and noncash aspects of transactions involving similar items. An example of a noncash transaction would be a local government purchasing a building by incurring a mortgage to the seller. Some transactions are part cash and part noncash; only the cash portion should be reported in the statement of cash flows.

The schedule may be presented on the same page as the statement of cash flows, if space permits, or in a separate schedule.

12.12 Reconciliation to the Statement of Net Position—Illustrative Examples

For the purposes of the statement of cash flows, cash should include not only amounts reported in the account on the face of the statement of net position, but also any cash included in restricted accounts. As stated in GASB Cod. Sec. 2450.105 (Section 2450, paragraph .105), "the total amounts of cash and cash equivalents at the beginning and end of the period shown in the statement of cash flows should be easily traceable to similarly titled line items or subtotals shown in the statements of financial position as of those dates".

Example:

Assume that the local government reports cash of $150 and restricted assets of $25, which includes $6 of cash. The preparer of the financial statement could meet the requirement of traceability in one of four ways:

- Report the portion of restricted assets that represents cash and cash equivalents as a separate line item on the statement of net position:

Cash	**$ 150**
Restricted Assets:	
Cash	6
Investments	19

- Report the amount of cash and cash equivalents included as part of restricted assets parenthetically on the statement of net position:

Cash	**$ 150**
Restricted Assets (Including $6 Cash)	25

- Report the amount of cash and cash equivalents included as part of restricted assets parenthetically on the statement of cash flows:

Ending Cash (Including $6 Included in Restricted Assets)	**$ 156**

- Provide a reconciliation on the face of the statement of cash flows:

Ending Cash—Statement of Cash Flows	**$ 156**
Less: Amounts Reported in Restricted Assets	
Ending Cash—Statement of Net Position	6
	$ 150

12.13 Classification of Cash Flows

Cash Inflows			
• Cash sales of goods and services • Collections of receivables related to sales of goods and services • Collection of principal and interest on program loans • Collection of customer deposits	• Debt proceeds other than from capital debt (including debt used to finance program loans) • Grants available for operating purposes • Transfers available for operating purposes • Taxes available for operating purposes	• Capital debt proceeds • Capital grant proceeds • Capital contributions • Transfers received for capital acquisition • Proceeds of the disposition of capital assets • Proceeds of capital type special assessments • Taxes restricted for capital purposes or capital related debt services	• Loan collections (except for program loans) • Sales of investments • Interest received (except on program loans) • Increases in fair value of investments subject to fair value reporting and classified as cash equivalents
V	V	V	V
Cash flows from operating activities	Cash flows from noncapital financing activities	Cash flows from capital and related activities	Cash flows from investing activities
Λ	Λ	Λ	Λ
Cash Outflows			
• Payment to vendors • Payments to employees • Payments of benefits on behalf of employees • Liquidation of liabilities related to the provision of goods and services • Payments of taxes, duties, fines, fees, and penalties • Return of customer deposits • Program loans	• Debt service on debt used for other than capital or related purposes • Grants to other (including capital grants) • Transfers to other funds (including transfers for capital or related purposes)	• Debt service on capital related debt • Payments related to the acquisition, construction, or improvement of capital assets	• Loans made to others (except for program loans) • Purchase of investments • Decrease in fair value of investments subject to fair value reporting and classified as cash equivalents

12.14 Cash Flows Transactions

Transaction	Effect on Operating Income	Effect on Cash Flows	Adjustments	Elements of Reconciliation Start: Operating Income
Sales on credit (i.e., creation of accounts receivables)	Increase	None	Subtract to arrive at net cash flows	Subtract net increases in receivables (or add net decrease in receivables)
Collection of receivables	None	Increase	Add to arrive at net cash flows	
Incurrence of payables and other operating liabilities	Decrease	None	Add to arrive at net cash flows	Subtract net decrease in liabilities (or add net increase in liabilities)
Liquidation of payables and other operating liabilities	None	Decrease	Subtract to arrive at net cash flows	
Purchase of inventories	None	Decrease	Subtract to arrive at net cash flows	Subtract net increase in inventories (or add net decrease in inventories)
Consumption of inventories	Decrease	None	Add to arrive at net cash flows	
Depreciation expense	Decrease	None	Add to arrive at net cash flows	Add back depreciation expense and amortization expense
Amortization expense	Decrease	None	Add to arrive at net cash flows	
				Finish: Net Cash Flows from Operating Activities

12.15 Deriving Cash Flows from Operating Activities

Authoritative sources of accounting standards require cash flows from operating activities be presented by major categories of receipts and payments.

Example:
Assume that the enterprise fund for a local government reports the following statement of revenues, expenses, and changes in net position:

Operating Revenues		
Charges to Customers	$ 740	
Total Operating Revenues		$ 740
Operating Expenses:		
Salaries and Benefits	$ 600	
Supplies and Materials	90	
Repairs and Maintenance	400	
Utilities	12	
Depreciation Expense	467	
Other Operating Expenses	140	
Total Operating Expenses		$ 1,709
Operating Income/Loss		($ 969)

Depreciation expense does not affect the cash account; therefore, it can be set aside for purposes of deriving cash flows, leaving three major categories of receipts and payments need to be approximated:

- Cash received from customers
- Cash paid to employees
- Cash paid to suppliers

Deriving the approximate amount of cash flows from customers:

Customers		
Inflows		
Receivable (beginning of period)	$ 155	
Revenues of Period	740	
Subtotal Inflows		$ 894
Netted Against		
Receivables (end of period)		($ 200)
Net Cash Inflow		$ 695

Deriving the approximate amount of cash flows from employees:

Employees		
Outflows		
Payable (beginning of period)	$ 25	
Expenses of Period	600	
Subtotal Outflows		$ 625
Netted Against		
Payable (end of period)		($ 28)
Net Cash Outflow		$ 597

Deriving the approximate amount of cash flows from suppliers:

Suppliers		
Outflows		
Payable (beginning of period)	$ 93	
Expenses of Period	1,242	
Subtotal Outflows		$ 1,335
Netted Against		
Payable (end of period)		($ 109)
Net Cash Outflow		$ 1,226

Based on these approximations, cash flows from operating activities could be reported as follows:

Cash Received from Customers	$ 695
Cash Paid to Employees	(597)
Cash Paid to Suppliers	(1,226)
Net Cash Used in Operating Activities	($ 1,145)

Chapter 13: Component Unit Presentation and Disclosure

Chapter Contents

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Chapter 13: Component Unit Presentation and Disclosure

Introduction

Component units are separate organizations where elected officials of the primary government are financially accountable. Component units often take the form of a public benefit corporation or public authority. This chapter will briefly discuss how component units should be reported in the primary governments' financial statements.

Component Units

13.01 Discretely Presented Component Units

The finances of most component units are shown separately from those of its primary government. These separately shown entities are known as "discretely presented component units". The financial statements provide only an overview of discretely presented component units and the relationship should be disclosed in the notes.

13.02 Blended Component Units

Blended component units are so intertwined with those of their primary government that the financial information of a blended component unit is usually combined with that of the primary government. One reason a unit may be blended, rather than discretely presented, is that its governing body is substantially the same as that of the primary government, and the primary government has operational responsibility for the blended component unit.

Any of the following criteria can involve reporting a component unit as blended:

- The component unit has substantively the same governing body <u>and</u> there is a financial relationship.
- The primary government has operational responsibility for the component unit.
- The component unit provides services entirely to the primary government.
- The component unit provides services that are almost exclusively for the benefit of the primary government.
- The component unit's outstanding debt is expected to be repaid almost entirely by the primary government.
- The component unit is organized as a not-for-profit corporation in which the primary government is the sole member.

13.03 Disclosure Requirements

When reporting fiduciary activities in the fund financial statements of a primary government, a fiduciary component unit should include the combined information of its own component units that are fiduciary components. That combined information should be aggregated with the primary government's fiduciary funds. For more information on how a component unit may be engaged in a fiduciary activity, refer to Chapter 5, *Fund Accounting*.

A government may own or acquire a majority equity interest in a separate legal organization. If the acquisition does not meet the definition of an investment and results in the primary government being financially accountable for this organization, the primary government should report this organization as a component unit. However, if the acquisition of majority equity interest does qualify as an investment, the primary government should report acquisition as an investment in its financial statements. If a component unit is blended, the primary government should eliminate the equity interest in the blending process when preparing its financial statements. If the financial statements are prepared using current financial resources measurement, the equity interest reported should be adjusted accordingly.

Refer to GASB Cod. Sec. 2600 (Section 2600) for more information on component unit presentation and disclosure requirements.

SPECIFIC ACCOUNTING ITEMS

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Chapter 14: Contracts and Agreements

Chapter Contents

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Chapter 14: Contracts and Agreements

Introduction

Local government entities are now engaging in complex transactions to raise revenues to fund their operations. While not all inclusive, this chapter will provide an overview of the accounting and reporting requirements for local governmental entities engaging in these types of contractual transactions.

Nonexchange and On-Behalf Type Transactions

14.01 Nonexchange Transactions

Nonexchange transactions are transactions in which one entity provides value (benefit), such as cash, goods, or services, to another party without directly receiving equal value in exchange. Examples include imposed taxes, fines, assessments, mandated programs, and grants.

Exchange transactions are the transactions between parties, in which each party receives benefits of essentially equal value. Examples include buying a product at fair market value, or receiving fair pay for services performed.

Nonexchange transactions are often controlled by either legislation or contractual requirements or both, and these factors are essential in determining when revenues, expenses, or expenditures from nonexchange transactions should be recognized. For example, a local government should recognize tax revenues when the related exchange transaction has occurred, as defined by the enabling legislation. Alternatively, the local government could recognize a nonexchange revenues when it has an enforceable legal claim to receive the revenues. The enforceable legal claim is generally based on the special district's legislative authority to impose and collect the tax.

When both parties to a nonexchange transaction are governmental entities, the same recognition standards should be in use by both entities, given GAAP standards. This does not always mean that the two participating governmental parties will record the revenue and expense/expenditure in the same period.

Government-mandated or voluntary nonexchange transactions frequently have eligibility requirements that should be met. When it is probable that recipient will not be able to commit to eligibility requirements or comply with restrictions placed on it, then as a condition of receiving resources, the recipient will be required to return all or part of the resources already received.

GASB Cod. Sec. N50.104 (Section N50, paragraph .104) has defined nonexchange transactions of government into four classes, based on their principle characteristics:

- Derived tax revenues
- Imposed nonexchange revenues
- Government-mandated nonexchange transactions
- Voluntary nonexchange transactions

Derived Tax Revenues

Derived tax revenues come from assessments imposed by a government on exchange transactions. Examples include retail sales tax and personal income tax. The principal characteristics of derived tax revenue transactions are:

- The assessing government imposes the provision of resources on the entity that acquires the income, goods or services; and
- The government's assessment is on an exchange transaction (e.g., an exchange of motor fuel for the market price of the fuel, or an exchange of services for fair wages).

Derived tax revenues should be recognized as assets and revenues in the period when the underlying exchange transaction occurs or when the resources are received, whichever comes first. Revenues should be recognized net of estimated refunds and uncollectable amounts. Once the taxable transaction has occurred, the assessing government has an enforceable legal claim to the tax resources. Resources received in advance should be reported as liabilities.

Enabling legislation sometimes require derived tax revenues to be used for specific purposes. For example, suppose a local government levies a special tax to be used for maintenance of airports within its boundaries, if the resources related to the enforceable legal claim are available to the local government, then, under the modified accrual basis of accounting, the local government should record revenue.

Imposed Nonexchange Revenues

Imposed nonexchange revenues come from government assessments on nongovernmental entities, other than assessments on exchange transactions. An example of an imposed nonexchange transaction is a special tax imposed by a local government to fund its operations, such as a fee imposed on a water bill for upgrading water distribution services within the government's boundaries. Imposed nonexchange revenues can include property seizures and escheats. The government's imposed assessment is on a nonexchange transaction, such as property ownership or a violation of law.

In addition to purpose restrictions, the government may specify the time requirements when the resources are to be used, this may not be the same time period that payment is due or within which a lien can be filed.

Imposed nonexchange revenues should be recognized as assets and revenues in the period when the enforceable legal claim to the assets arises or when the resources are received, whichever comes first. The timing of the enforceable legal claim is generally specified in the enabling legislation, generally referred to as the lien date.

Revenues from property taxes should be recognized net of estimated refunds and uncollectable amounts in the period for which the assessments are levied, even if the enforceable legal claim or payment due date occurs in another period. All other imposed nonexchange revenues should be recognized in the same period that the assets are recognized, absent time requirements in the enabling legislation. Resources received in advance should be reported as liabilities.

Government-Mandated Nonexchange Transactions

Government-mandated nonexchange transactions occur when a government (including the federal government) provides resources to another government and requires the recipient to use the resources for a specific purpose or purposes as established in enabling legislation. The provider establishes the restrictions and also may establish time requirements. An example would be a local government receiving state funds to perform state-mandated conservation measures within its boundaries. The principal characteristics of these transactions are:

- Purpose restriction: a provider government mandates a recipient either perform or oversee another entity perform a particular program; and
- Eligibility requirements: fulfillment of certain requirements (other than the provision of cash or other assets in advance) is essential for the transaction to occur.

When all eligibility requirements, including time requirements, are met, the provider should recognize liabilities (or a decrease in assets) and expenses from government-mandated nonexchange transactions. Recipients should recognize revenues in the period when all applicable eligibility requirements have been met and the resources are available. Resources transferred before the eligibility requirements are met, excluding time requirements, should be recorded as assets by the provider and liabilities by the recipient. If recognized before the time requirements are met, they should be reported as deferred outflows of resources by the provider and deferred inflows of resources by the recipient.

Voluntary Nonexchange Transactions

Voluntary nonexchange transactions result from legislative or contractual agreements, other than exchanges, entered into willingly by two parties (governmental or nongovernmental). A typical example would include a local government receiving a grant or private donations. The characteristics of a voluntary nonexchange transaction are:

- No imposed exchange: transactions are not imposed on the provider or the recipient; and
- Eligibility requirements: fulfillment of certain requirements (other than the provision of cash or other assets in advance) is essential for the transaction to occur.

As with government-mandated nonexchange transactions, when all eligibility requirements, including time requirements, are met, the provider should recognize liabilities (or a decrease in assets) and expenses from voluntary nonexchange transactions. Recipients should recognize revenues in the period when all applicable eligibility requirements have been met and the resources are available.

Resources transferred before the eligibility requirements are met, excluding time requirements, should be recorded as assets by the provider and liabilities by the recipient. If recognized before the time requirements are met, resources transferred should be reported as deferred outflows of resources by the provider and deferred inflows of resources by the recipient. Refer to GASB Cod. Section N50, *Nonexchange Transactions*, for more details.

14.02 On Behalf Payments for Fringe Benefits and Salaries

On-behalf payments for fringe benefits and salaries are direct payments made by one entity (the paying entity or paying government) to a third-party recipient for the employees of another legally separate entity (the employer entity or employer government). On-behalf payments include pension plan contributions, employee health and life insurance premiums, and salary supplements or stipends.

On-behalf payments also include payments made by governmental entities on behalf of nongovernmental entities, and vice versa. They also may be made for volunteers, such as state government pension contributions for volunteer firefighters who work within a local government fire department.

Local governments should refer to GASB Cod. Sec. N50.129 - .139 (Section N50, Paragraphs .129 – .139) for more information with regard to accounting and reporting requirements for on-behalf payments for fringe benefits and salaries.

Derivatives and Joint Power Authorities

14.03 Derivative Instruments

According to GASB Cod. Sec. D40.103 (Section D40, Paragraph .103):

> A derivative instrument is a financial instrument or other contract that has <u>all</u> of the following characteristics:
>
> - *Settlement factors*—the financial arrangement can be settled early with a cash payment or transfer of an equivalent asset. The settlement factors can be based on various interest rate indexes, security index benchmarks, or other specific events.
> - *Leverage*—the financial arrangement requires minimal or no initial investment or cash payment on the part of the governmental entity, but the agreement achieves changes in fair value that would have required a far larger initial investment.
> - *Net Settlement*—its terms require or permit net settlement; it can readily be settled net by a means outside the contract, or it provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

Investments in derivatives are based on a local government's internal investment policies. The most common examples of derivatives for governmental entities are as follows:

- *Interest Rate Swaps*—contracts or agreements that have a variable payment based on the price of an underlying interest rate or index.
- *Interest Rate Locks*—contracts that allow one party to fix an interest rate for the specified period of time. This instrument is typically used when a governmental entity is worried about increases in interest rates before long-term bonds can be sold to finance a project.
- *Futures Contracts*—exchange-traded securities to buy or sell a security, commodity, foreign currency, or other financial instrument at a certain future date for a specific price. A futures contract obligates a buyer to purchase the commodity or financial instrument and a seller to sell it, unless an offsetting contract is entered to offset one's obligation.

Other common derivatives for governmental entities include commodity swaps, forward contracts, and options. The fair value of derivatives should be reported in the statement of net position of the government-wide, proprietary fund, and fiduciary fund statements.

The changes in the fair value of the hedging derivative instruments are to be reported within the investment revenue classification on the flow of resources statement and deferred inflows or outflows in the statement of net position. Derivatives should be recorded at fair market values. This can include market price if there is an active market for the derivative instrument, or discount of expected future cash flows.

If a derivative fails to effectively hedge, then the change in fair value of the derivative instrument is reported immediately as investment income or loss in the financial statements.

The GASB provides the following methods to evaluating hedge effectiveness:

- Consistent Critical Terms Method
- Quantitative Methods
- Synthetic Instrument Method
- Dollar Offset Method
- Regression Analysis Method

Other quantitative methods based on established principles of financial economic theory are also allowed. For more information regarding accounting and reporting requirements of derivative instruments, refer to the guidance in GASB Cod. Sec. D40 (Section D40).

14.04 Joint Power Agreements

The provisions of the Joint Exercise of Powers Act (Gov. Code, §6500 et seq.) provides the guidance that local governments should follow in regard to Joint Power Agreements (JPA's).

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Chapter 15: Reporting for Service Concession Arrangements

Chapter Contents

Chapter 15: Reporting for Service Concession Arrangements

Introduction

This chapter provides an overview of accounting and reporting guidance for service concession arrangements between the primary government (the transferor) and other governmental and non-governmental agencies (an operator).

Overview of Service Concession Arrangements

Service Concession Arrangements (SCAs) are a type of public-private or public-public partnership. The term public-private partnership is used for a variety of service arrangements, management arrangements, and SCAs. The terms of an SCA may include payments from the operator to the government for the right to build, operate, and collect user fees on infrastructure or other public assets and provide for revenue sharing between the government and the operator during the time period of the arrangement.

SCAs are arrangements between a "transferor" (a government) and an "operator" (a governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration, and (2) the operator collects and is compensated by fees from third parties.

A service concession arrangement (SCA) exists when all of the following criteria are met:

- The transferor conveys to the operator the right and related obligation to provide public services through the use and operation of a capital asset (referred to in GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, as amended, as a "facility") in exchange for significant consideration, such as an up-front payment, installment payments, a new facility, or improvements to an existing facility. These public services relate to the primary function of the facility (e.g., operating a city zoo) rather than ancillary (i.e., providing necessary support to the primary activities or operation of an organization, institution, industry, or system) services operated in conjunction with the facility (e.g., operating the souvenir stand at a city zoo).
- The operator collects and is compensated by fees from third parties.
- The transferor determines—or has the ability to modify or approve—what services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services.
- The transferor is entitled to significant residual interest in the service utility of the facility at the end of the arrangement (including retained ownership of the facility).

Types of SCAs include, but are <u>not</u> limited to:

1) Arrangements in which the transferor (county) owns a building or facility (e.g., a new tollway, a new dormitory, etc.), while the operator provides the associated services, collects the associated fees, and conveys the facility to the government at the end of the arrangement.

   Example:

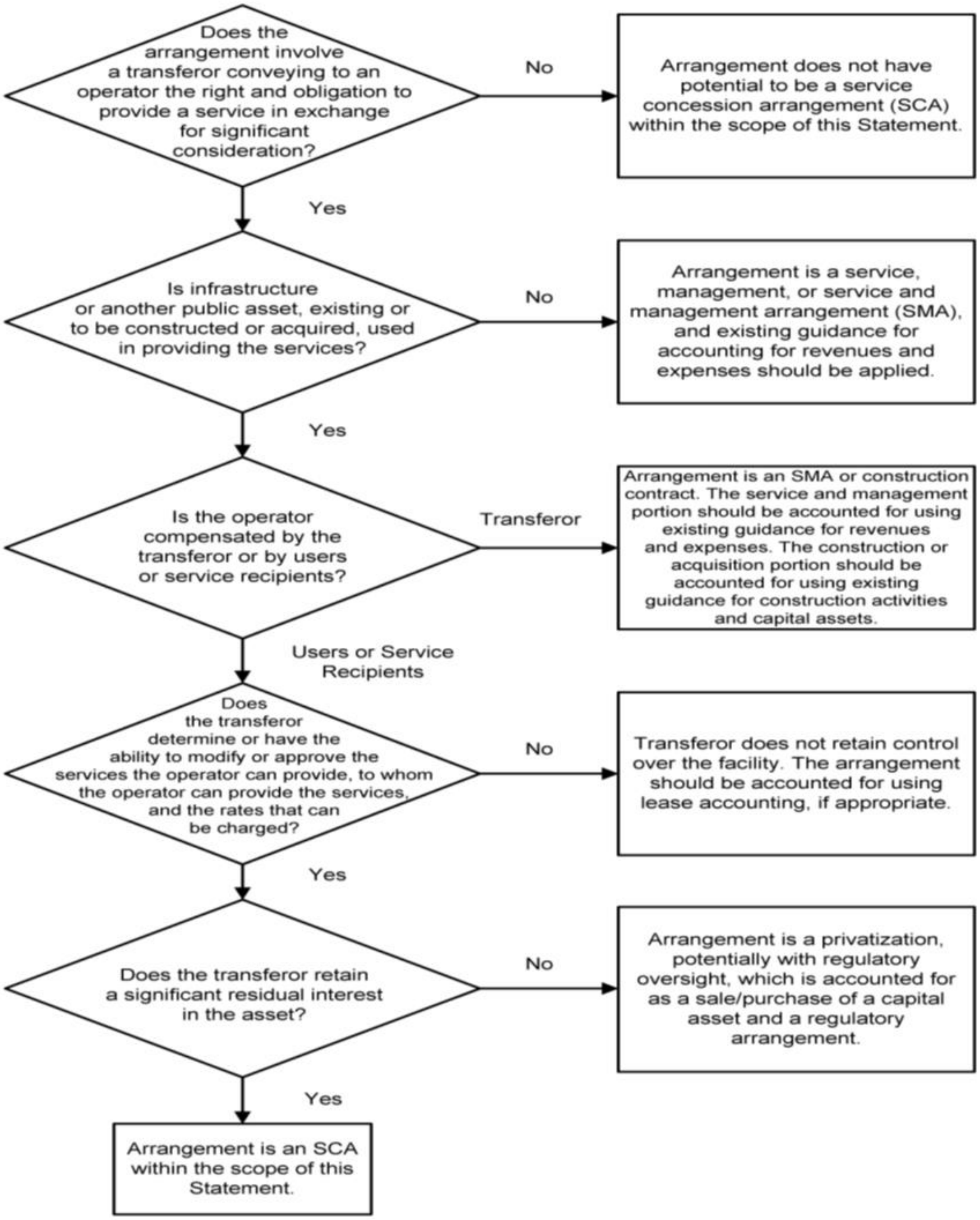
   - The operator agrees to manage the operation of the tollway on a road owned by the county in exchange for the right to keep tolls collected, for a period of five years. At the end of the arrangement, the tollways operation reverts back to the county.

2) Arrangements in which the operator (county) will provide significant consideration in exchange for the right to access an existing facility (e.g., parking garage, golf course, etc.) and collect fees from third parties for its use.

   Example:

   - The operator pays the transferor installment payments of $800,000 in exchange for the right to operate a golf course owned by the transferor. The operator will maintain the facility and keep all fees collected for a period of ten years.

Flowchart for Determining the Applicable Accounting and Financial Reporting Guidance for Public-Private or Public-Public Partnership Arrangements*



*Flowchart was sourced from GASBS 60, ¶64 (GASB Cod. Section S30.901).

15.01 Transferor

Existing Facility

If the facility associated with an SCA is an existing facility, the transferor should continue to report the facility as a capital asset.

New or Improved Facility

If the facility associated with an SCA is a new facility purchased or constructed by the operator, or an existing facility that has been improved by the operator, the transferor should report:

- the new facility or the improvement as a capital asset at fair value when it is placed in operation;
- any contractual obligations as liabilities; and
- a corresponding deferred inflow of resources equal to the difference between the new facility or improvement and the contractual obligations.

Depreciation

After initial measurement, the capital asset is subject to existing requirements for depreciation, impairment, and disclosures. However, the capital asset should not be depreciated if the arrangement requires the operator to return the facility to the transferor in its original or an enhanced condition. The corresponding deferred inflow of resources should be reduced, and revenue should be recognized in a systematic and rational manner over the term of the arrangement, beginning when the facility is placed into operation. If a liability is recorded to reflect a contractual obligation to sacrifice financial resources, the liability should be reduced as the transferor's obligations are satisfied.

As obligations are satisfied, a deferred inflow of resources should be reported, and the related revenue should be recognized in a systematic and rational manner over the remaining term of the arrangement. Improvements made to the facility by the operator during the term of the SCA should be capitalized as they are made and are also subject to requirements for depreciation, impairment, and disclosures.

Liabilities

As contractual obligations are satisfied, a transferor should recognize a liability for certain obligations to sacrifice financial resources under the terms of the arrangement (e.g., required improvements, maintenance, insurance, police services, etc.). Liabilities associated with the SCA should be recorded at their present value if a contractual obligation is significant and meets either of the following criteria:

- The contractual obligation directly relates to the facility (e.g., obligations for capital improvements, insurance, or maintenance on the facility). This obligation could relate to ownership of the facility or could arise from the transferors' responsibility to ensure that the facility remains fit for the particular purpose of the arrangement; or

- The contractual obligation relates to a commitment made by the transferor to maintain a minimum or specific level of service in connection with the operation of the facility (e.g., providing a specific level of police and emergency services for the facility or providing a minimum level of maintenance to areas surrounding the facility).

Up-front or Installment Payment Revenue

If an SCA requires up-front or installment payments from the operator, the transferor should report:

- the up-front payment or present value of installment payments as an asset,
- any contractual obligations as liabilities, and
- A corresponding deferred inflow of resources equal to the difference between the up-front payment or present value of the installment payments and the contractual obligations (e.g. Assets – Liabilities = Deferred Inflows of Resources).

Furthermore, revenues should be recognized as the deferred inflows of resources is reduced. This revenue should be recognized in a systematic and rational manner over the terms of the arrangement. A liability should be recognized if the transferor has contractual obligations that meet the criteria as shown in the preceding "Liabilities" section within this chapter.

Revenue Sharing Arrangements

Some SCAs include provisions for revenue sharing. The transferor should recognize only its portion of the shared revenue when earned according to the terms of the arrangement. If revenue sharing arrangements contain amounts to be paid to the transferor regardless of revenues earned (e.g., annual fixed installments in fixed amounts), then the present value of those amounts should be reported by the transferor and governmental operator as if they were installment payments at the inception of the arrangement.

15.02 Operator

An operator may be either a "governmental" entity (governmental operator) or "nongovernmental" entity. References to operators include both governmental and nongovernmental entities. References to governmental operators include only governmental entities. This section provides guidance for governments that are operators in an SCA.

A governmental operator should report an intangible asset for the right to access the facility and collect third-party fees from its operation at cost (e.g., the amount of an up-front payment, cost of construction, or cost of improvements to the facility) and amortize it over the term of the arrangement in a systematic and rational manner. The cost of the improvement to the facility made by the governmental operator during the term of the SCA should increase the governmental operator's intangible asset if the improvements increase the capacity or efficiency of the facility. Intangible assets are not subject to the provisions of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, as amended, and, therefore, should be reported outside of the capital asset classification.

Some agreements require a facility to be returned in a specified condition. If an SCA requires a facility to be returned in a specific condition, and if the operator has information that indicates the facility is not in the specified condition, and the cost to restore the facility to that condition is reasonably estimable, then a liability—and generally, an expense—to restore the facility should be reported. Governmental operators are not required to perform additional procedures to identify potential condition deficiencies beyond those already performed as part of their normal operations or those that may be required by the agreement.

Existing Facility

For existing facilities, a governmental operator's cost may be the amount of an up-front payment or the present value of installment payments.

New or Improved Facility

For new or improved facilities, a governmental operator's cost may be its cost of improving an existing facility or constructing or acquiring a new facility.

Revenue Sharing Arrangements

As previously stated, some SCAs include provisions for revenue sharing. A governmental operator that shares revenues with a transferor should report all revenue earned and expenses incurred—including the amount of revenues shared with the transferor—that are associated with the operation of the facility. If revenue sharing arrangements contain amounts to be paid to the transferor regardless of revenues earned (e.g., annual fixed installments in fixed amounts), then the present value of those amounts should be reported by the transferor and governmental operator as if they were installment payments at the inception of the arrangement.

Disclosures (Transferor and Governmental Operator)

The following information should be disclosed in the notes to financial statements of Transferors and Governmental Operators for SCAs:

- A general description of the arrangement in effect during the reporting period, management's objectives for entering into it and, if applicable, the status of the project during the construction period;
- The nature and amounts of assets, liabilities, and deferred inflows of resources related to an SCA that are recognized in the financial statements; and
- The nature and extent of rights retained by the transferor or granted to the governmental operator under the arrangement.

Some arrangements may include provisions for guarantees and commitments. For example, a transferor may become responsible for paying the debt of the operator in the event of default, or the arrangement may include a minimum revenue guarantee to the operator. For each period in which a guarantee or commitment exists, disclosures should be made about guarantees and commitments, including identification, duration, and significant contract terms of the guarantee or commitment.

Governments should include the information discussed in the two preceding paragraphs in the notes to the financial statements. Disclosure information for multiple SCAs may be provided individually or in the aggregate for those that involve similar facilities and risk.

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Chapter 16: Investments and Lending

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Chapter 16: Investments and Lending

Introduction

This chapter will provide an overview of the accounting and reporting requirements for investments and securities lending.

Investments

16.01 Fundamentals for Investments

Investments should generally be reported on the balance sheet at fair value. Exceptions include, but are not limited to, 2a7-like external investment pools, investments in non-participating investment contracts (reported at cost) and certain short-term money market investments (reported at amortized cost).

Investment income includes interest (at stated rates), dividends, and the change in the fair value of investments. Components of the change in fair value computation include amortization of premiums and discounts, gains and losses on the sale of investments, and changes in the fair value of items held at the balance sheet maturity date.

Examples of investments that should be measured at fair value include:

- Common Stock (not measured according to equity method);
- Money market investments (not cost based);
- External investment pools that are not 2a7-like external investment pools;
- Life settlement contracts;
- Open-end mutual funds;
- Land and other real estate held as investments;
- Investment derivative instruments; and
- Majority equity interest in separate organization.

Investments can also be measured using the equity method. Under this method, the investments are recorded at cost and the carrying amount of the investment is adjusted accordingly to reflect earnings, losses, and changes in the investee's share of capital.

Examples of type of investments types that should be excluded from using the equity method for valuation purposes include:

- Common Stock held by:
    - Government external investment pools;
    - Pension or other postemployment benefit plans;
    - Internal Revenue Code Section 457 deferred compensation plans; or
    - Endowments (including permanent and term endowments or permanent funds.
- Investments in certain entities calculated by net asset value per share (or its equivalent); and
- Equity interest ownership in joint ventures.

All investment income, including changes in fair value of investments should be recognized as revenue in the financial statements except for those investments held pursuant to irrevocable split-interest agreements.

For more information on investments, local government entities should refer to GASB Codification Section I50 (Section I50).

16.02 Investment Valuation and Disclosure

If it is impractical to obtain investment valuation information from the plan administrator as of the local government's balance sheet date, then the most recent report of the administrator should be used, adjusted for interim contributions and withdrawals.

Local governments that report IRC Section 457 plans should refer to GASB Cod. Sec. D25.102 (Section D25, paragraph .102) for more details regarding valuation of plan assets if not using their actuarial or plan administrator information. All other plan investments should be reported at fair value. Local governments should refer to GASB Cod. Sec. I50.108 (Section I50, paragraph .108) for more information on valuations.

Disclosures regarding the valuation and reporting of the investment assets should cover the techniques employed for the fair value measurement, changes from prior techniques, restrictions in the investments, and investment strategies. The disclosures of component units should be separately stated from the disclosures of the primary government.

16.03 Reverse Repurchase Agreement

A *Reverse Repurchase Agreement* is an agreement in which a broker-dealer or financial institution (buyer-lender) transfers cash to a governmental entity (seller-borrower); the entity transfers securities to the broker-dealer or financial institution and promises to repay the cash plus interest in exchange for the same securities.

The assets and liabilities arising from reverse repurchase agreements and fixed coupon reverse repurchase agreement should not be netted on the balance sheet. Securities should be reported as investments. Liabilities related to repurchase agreements and fixed coupon reverse repurchase agreements should be reported under the caption "Obligations under reverse repurchase agreements" in the financial statements. Interest costs of reverse repurchase agreements are reported as interest expense/expenditures. The interest costs should not be netted with interest earned on any related investments.

If the local government pools money from several funds for investment purposes and the pool rather than the individual funds has reverse repurchase agreements, it should report the assets and liabilities arising from the agreements in the balance sheets of the funds that have the risk of loss on those assets. In many cases, this will involve a pro-rata allocation to the various funds based on their equity in the pool. Similarly, the income and costs arising from pooled reverse repurchase agreements should be reported in the operating statements of the funds and activities (exceptions apply).

For additional information on accounting and financial reporting requirements for securities lending transactions, local government entities should refer to GASB Codification Section I55 (Section I55).

Securities Lending

16.04 Securities Lending Transactions

Securities Lending Transactions are transfers of securities to broker-dealers and other entities for collateral—that may be cash, securities, or letters of credit—with a simultaneous agreement to return the collateral for the same securities in the future.

Significant items of note in regard to these type of transactions are as follows:

- Cash received as collateral on securities lending transactions and investments made with this cash should reported as assets.
- Invested collateral and investments made with that cash should be measured at fair value, some exceptions may apply.
- Securities received as collateral should be reported as assets if the local government has the ability to pledge or sell them without a borrower default.
- Liabilities resulting from these lending transactions should be reported in the balance sheet.
- Securities lent to broker-dealers and other entities should be reported as assets in the balance sheet.
- Securities lending transactions collateralized by letters of credit or by securities that the local government does not have the ability to pledge or sell unless the borrower defaults should not be reported as assets and liabilities.
- Costs of securities lending transactions, such as borrower rebates (interest costs) and agent fees should be reported as expenditures or expenses in the operating statements.

These costs should not be netted with interest revenue or income from the investment of cash collateral, any other related investments, or loan premiums or fees.

If a local government pools money from several funds for investment purposes and the pool, rather than the individual funds, has securities lending transactions, it should report the assets and liabilities arising from the securities lending transactions in the balance sheets of the funds that have the risk of loss on the collateral assets. In many cases, this will involve a pro-rata allocation to the various funds based on their equity in the pool. Similarly, the income and costs arising from pooled securities lending transactions should be reported in the operating statements of the funds.

For additional information on accounting and financial reporting requirements for securities lending transactions, local government entities should refer to GASB Codification Section I60 (Section I60).

Chapter 17: Demand Bonds and Debt Obligations

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Chapter 17: Demand Bonds and Debt Obligations

Introduction

This chapter will provide an overview of the accounting and reporting requirements for demand bonds and conduit debt obligations.

Demand Bonds

17.01 Demand Bonds

Demand bonds are long-term debt issuances with *demand* ("put") provisions that require the issuer or its agent to repurchase the bonds upon notice from the bondholder at a price equal to the principal plus accrued interest. The demand provisions are exercised at the balance sheet date or statement of net position date or within one year from the date of that statement.

To ensure the ability to redeem the bonds, issuers of demand bonds frequently enter into short-term standby liquidity agreements and long-term arm's-length financing "takeout" agreements (agreements with an unrelated third party, with each acting in his or her own self-interest). Details of demand bond arrangements are required in the note disclosures.

Demand bonds should be reported by state and local governmental entities as general long-term liabilities (and reported only in the government-wide statement of net position) or excluded from current liabilities of proprietary funds if all of the conditions are met. If all of the following conditions are not met, the demand bonds should be reported as liabilities in governmental funds, or, in the case of proprietary funds, as current liabilities.

- Before the financial statements are issued, the issuer has entered into arms-length financing (take out) agreement to convert bonds "put" but not resold into some other form of long-term obligation.
- The take out agreement does not expire within one year from the date of the issuer's balance sheet or statement of net position.
- The take out agreement is not cancelable by the lender or the prospective lender during that year, and obligations incurred under the take out agreement are not callable by the lender during that year.
- The lender or the prospective lender or investor is expected to be financially capable of honoring the take out agreement.

With regard to condition third condition, if the takeout agreement is cancelable or callable because of violations that can be objectively determined by both parties and no violations have occurred prior to issuance of the financial statements, then the demand bonds should be classified as general long-term liabilities (and reported in the government-wide statement of net position) or as long-term debt of proprietary funds.

If violations have occurred and a waiver has been obtained before issuance of the financial statements, the bonds should be reported in the same manner. Otherwise, the demand bonds should be classified as liabilities in governmental funds or, in the case of proprietary funds, as current liabilities. If the takeout agreement is cancelable or callable because of violations that cannot be objectively determined by both parties, then the agreement does not provide sufficient assurance of long-term financing capabilities and the bonds should be classified as liabilities in governmental funds, or in the case of proprietary funds, as current liabilities.

If the third condition identified in the previously listed in the section are not met at the time a demand bond is issued (or prior issuance of the financial statements for that year), then the liability for demand bonds should be recorded as a liability in the fund used to record the proceeds of the bond issue. Typically, this could either be debt service funds or capital projects funds.

Certificates of Participation (COPs) and Conduit Debt Obligations

17.02 Certificates of Participation (COPs)

A certificate of participation (COP) is a form of long-term asset transfer obligation that is securitized by future lease payments by the local government, rather than by the full faith or credit of the local government. The lease payments arise by virtue of a sale-leaseback arrangement, which is an integral part of the financing. GASB Interpretation No. 2, as amended, defines third party COPs as a form of conduit debt obligation requiring disclosure in the notes to the financial statements.

In a COP program, a trustee is typically appointed to issue the securities that represent a percentage interest in the right to receive payments from the local government under the lease-purchase contract. Investors that participate in the program are given a certificate that entitles each investor to a share, or participation, in the revenue generated from the lease-purchase of the property or equipment to which the COP is tied. The lease and lease payments are passed through the lessor to the trustee, who oversees the distribution of the payment to the certificate holders on a pro-rata basis.

COPs do not require voter approval and also can be issued more quickly than referendum bonds. In addition, COP financing is more complex and generally resembles bond financing. An underwriter of the COP's will be required, as will various fiscal agents. An official statement providing disclosure to investors must be approved by the local government and, in most cases, the local government must contract to make continuing disclosures to SEC Rule 15c2-12 under the Securities Exchange Act of 1934.

COPs are also used as credit instruments by banks to raise funds from other banks in order to ease liquidity. Short-term funds are raised by issuing participation certificates, which involve sharing credit assets with other banks. The rate at which these certificates can be issued will be negotiable, depending on the interest rate scenario.

17.03 Conduit Debt Obligations

Conduit debt obligations are certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing capital financing for a specific third party that is not a part of the issuer's financial reporting entity. Conduit debt should be reported in the notes to financial statements of the local government entity issuing the conduit debt.

Conduit debt financial statement note disclosure should include a general description of transactions, the aggregate amount of conduit debt obligations at the balance sheet date, and a clear indication that the issuer has no obligation for such debt beyond the resources of the related lease or loan. The statement does not preclude issuers from continuing to report the conduit debt obligations as liabilities with related assets on their financial statements, as long as the debt is substantially the same as that previously reported.

Debt Issuance and Refundings

17.04 Debt Issuance Costs

Debt issuance costs, except any portion related to prepaid insurance costs, should be recognized as an expense in the period incurred. Prepaid insurance costs should be reported as an asset and recognized as an expense in a systematic and rational manner over the duration of the related debt.

17.05 Refunding of Debt

Refunding of debt involves the issuance of new debt whose proceeds are used to repay previously issued (i.e., old) debt. The new debt may be used to repay the old debt immediately (a current refunding), or the proceeds from the new debt may be placed with an escrow agent to repay the debt at a future time (an advance refunding).

A <u>legal defeasance</u> occurs when the debt is legally satisfied based on provisions in the debt instrument even though it is not actually paid. An <u>in-substance defeasance</u> occurs when a legal defeasance has not occurred but is considered defeased for accounting and financial reporting purpose.

Advance refunding of governmental fund debt reported in the debt accounting records are accounted for as follows:

- The receipt of proceeds of the new debt should be reported in the Other Financing Sources—Refunding Bonds account;
- Payments to the escrow agent from the new debt should be reported in the Other Financing Use—Payment to Refunded Bond Escrow Agent account. Payments to the escrow agent made from other resources of the entity should be reported as debt service expenditures;

- The debt accounting records should be adjusted for the increase or decrease in the amount of long-term debt; or
- Appropriate allocations should be made when one large refunding issue is used to refund debt of various fund classifications.

All governmental entities that defease debt through an advance refunding should also provide a general description of the transaction in the notes to the financial statements. Disclosures should include (a) the difference between the cash flows required to service the old debt and the cash flows required to service the new debt and complete the refunding, and (b) the economic gain or loss that arises from the transaction, as defined by GASB Cod. Sec. D20.114 (Section D20, paragraph .114).

GASB Statement No. 23, *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities*, as amended, provides guidance for debt refunding in proprietary funds. For current refundings and advance refundings resulting from a defeasance of debt reported by proprietary funds, the difference between the reacquisition price and net carrying amount of old debt should be reported as a deferred outflow of resource or a deferred inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of new the debt, whichever is shorter.

17.06 In-Substance Defeasance of Debt

GASB Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt*, as amended, defines *debt* to be defeased in substance, for accounting and financial reporting purposes, if the local government entity irrevocably places cash or other assets in an essentially risk-free trust (e.g., with an escrow agent) to be used solely for satisfying payments of both interest and principal of the defeased debt, and the possibility that the local government entity will be required to make future payments on that debt is remote.

In circumstances where the local government entity is only using existing resources to place cash and monetary assets in a trust to defease a debt, proceeds from debt refunding do not qualify as "existing resources. To be considered risk-free, the monetary assets are generally limited to obligations guaranteed by the U.S government. This deposit should provide sufficient cash flows in order to guarantee timely payment of the defeasance of debt's principal and interest as scheduled.

For financial statements using the current financial resources measurement focus, payments to the escrow agent from existing resources should be reported as debt service expenditures.

Any difference between the reacquisition price and net carrying amount of the debt, including deferred inflows and outflows of resources from prior refundings, should be reported separately as a gain or loss in the period of the in-substance defeasance. Any remaining prepaid insurance related to the extinguished debt—legal or in-substance defeasance— should be included when calculating the "net carrying amount" of the debt.

Local government entities that defease debt using existing resources should provide a general description about these transactions in the notes to financial statements.

Examples include:

- the amount of debt;
- the amount of cash and monetary assets held in trust;
- reasons for defeasance; and
- cash flows required to service the defeased debt.

When debt is defeased in substance, it is no longer reported as a liability on the face of the financial statements when using the economic resources measurement focus. The amount of the debt outstanding at period-end should still be disclosed by fund type and account group in the notes to the financial statements. For more information on disclosure requirements related in-substance defeasance of debt, refer to GASB Cod. Sec. D20.124 - .128 (Section D20, paragraphs 124–128).

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Chapter 18: Taxes

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Chapter 18: Taxes

Introduction

Local government entities provide a variety of services to their constituents within their specific boundaries. Taxes are an important revenue source and allow governments to provide services such as police, emergency, public health care, and criminal justice services. The purpose of this chapter is to provide an overview of the tax revenues received by local governments.

The legal authority of local taxation is highly complex and, therefore, we recommend that government entities consult with their internal legal counsel and relevant regulatory authorities regarding the interpretation of the law. The tax revenues covered in this chapter are not all-inclusive; local government entities should refer to the legislative provisions that govern them to determine the type of taxes (general or special) they can levy.

Governing Statutes

18.01 Legal Definitions and Authority

Taxes are an important source of revenue for local governments. According to Section 1 of Article XIII C of the California Constitution, "*tax*" means "any levy, charge or exaction of any kind imposed by a local government".

According to Article XIII C of the California Constitution, the following do not qualify as taxes:

- A charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.
- A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.
- A charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof.
- A charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property.
- A fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law.
- A charge imposed as a condition of property development.
- Assessments and property-related fees imposed in accordance with the provisions of Article XIII D of the California Constitution.

According to Government Code section 53721, taxes fall into one of two categories: special taxes or general taxes. *General taxes* are imposed for general governmental purposes and *special taxes* are imposed for specific purposes.

According to Government Code section 53723, general taxes require a majority-vote of approval by the taxpayers, whereas Government Code section 53722 requires two-thirds approval by the voters to levy a special tax. Section 2(a) of Article XIII C of the California Constitution prohibits special districts from levying general taxes.

Government Code section 50075 et seq. allows local government entities to levy special taxes. Special taxes are non-ad valorem in nature as they are not based on assessed values of a property. Refer to section 18.23, *Special District Tax Codes*, in regard to the kinds of special taxes that can levied by special districts.

While the focus of this chapter is tax revenues, it is important to note that apart from taxes, local governments have other forms of revenues. These revenues include services charges, fees, benefit assessments, bond issues, and grants received from the state and federal governments.

Property Taxes

18.02 Property Taxes Overview

Counties, cities, and special districts (typically nonenterprise special districts) are recipients of property tax revenues. For most local government entities, property taxes are a major source of revenue. Property taxes are ad valorem in nature as they are based on the assessed value of a property. Revenue and Taxation Code section 2202 defines *ad valorem property taxation* as a source of revenue derived from applying a property tax rate to the assessed value of the property."

According to Section 1 of Article XIII of the California Constitution, property taxes are imposed on the following types of property:

- Real property—examples include land and buildings; and
- Tangible personal property (movable property)—examples include boats, aircraft and business equipment.

Property values are accounted for on property tax rolls (i.e., lists) maintained primarily by the county assessor. Entries on the tax rolls include the parcel numbers, assessee name, and value. The various types of rolls are (see glossary for definition of the rolls listed below):

- Secured
- Unsecured
- State assessed
- Supplemental
- Redemption
- Delinquent unsecured

The Revenue and Taxation Code prescribes distribution formulas and methods for the different types of property tax levies. According to Section 1(a) of Article XIII A of the California Constitution, the maximum amount of any ad valorem tax on real property shall not exceed one percent of the full cash value of such property (refer to Section 1(b) of Article XIII A of the California State Constitution for the exceptions to this limitation). Special taxes, assessments, fees and charges, are distributed directly to jurisdictions within the counties.

18.03 Assembly Bill 8 (AB 8) Allocation

The apportionment of property tax revenues to jurisdictions is comprised of an ad valorem rate for voter-approved debt and the countywide 1% levy by tax rate area (TRA). The amounts are totaled countywide for each debt fund and the 1% levy. The 1% portion is distributed to jurisdictions by percentage factors computed pursuant to the formulas contained in section 95, et seq., of the Revenue and Taxation Code (commonly referred to as AB 8).

Prior to the passage of Proposition 13 (which added Article XIIIA to the California Constitution) in June 1978, tax rates were annually computed, adopted, and levied for the general operations and general obligation bonds of schools, cities, counties, and special districts. The individual rates were combined by TRA and the total rate computed for each TRA was used to compute individual tax bills.

With the enactment of Proposition 13, individual jurisdictions were precluded from levying a rate for operations and a countywide maximum rate of 1% was levied for all jurisdictions. The enabling legislation contained a one-year property tax distribution method that ensured that each jurisdiction that levied a rate in FY 1977-78 would receive a share of the maximum rate levied. The basis for this one-year formula for cities, counties, and special districts was the average percentage of all property taxes received in the three fiscal years prior to the FY 1978-79. The pro rata distribution for schools was based only on the FY 1977-78 property tax revenues received.

Due to the shortcomings of the FY 1977-78 formula, the Legislature enacted both Assembly Bill 8 and Assembly Bill 1019 in 1979; these bills introduced a new formula for the distribution of property tax revenues.

The key feature of AB 8 was the creation of a property tax base for each jurisdiction that would increase in proportion to the growth in assessed values. The “base” also includes adjustments for the FY 1978-79 “block grant” or “bailout” amounts received by counties, cities, and special districts. In general, each jurisdiction receives the amount it received in the prior year plus its share of any growth in property tax within its boundaries.

The property tax revenue base for cities, counties, and special districts was comprised of:

- The property tax revenue received in FY 1978-79; and
- Adjusted State bailout amounts.

Once a local government computes its base property tax amount, it then allocates it to each TRA within its jurisdiction. For each jurisdiction, a percentage factor was computed for each TRA. The percentage factor was computed by dividing the assessed value of each TRA by the total assessed value of the jurisdiction.

Once the allocation of base revenue amounts to the TRAs was completed for all jurisdictions, percentage factors were computed in each TRA based on the allocated amounts.

Annually each city, county, special district, and school fund is allocated an amount equal to the amount it received in the prior fiscal year plus a proportionate share of the change in property tax revenues arising from the change in assessed valuation in the TRAs it occupies, and has an allocation factor computed for it. The computations are based on the equalized roll valuation.

Provisions were also made for local districts to negotiate the exchange of property tax revenues as a result of annexations, the formation of new districts, or the incorporation of cities. A resolution by the county board of supervisors is generally required in all cases.

In FY 1992-93 and FY 1993-94, the State Legislature shifted property taxes from local agencies to schools, using newly created Educational Revenue Augmentation Fund (ERAF), in effect reversing the FY 1978-79 bailouts. Counties incorporated these shifts into the AB 8 process using one of two allowable methods:

- A TRA level model, under which each ERAF was allocated base tax and an increment factor for each TRA, or
- A jurisdictional model, which instead added an annual shift calculation and adjustment to the AB 8 apportionment factors before finalizing amounts to be allocated.

For more information on property tax allocations, local governments should refer to Revenue and Taxation Code section 96 et seq.

18.04 Redevelopment Agencies

Pursuant to Health and Safety Code section 34161 et seq., redevelopment agencies were dissolved and their functions were transferred to successor agencies. Health and Safety Code section 34182 et seq., also transferred property tax revenues that would have gone to redevelopment agencies to pay for debts and obligations incurred by the redevelopment agencies. Once the debts and other obligations of former redevelopment agencies have been settled, the property tax revenue that would have gone to their successor agencies will be distributed to schools, cities, counties and special districts.

For more information on property taxes, local governments should refer to RTC section 50 et seq., and the California State Board of Equalization (BOE) website, at http://www.boe.ca.gov. Property tax legislative references are also covered in section 18.21, *Examples of Property Tax Codes*.

18.05 Supplemental Property Taxes

Supplemental property taxation is governed by RTC section 75 et seq. A supplemental tax is the result of a reassessment of real property when there is a change of ownership or completion of new construction, as long as the real property does not qualify for reassessment exclusion. This supplemental reassessment procedure became effective for FY 1983-84 forward.

Supplemental taxes can be either secured or unsecured. They can also be initially secured assessments changed to unsecured if a change of ownership occurs before the bill or refund from a previous supplemental assessment is mailed.

As supplemental taxes are simply an extended form of secured and unsecured taxes, many of the procedures are similar. This section concentrates on the unique aspects of supplemental taxes.

Supplemental reassessments can result in either an increase or a decrease in taxable value. Usually an increase will produce a bill and a decrease will produce a negative assessment, commonly referred to as a supplemental refund. If supplemental refunds are not made within 90 days of enrollment of the negative assessment on the supplemental roll, then per the provisions of Revenue and Taxation Code section 5151 interest is computed. Supplemental refunds are made from taxes collected on the supplemental roll.

Supplemental taxes are on a continuous roll. They are processed throughout the fiscal year and initiated when a transfer of ownership occurs or new construction is completed. The date of that transfer or completion is called the supplemental event. Taxes are calculated by using the supplemental event and prorating the amount due based on the number of full months remaining through the end of the fiscal year.

18.06 Unitary

The information discussed in this chapter section is concerning State assessed properties classified as "unitary." RTC section 100 et seq., provides the method by which unitary properties are billed and apportioned. For these purposes, there are three types of unitary property:

- *Unitary Property*—A group of properties that operate as a unit as part of the primary function of the assessee;
- *Operating Nonunitary*—A group of properties that operate as a unit but is not a part of the primary function of the assessee; and
- *Nonoperating Nonunitary*—Properties that do not operate as a unit and are not part of the primary function of the assessee.

The State Board of Equalization (BOE) assesses and reports to the counties the values of all unitary properties. Counties are then responsible for billing, collecting and apportioning the taxes associated with those values. Nonoperating nonunitary values are reported as one combined value in each TRA.

These values are then billed and apportioned in a manner similar to all other secured taxes, but have a separate apportionment factor. Unitary and operating nonunitary values for each unitary property are reported as one combined value in each county and are subject to these guidelines.

Unitary and operating nonunitary values are reported by BOE in TRA 000-001, which is a theoretical TRA established to report these values. This TRA includes one value for each assessee. As unitary and operating nonunitary values are reported as a single value for each assessee, they cannot be associated with a particular tax rate. It is, therefore, necessary to develop a special unitary tax rate. This tax rate consists of the 1% ad valorem tax rate and a unitary debt service ad valorem tax rate.

For detailed information concerning the computation of the one percent unitary tax rate and the appropriate allocations, refer to BOE's State Assessment Manual located on their website at http://www.boe.ca.gov.

18.07 Pipeline Rights of Way

The information discussed in this section is concerning State assessed properties classified as "pipeline rights-of-way."

Revenue and Taxation Code sections 100.01 and 401.8 outline the manner in which counties will assess intercounty pipeline rights-of-way. Sacramento Municipal Utilities District (SMUD) has an exception for a Pacific Gas & Electric (PG&E) pipeline that runs through 30 counties. Counties are responsible for billing, collecting, and apportioning the taxes associated with those values.

Taxing at the 1% general tax rate and debt service rates are the same as unitary, but have separate apportionment factors. Billing and collection activities are the same as unitary. The TRA used for pipeline rights-of-way is TRA 000-511.

18.08 Qualified Railroad Property

The information discussed in this section is concerning State assessed properties classified as "qualified railroad property."

Revenue and Taxation Code section 100.11 outlines the manner in which qualified railroad property will be assessed. Counties are responsible for billing, collecting, and apportioning the taxes associated with those values. Taxing at the 1% general tax rate and debt service rates are the same as unitary, but have separate apportionment factors. Billing and collection activities are the same as unitary. The TRA used for railroad property is TRA 000-002.

18.09 Homeowners Property Tax Exemption Reimbursement

Pursuant to the provisions of Revenue and Taxation Code section 218, a homeowner who resides principally on his/her property as of January 1st is entitled to a maximum of $7,000 value reduction. The lost tax revenues resulting from granting the exemption to the homeowner is reimbursed by the State to the applicable taxing entities.

The claim for reimbursement includes the following:

1. (A) Current secured and unsecured homeowners exempted value times total tax rate by TRA.

   (B) Supplemental roll homeowners exempted value times the tax rate, times prorated dates (if applicable) by TRA.

2. For any prior-year homeowner adjustment that has not previously been claimed, take the exempted value times the rate by TRA. This must be reported by the appropriate year of loss.

Once the amount by TRA has been determined, it is applied against the TRA allocation percentage. This will provide an amount relative to 1%, to be applied against current-year AB 8 factors, and the amount for all debt service funds. A summary showing total amount by fund type (schools, special districts, cities and counties) must be sent with the claim.

Payment is received from the State on or before the following dates and must be distributed within ten days:

Date	%
November 30th	15%
December 30th	35%
April 30th	35%
May 31st	15%

18.10 Property Tax In Lieu of Motor Vehicle License Fee (VLF Swap)

Enacted in FY 2004-05, Revenue and Taxation Code section 97.70 permanently provides additional property tax revenues to local government entities in lieu of the discretionary Motor Vehicle License Fee (VLF) revenue these entities previously received. This is commonly referred to as the “VLF” Swap. This was done so that local governments would be compensated for the loss of VLF revenue.

The Vehicle License Fee Adjustment Amount (VLF adjustment), as defined in RTC section 97.70(c)(1), will be funded by means of a reduction to the Educational Revenue Augmentation Fund (ERAF) amount available for allocation to all school districts and community college districts within the county in accordance with RTC section 97.70(a)(1)(A).

If the ERAF fund is insufficient to fund the VLF adjustment amount, the county auditor shall reduce the total amount of ad valorem property tax revenue that is otherwise required to be allocated to all school districts and community college districts in the county for that fiscal year by an amount equal to the difference between the countywide VLF adjustment amount and the amount of ad valorem property tax revenue that is otherwise required to be allocated to the county ERAF for that fiscal year.

The process described in the preceding paragraph is in accordance with the provisions of Revenue and Taxation Code sections 97.70(a)(1)(B) and in conjunction with 97.70(f)(1). For the purposes of completing this activity, "school districts" and "community college districts" do not include any districts that are excess tax school entities, as defined in Revenue and Taxation Code section 95(n).

It is recommended that the VLF Swap be done at the jurisdictional level (outside of the AB 8 process) because it is an exchange of discretionary vehicle license fees for Property Tax in Lieu of Vehicle License Fee. Although these in-lieu taxes are classified as property taxes, they are not secured property taxes or unsecured property taxes in the traditional sense, but are originated from each county's ERAF fund.

Each county will establish the Vehicle License Fee Property Tax Compensation Fund (VLF Compensation Fund) to deposit property tax revenues equal to the determined VLF Adjustment amounts (RTC, §97.70(a)(2)). In addition, a revenue account called the Property Tax in Lieu of Vehicle License Fee will be created for each county and city to record the allocation of revenues from the VLF Compensation Fund.

For more information on property taxes, local governments should refer to the California State Board of Equalization (BOE) website, at http://www.boe.ca.gov. Property tax legislative references are also covered in section 18.21, *Examples of Property Tax Codes*.

Example:

Method of Allocations

Secured and Unsecured Tax Rolls and Homeowners Exemption: Transfer the FY 2004–05 VLF Adjustment amounts as determined by the State Controller from the *ERAF* to the *VLF Compensation Fund*. Record the allocations from the *VLF Compensation Fund* to the newly created revenue account Property Tax in Lieu of Vehicle License Fee.

Timing and Entry of Allocations

Distribute the 1st half of the VLF Adjustment amount on or before January 31st and the 2nd half of the VLF Adjustment amount on or before May 31st of each fiscal year RTC §97.70(b)(2).

Account	Debit	Credit
Educational Revenue Augmentation Fund		
Due to ERAF	9,500,000	
Due to VLF Compensation fund		9,500,000
Due to VLF Compensation	9,500,000	
Cash		9,500,000
VLF Compensation Fund		
Cash	9,500,000	
Due to City of Zinfandel		50,000
Due to City of Shiraz		1,050,000
Due to City of Merlot		2,400,000
Due to County of Wine		6,000,000
Due to City of Zinfandel	50,000	
Due to City of Shiraz	1,050,000	
Due to City of Merlot	2,400,000	
Due to County of Wine	6,000,000	
Property tax in Lieu of VLF — City of Zinfandel		50,000
Property tax in Lieu of VLF — City of Shiraz		1,050,000
Property tax in Lieu of VLF — City of Merlot		2,400,000
Property tax in Lieu of VLF — County of Wine		6,000,000

18.11 Parcel Taxes

According to Government Code section 54930 et seq., *parcel tax* means, "a tax levied by a local agency upon any parcel of property identified using the assessor's parcel number system, or upon any person as an incident of property ownership pursuant to Section 4 of Article XIII A of the California Constitution, that is collected via the property tax bill."

Parcel taxes are considered special taxes according to Proposition 218 (1996) and are non-ad valorem in nature, as they are not based on the assessed value of a property. Parcel taxes are usually calculated on a wide variety of parcel characteristics such as parcel area, land use, etc. and are not based on the assessed value of a property. According to Section 3 of Article XIII D of the California Constitution, parcel taxes require two-thirds majority vote, even if they are levied for any general purposes.

Sales and Use Taxes

18.12 Sales and Use Tax

All consumers are familiar with the concept of sales tax. Every time a tangible item is purchased from a store, a sales tax is imposed on the item purchased. The sales tax a consumer pays is actually imposed on the retailer by either a city or a county, but some exceptions apply. Most services are also exempt from sales tax.

The base statewide sales and use tax rate is 7.25%. The sales and use tax rate can be higher than the statewide base rate and vary from one taxing district (not special districts) to another because taxing districts can also impose one or more district taxes pursuant to RTC section 7261 et seq.

According to RTC section 7202(h)(1), payment of the city sales tax is credited against the payment of the county sales tax—in this way, the purchaser only pays once for the sales tax.

In addition to sales tax, local voters may authorize additional "transaction and use tax". Local government entities can levy transactions and use tax pursuant to RTC section 7285 et seq. Transactions and use taxes usually apply to use, storage or other consumption of goods. RTC section 7251.1 caps the combined rate for transactions and use tax at 2%.

Not all special districts can levy transaction and use taxes. Local governments should refer to the statutes that created them to determine whether they can levy transaction and use taxes, pursuant to RTC section 7251 et seq.

Pursuant to RTC section 7284 et seq., and Government Code section 37100 et seq., local government entities may impose utility tax on the consumption of electricity, gas, water, sewer, telephone and cable television services. Utility companies usually collect the utility user taxes via their billing process and remit the tax to the local government entity that imposed them. Any increase of a local tax requires voter approval.

For more information on sales and use tax, local governments should refer to RTC section 6001 et seq., and the California Department of Tax and Fee Administration (CDTFA) website, at https://www.cdtfa.ca.gov. The CDTFA website also contains the latest information on sales and use tax rates applicable to cities and counties.

18.13 State Public Safety Sales Tax

Proposition 172 imposed a one-half percent sales tax to be used by local governments on local public safety. These funds are collected by the BOE and made available to the State Controller's Office to apportion to counties based on its share of statewide taxable sales.

Other Taxes

18.14 Gas Tax

Pursuant to various provisions of the Revenue and Taxation Code, the State imposes a tax on each gallon of gasoline and each gallon of diesel fuel. These funds are apportioned to local governments pursuant to the various provisions of the Streets and Highway Code. Local governments should use these tax revenues for research, planning, construction, improvement and maintenance of public streets, highways and mass transit.

18.15 Motor Vehicle License Fee

The Motor Vehicle License Fee is a tax imposed and collected by the State on the ownership of a registered vehicle. Counties receive these revenues to fund certain heath, social service and public safety programs that were realigned to counties in 1991 and 2011.

18.16 Business License Tax

Local government entities may impose a business license tax on persons and entities pursuant to RTC section 7284 et seq., and Government Code section 37100 et seq. Voter approval is necessary to impose a business license tax. Business license tax rates are set individually by local government entities, and may be based on a number of factors, including total business revenue, quantity of goods sold, number of employees, or square footage of the business. Local government entities may also levy business license tax rates at a flat rate. Generally, business license taxes are not levied for any specific purposes; they usually fall within the purview of a general tax.

18.17 Transient Occupancy Tax or Hotel Bed Tax

Pursuant to RTC section 7280 et seq., local government entities may impose transient occupancy taxes on people occupying hotels, motels or similar types of lodging, including mobile homes, for a period of 30 days or less. Local governments that are allowed to levy the transient occupancy tax may set their own transient occupancy rates. Any increase of a local tax requires voter approval.

18.18 Aircraft Tax

Aircraft is taxed at the same rate and in the same manner as all other personal property. Distribution of this tax is determined pursuant to Revenue and Taxation Code section 5451.

<u>Example</u>

a) Taxable aircraft within the county is assessed at a market value of $630,000. Aircraft taxes of $6,300 are charged off on the unsecured roll:

Account	Debit	Credit
Unapportioned Tax Fund		
Taxes receivable — current — unsecured	6,300	
Due to other funds and other governments — aircraft taxes		6,300
(To record the aircraft tax charge on the unsecured roll)		

b) $6,000 in aircraft taxes is collected:

Account	Debit	Credit
Unapportioned Tax Fund		
Cash	6,000	
Taxes receivable — current — unsecured		6,000
(To record the collection of aircraft taxes)		

18.19 Other In Lieu Taxes

County-Levied taxes for which a revenue account has not otherwise been provided are posted to the *Other Taxes* account. Following is a brief description of each:

Timber Yield Tax (Revenue and Taxation Code section 38101 et seq.)

The timber yield tax is a State tax that is authorized under subdivision (j) of Section 3 of Article XIII of the Constitution for the stated purpose of encouraging the continued use of timberlands for the production of trees for timber products (stats. 1976, Ch. 176, p. 324, in effect May 24, 1976). This yield tax is actually a payment in lieu of ad valorem property taxes.

The *Timber Yield Tax Fund* is administered by the State Board of Equalization (BOE). The in lieu tax is based on cut timber only and the rate and values are determined based on numerous criteria. Each person/company cutting timber must apply for a permit to do so. A Timber Tax Return is filed yearly and payments are made to the BOE. The payments are accumulated and, on November 30 and May 31 of each fiscal year, the Controller must transmit to the county treasurers the balance in the Timber Tax Fund on those dates. The State allocates to each county its percentage share of the *Timber Yield Fund* after reimbursement of the State's costs. BOE provides a reconciliation with the payment.

Upon receipt of the amount certified by the Controller, the auditor shall distribute to each taxing agency its share within 10 days. The amount due to each taxing agency is determined using an average timber tax dollar received for FYs 1972–73, 1973–74, and 1974–75. Adjustments to schools for their share of any area-wide monies and to colleges based on Government Code section 27423(b) are included in this average. A percentage of each entity to the full average timber tax dollar is determined and these factors are used in all subsequent years to allocate the amounts received from BOE. The value of the timber per the assessor or BOE is determined and an estimate of the FY 1972–73 to FY 1974–75 averaging years is made. The above calculation of factors is redone based on this shift of timber value.

State Highway Property Rental (Streets and Highways Code section 104.13

The Department of Transportation (DOT), under Streets and Highways Code section 104.6, is given the authority to acquire land for future needs. DOT is also authorized to lease the property acquired until needed for highway expansion. The total of the lease payments received is deposited in the *State Highway Account* in the *State Transportation Fund*. Twenty-four percent of such rent is allocated pursuant to section 104.10 of the Streets and Highways Code.

No later than the first day of November following the close of the fiscal year, DOT shall pay rents computed pursuant to section 104.6 DOT certifies to the Department of Finance the amount of such rentals attributable to each county and notifies the county of location and the rental amount of each property within the county's jurisdiction.

Upon receipt of the State's payment, the county auditor shall distribute any payment received pursuant to this section to each revenue district for which the county is the assessing and collecting agent, and to every other taxing agency within the county in which the property is situated in the amount as determined by the board of supervisors, with the following exception: one-half of the allocation for a rental property shall be allocated to the city in which the rental property is located. DOT should be notified if the revenue received is not sufficient to pay the total tax due.

Fish and Game Tax (Fish and Game Code section 1504)

The Department of Fish and Game acquires real property within counties for the specific purposes of wildlife management and preservation. The property tax revenue loss to the county is reimbursable as an in lieu tax under Fish and Game Code section 1504. This tax dollar value is determined at the time of acquisition by the State and does not increase with changes in tax rate or market value.
An annual billing is submitted (usually in September or October) to the Department of Fish and Game for payment. Payments are allocated to the entities based on the billing year's AB 8 factors.

Racehorse Tax (Revenue and Taxation Code Section 5721)

A tax in lieu of a property tax is imposed on the privilege of breeding, training, caring for, or racing racehorses (such as thoroughbreds) in the State. The annual tax is imposed accordingly to Revenue and Taxation Code section 5721. Distribution of the in lieu tax is determined pursuant to Revenue and Taxation Code section 5790.

Housing Authority in Lieu (Health and Safety Code section 34401)

The property of a housing authority is exempt from all taxes and fixed charges. An agreement may be made to make Payments in Lieu of Taxes (PILOT) to any county, city or political subdivision of the State. The amount to be paid is equal to 10 percent of shelter rents (gross rents less utilities). If the percentage specified in the cooperation agreement or the contract with HUD is less than 10%, then the lower percentage is used. Payments are distributed to each jurisdiction based on AB 8 (TRA) allocation factors.

Code Reference Charts and Common Taxing Authorities

18.20 Common Taxing Authorities

Local governments may impose other taxes based on provisions of the law. Examples include documentary transfer tax, admission taxes, parking taxes, and construction/development taxes. Local governments can also refer to RTC section 6001 et seq. to obtain more information on other tax provisions that may be applicable to them.

Apart from Sales and Use Tax, the CDTFA administers over 30 special tax and fee programs. To obtain more information, local governments should refer to the CDTFA website, at https://www.cdtfa.ca.gov/taxes-and-fees.

In addition to property taxes, the BOE also administers other tax programs such as the Alcoholic Beverage Tax. For more information on the tax programs administered by the BOE local governments should refer to the BOE website, at http://www.boe.ca.gov.

The Office of Tax Appeals is an appeals body that was created by the Taxpayer Transparency and Fairness Act (2017). This agency was established to hear appeals from the California taxpayers regarding various taxes and fees administered by the CDTFA and the Franchise Tax Board.

18.21 Examples of Property Tax Codes

The legislative references identified in this section may be applicable to local governments, however they should be considered in conjunction with other provisions of the law.

Purpose/Program	Code sections Potentially Applicable to Local Governments
Property Tax Rate Limit	Section 1 of Article XIIIA of the California Constitution
AB 8 Base Year Calculations	RTC section 50 et seq.
Change in Ownership and New Construction	RTC section 60 et seq.
Assessments on Supplemental Rolls	RTC section 75.10 et seq.
Notice of Assessment and Assessment Appeals	RTC section 75.31 et seq.
Collection of Supplemental	RTC section 75.50 et seq.
Reimbursement of County Costs	RTC section 75.60 et seq.
Disposition of Revenues	RTC section 75.70 et seq.
Property Tax Rates	RTC section 93 et seq.
Allocation of Property Tax Revenue (also known as AB 8 Allocations)	RTC section 95 et seq.
Allocation of Unitary Property Tax	RTC section 100 et seq.
Assessments	RTC section 201 et seq.
Homeowners Property Tax Exemption	RTC section 218 et seq.
Assessment Roll	RTC section 601 et seq.
Assessments by State Board of Equalization	RTC section 721 et seq.
Equalization (County Board)	RTC section 1601 et seq.
Alternate Method of Computing Levies	RTC section 2131 et seq.
Collection of Taxes	RTC section 2501 et seq.
Tax Sales	RTC section 3351 et seq.
Redemption	RTC section 4101 et seq.
Distributions—Secured Roll	RTC section 4653 et seq.
Distributions—Unsecured roll	RTC section 4655 et seq.
Distributions—Redemptions	RTC section 4656 et seq.
Distributions—Delinquent Unsecured Roll	RTC section 4658 et seq.
Alternative Method of Distribution of Tax Levies and Collections	RTC section 4701 et seq.

Purpose/Program	Code sections Potentially Applicable to Local Governments
Corrections of Property Taxes	RTC section 4801 et seq.
Cancellations of Property Taxes and Assessments	RTC section 4985 et seq.
Refunds of Property Taxes	RTC section 5096 et seq.
Aircraft Assessment and Taxation	RTC section 5301 et seq.
Taxation of Race Horses	RTC section 5701 et seq.
Taxation of Manufactured Homes	RTC section 5800 et seq.

18.22 Chart of Tax Apportionment Codes

The following chart provides an overview of how property taxes are apportioned by counties. It is not intended to be a complete list of items apportioned. For additional detail, refer to the codes listed in the "Comments" column of the chart.

Tax Type	Tax Rates	AB 8 Apportionment Factors	Penalty Distribution**	Comments
Current Roll:				
Secured/Utility	CY	CY	County General Fund	RTC §4653.8 (Costs)
Unitary	CY	CY	County General Fund	Unique levy & distribution RTC §100, §100.11 (previously RTC §98.9–98.10)
Unsecured	PY	CY	County General Fund	RTC §4655.2–4655.4
Supplemental	PY or AYR	PY or AYR	County General Fund	Admin Fee RTC §75.6 Other distr. RTC §75.70–75.72
Fixed charges	N/A	N/A	County General Fund	
Prior Roll:				
Secured (Redemption)	PY	PY	Counties Follows Taxes	RTC §4656.2–4656.7**
Unsecured	PY	PY	County General Fund	RTC §4658.2–4658.4
Supplemental Except FY 1983–84 **FY 1983–84**	PY or AYR N/A	PY or AYR N/A	Counties Follows Taxes Counties Follows Taxes	Admin Fee RTC §75.60. Other dist. RTC §75.70–75.72 Apportioned based on ADA RTC §75.70
Fixed Charges	N/A	N/A	Counties Follows Assessments	RTC §4656.3
Miscellaneous				
Change of Ownership Statement Penalty	N/A	N/A	County General Fund	RTC §4653.7
Timber	N/A	N/A		RTC §38905.1

Tax Type	Tax Rates	AB 8 Apportionment Factors	Penalty Distribution**	Comments
Racehorse	N/A	N/A		1/3 ea. cities, general fund, schools RTC §5790
Homeowners				RTC §218
Tax-Defaulted Land Sales	PY or AYR	PY or AYR	Refer to RTC Codes	
Airplane	N/A	N/A		1/3 each: cities, county general fund, schools; RTC §5451–5456
Miscellaneous (continued)				
State Highway Prop Rental	N/A	N/A		Streets and Highway Code §104.10
Fish & Game Tax	AYR	AYR		Fish and Game Code §1504
Interest on Unapportioned taxes	N/A	N/A		Distr. based on taxes paid to each jurisdiction
CY = Current Year—All costs are distributed to the County General Fund for use by the Tax Collector				
PY = Prior Year—All costs are distributed to the County General Fund for use by the Tax Collector				
AYR = Applicable Year Rate				
N/A = Not applicable				
****= Except alternate method of tax apportionment. Penalties collected by counties for amounts under the alternate method are deposited into the Tax Losses Reserve Fund.**				

18.23 Special District Tax Codes

Note: given the incremental nature of legislation, the table below is not all-inclusive.

Code Abbreviations			
GC = Government Code HNC = Harbors and Navigation Code HSC = Health and Safety Code MVC = Military and Veterans Code PRC = Public Resources Code PUC = Public Utilities Code WC = Water Code			
Purpose/Program	**Authority**	**Agency**	**Notes**
Airports	PUC §22901 et seq.	Any airport district	Special tax
Ambulance/Paramedic Services	GC §53311 et seq.	Any special district that formed a Community Facilities District	Mello-Roos Act
Cemeteries	HSC §9080 et seq.	Any public cemetery district	Special tax
Child Care Facilities	GC §53311 et seq.	Any special district that formed a Community Facilities District	Mello-Roos Act
Child Care Facilities Insurance	GC §53311 et seq.	Any special district that formed a Community Facilities District	Mello-Roos Act
Community Service or Facilities	GC §61120 et seq.	Any community services district	Special Tax
Facilities	GC §53311 et seq.	Any special district that formed a Community Facilities District	Mello-Roos Act
Fire Protection and Suppression Services	GC §53311 et seq.	Any special district that formed a Community Facilities District	Mello-Roos Act
Fire Protection or Prevention Services	GC §53970 et seq.	Any special district which provides fire protection or prevention services	Special tax
Fire Protection Services	HSC §13910 et seq.	Any fire protection district	Special tax
Flood and Storm Water Services	GC §53311 et seq.	Any special district that formed a Community Facilities District	Mello-Roos Act
Harbor Improvement or Development	HNC §6090 et seq.	Any harbor district	Special tax
Hazardous Substance Cleanup Services	GC §53311 et seq.	Any special district that formed a Community Facilities District	Mello-Roos Act
Health Care	GC §53730.01 et seq.	Any local health care district	Special Tax
Interest Payments on Voter Approved indebtedness	CA Constitution Art. XIIIA, §1(b)	Any special district	Ad valorem property taxes exceeding the Statewide maximum rate of 1% may be levied

Code Abbreviations GC = Government Code HNC = Harbors and Navigation Code HSC = Health and Safety Code MVC = Military and Veterans Code PRC = Public Resources Code PUC = Public Utilities Code WC = Water Code			
Purpose/Program	**Authority**	**Agency**	**Notes**
			to pay interest on indebtedness approved by the voters before July 1, 1978, or indebtedness for the acquisition or improvement of real property approved by two-thirds vote after July 1, 1978.
Library Facilities	GC §53311 et seq.	Any special district that formed a Community Facilities District	Mello-Roos Act
Library Facilities and Services	GC §53717 et seq.	Library district	Special tax
Library Services	GC §53311 et seq.	Any special district that formed a Community Facilities District	Mello-Roos Act
Lighting of Parks, Parkways, Streets, Roads, and Open Space	GC §53311 et seq.	Any special district that formed a Community Facilities District	Mello-Roos Act
Memorial Halls, Buildings, or Meeting Places	MVC §1190 et seq.	Any memorial district	Special tax
Mosquito Abatement and Vector Control	HSC §2080 et seq.	Any mosquito abatement and vector control district	Special tax and Mello-Roos Act
Museum and Cultural Facilities, Operations and Maintenance	GC §53311 et seq.	Any special district that formed a Community Facilities District	Mello-Roos Act
Open Space Acquisition Preservation or Maintenance	PRC §35170 et seq.	Santa Clara Open Space Authority	Special tax
Park, Recreation, Parkway, and Open Space Facilities	GC §53311 et seq.	Any special district that formed a Community Facilities District	Mello-Roos Act
Park, Recreation, and Open Space Facilities and Recreation Services	PRC §5789 et seq.	Any recreation and park district	Special tax and Mello-Roos Act
Parks, Parkways, and Open Space, Maintenance Services	GC §53311 et seq.	Any special district that formed a Community Facilities District	Mello-Roos Act
Pest Abatement	HSC §2870 et seq.	Any pest abatement special district	Special tax
Pleasure Riding	GC §53940 et seq.	Any regional park district	Special tax on horses, mules, and other trail-riding animals. Not to exceed $10 per animal.

Code Abbreviations GC = Government Code HNC = Harbors and Navigation Code HSC = Health and Safety Code MVC = Military and Veterans Code PRC = Public Resources Code PUC = Public Utilities Code WC = Water Code			
Purpose/Program	**Authority**	**Agency**	**Notes**
Police Protection Services	GC §53970 et seq.	Any special district authorized to provide police protection services	Special tax
Police Protection Services	HSC §20101 et seq.	Any police protection district	Special tax
Police Protection and Criminal Justice Services	GC §53311 et seq.	Any special district that formed a Community Facilities District	Mello-Roos Act
Port Operation and Development	HNC §6360 et seq.	Any port district	Special tax
Recreation Program Services	GC §53311 et seq.	Any special district that formed a Community Facilities District	Mello-Roos Act
Resource Conservation	PRC §9501 et seq.	Any resource conservation district	Special tax
School Facilities Maintenance Services for Elementary and Secondary School Sites	GC §53311 et seq.	Any special district that formed a Community Facilities District	Mello-Roos Act
Seismic Safety Work on Buildings and Real Property	GC §53311 et seq.	Any special district that formed a Community Facilities District	Mello-Roos Act
Soil Deterioration Repair and Abatement	GC §53311 et seq.	Any special district that formed a Community Facilities District	Mello-Roos Act
Street and Road Maintenance	GC §53311 et seq.	Any special district that formed a Community Facilities District	Mello-Roos Act
Transportation	PUC §25891 et seq.	Transit Districts that are also special districts	Special tax and Transactions and Use Tax. **Note:** Special districts should refer to the legislation that created them to determine whether they are eligible to levy special taxes and transactions and use tax.
Transit Capital Projects and purchase of transit vehicles	PUC §99500 et seq.	Any special district that is also a local transit district.	Motor vehicle fuel tax. **Note:** Special districts should refer to the legislation that created them to determine whether they are eligible to levy motor vehicle fuel tax.
Municipal Utilities	PUC §12891 et seq.	Any municipal utility district that is also a special district.	Special tax

Code Abbreviations GC = Government Code HNC = Harbors and Navigation Code HSC = Health and Safety Code MVC = Military and Veterans Code PRC = Public Resources Code PUC = Public Utilities Code WC = Water Code			
Purpose/Program	**Authority**	**Agency**	**Notes**
Public Utilities	PUC §16641 et seq.	Any public utility district that is also a special district.	Special tax
Construction or Undergrounding for utility projects or services	GC §53311 et seq.	Any special district that formed a Community Facilities District	Mello-Roos Act
Water	WC §22075 et seq.	Any irrigation district	Special tax
Water	WC §31650 et seq.	Any county water district	Special tax
Water	WC §72090 et seq.	Any municipal water district	Special tax

Accounting for Taxes

The accounting examples are for illustrative purposes only and are not all-inclusive. The examples illustrated should be considered with the applicable provisions of the law.

18.24 Accounting for Tax Receipts

According to GASB Codification Section 1800.131 (Section 1800, par. 131), the primary classification of governmental fund revenues is by fund and source. While governments often classify revenues by organizational units (e.g., departments or units), the method of classifying revenues should supplement rather than supplant the classifications by fund and source. All taxes, even special taxes, are reported as general revenues in the government-wide financial statements. Non-tax revenues, however, can be classified as either program or general revenues.

When using cash basis accounting, tax revenues should be recognized as cash is received. When using the modified accrual basis of accounting, tax revenues should be recognized as they become measurable and receivable in the current period. When recording tax revenues in governmental funds, government entities should use the modified accrual basis of accounting. When preparing government-wide financial statements, tax revenues should be recorded using the full accrual basis of accounting. For more information on "basis of accounting" refer to Chapter 3, *Governmental Accounting Principles*, and Chapter 4, *Basis of Accounting*.

Local governments should follow the rules of exchange and nonexchange transactions when recording tax revenues. Tax revenues can come from either an exchange (e.g., derived tax revenue) or nonexchange transaction (e.g., imposed nonexchange revenue). Exchange transactions involve both the recipient and provider transferring an equal value of benefits, goods, or services. Legislation or contractual requirement or both typically give rise to nonexchange transactions. Refer to Chapter 7, *Classification and Terminology* for more details on revenue classifications, nonexchange transactions, and related recognition rules.

The entry to record tax revenues would be:

Accounts Receivable—Tax Revenue	$XX, XXX	
Tax Revenue		$XX, XXX

The subsequent receipt of this tax revenue would be recorded as:

Cash	$XX, XXX	
Accounts Receivable—Tax Revenue		$XX, XXX

18.25 Accounting for Property Taxes

Government entities should recognize property tax revenue in the period the property tax is levied, provided the property tax revenue is available. According to the GASB, *Available* means "collected soon enough thereafter to be used to pay liabilities of the current period." For most governments, the availability period does not exceed 60 days.

Local government entities should recognize property tax receivable in the same period taxes are levied, even if the legal claim arises and due date for payment arise in a different time period. The property tax receivable should be adjusted for uncollectible amounts. Property tax revenues received prior to the levy date should be recorded as deferred inflows of resources; however, once they become "available" (see above), they should be recognized as revenues.

According to the GASB, the following should be disclosed in the notes to financial statements in regard to property taxes:

Property tax calendar:

- Lien dates;
- Due dates; and
- Collection dates

For more information on the treatment of property tax revenues (imposed nonexchange transactions) refer to Chapter 14, *Contracts and Agreements*.

While the examples in this chapter section may be of interest to other local government entities, the illustrations below are applicable to counties only. The examples are not all-inclusive. Counties should note that they should structure their accounts according to their own reporting needs and statutory requirements.

Unapportioned Tax Fund Accounts

The Unapportioned Tax Fund is used to control the tax charges and collections prior to distribution, and also acts as a suspense fund for tax receipts collected by the tax collector. The suggested accounts for the Unapportioned Tax Fund and their normal balances are:

Unapportioned Tax Fund Accounts	Debit	Credit
Cash	X	
Taxes receivable—current secured	X	
Taxes receivable—current unsecured	X	
Taxes receivable—current supplemental	X	
Taxes receivable—prior secured	X	
Taxes receivable—prior unsecured	X	
Taxes receivable—prior supplemental	X	
Due to other funds and entities—current secured		X
Due to other funds and entities—current unsecured		X
Due to other funds and entities—current supplemental		X
Due to other funds and entities—prior secured		X
Due to other funds and entities—prior unsecured		X
Due to other funds and entities—prior supplemental		X
Due to other funds and entities—tax defaulted land sales		X
Due to other funds and entities—redemption installments		X
Due to other funds and entities—advance collections		X
Due to other funds and entities—refundable taxes		X
Due to other funds and entities—protested taxes impounded		X
Due to other funds and entities—other taxes (designate)		X

Accounting Basis

To exercise control over the current secured, unsecured, and supplemental levies, tax receivables are recorded in the unapportioned tax fund. Taxes receivable and other revenues may be collected in advance of the fiscal year to which they apply. If all eligibility requirements, excluding time requirements, have been met, amounts received in advance should be recorded as a deferred inflow of resources and recognized as revenue of the period to which they apply. If not an advance payment, receivables are recorded at the time the tax charge or levy computations are completed. Supplemental receivables are updated to account for each billing.

Recording the Change

The tax charge (sum total of the tax bills prepared) is recorded in the Unapportioned Tax Fund:

Account	Debit	Credit
Unapportioned Tax Fund		
Taxes receivable — current secured	5,000,000	
Due to other funds and entities — current secured		5,000,000
(To record the tax charge in the Unapportioned Tax Fund)		

Roll Changes

Assessed values and tax charges may change after tax bills are mailed, due to changes made by the auditor during the year. The types of changes fall into four general categories:

- Cancellations — These are often a result of acquisitions of property by tax-exempt jurisdictions during the year requiring either a portion or all of the tax amount due to be canceled. Another common reason includes duplicate or erroneous property assessments by the Assessor.

- Escaped Assessments — These changes pertain to current and prior year assessed valuations of properties that were not assessed and taxed during that fiscal year. The tax amounts are based on the rates levied for the escaped year and added to the current charge file. These types of corrections are found on both the current secured and unsecured rolls.

- Fixed Charges — These types of corrections are usually reported to the auditor by a local district to correct fixed charges such as special benefit assessments added to the tax bill. These corrections affect the tax charge only and do not involve assessed valuations.

- Corrections — This category includes assessor's errors, name changes, missed or erroneous exemptions, erroneous tax rate areas, transfers to the unsecured roll, etc.

Generally, any changes to assessed valuations or the tax charge will necessitate entries in the Unapportioned Tax Fund.

	Change	**Amount**
A	The State of California purchased (apportionment date according to RTC 5082 10/01) a parcel within the county assessed at $200,000 and a tax bill of $2,200. Taxes for $1,650 (75%) are cancelled.	$ (1,650)
B	During the year the assessor reports escaped valuations for the two previous years in a parcel, resulting in additional taxes of $5,000 added to the current roll.	5,000
C	The auditor is notified by a fire district to cancel weed abatement levied on a parcel in error.	(50)
D	A parcel is transferred from the secured roll to the unsecured roll.	(500)
	Total secured amount of changes	$ 2,800
	Total unsecured amount of changes	$ 500

Account	**Debit**	**Credit**
Unapportioned Tax Fund		
Taxes receivable—current secured	2,800	
Due to other funds and entities—current secured		2,800
Taxes receivable—current unsecured	500	
Due to other funds and entities—current unsecured		500
(To record corrections to current secured and unsecured rolls)		

Collection of Taxes

As tax payments are collected by the county tax collector, they are processed against the tax charge and deposited in the *Unapportioned Tax Fund* of the county treasury. By statutory provision, the tax collector is required, each month, to furnish the auditor with a detailed statement of collections for the preceding month. As illustrated below, collections are credited against the receivable when deposited.

Account	Debit	Credit
Unapportioned Tax Fund		
Cash	1,000,000	
Taxes receivable—current secured		1,000,000
(To record tax collections deposited in the Unapportioned Tax Fund)		

Apportionment of Taxes

The apportionment of taxes by the auditor is governed by various sections of the Revenue and Taxation Code. The frequency of distribution is based on the type of property tax being distributed and the method of apportionment. The accounting entries made in the *Unapportioned Tax Fund* and each receiving fund or jurisdiction for the apportionment of current secured taxes are shown in the following example:

Account	Debit	Credit
Unapportioned Tax Fund		
Due to Other Funds and Entities—Current Secured	1,000,000	
Cash		1,000,000
(To record the apportionment of collections to various jurisdictions for a specific collection period)		

Each jurisdiction's general and/or debt service fund (if any):

Account	Debit	Credit
Cash	100,000	
Revenue—current secured property taxes		100,000
(To record the receipt of current secured property tax distribution, for a specific collection period)		

Fixed Charges for Special Benefit Assessments

It should be noted that, while fixed charges for various purposes added to the tax bill are collected and distributed along with the property taxes, upon receipt by the jurisdiction specific revenue codes are used to record them. Items such as water or sewer standby charges, weed abatement, street lighting, improvement bonds, and special taxes approved by the electorate are examples of fixed charges that jurisdictions report to the county auditor to be added to the current secured tax bills.

Year-End Entries

It is recommended that the uncollected or unapportioned taxes levied for each county be recognized in the accounts at June 30. The taxes receivable should be offset by the *Allowance for Uncollectible Taxes* equal to the amount of taxes determined to be uncollectible plus the amount to be collected within the established accrual period.

Example

On June 30, taxes levied for the *General Fund* are as follows:

Taxes	Amount
Collected but unapportioned:	
Current secured	1,800
Uncollected:	
Current secured	3,500
Prior secured	800
Current unsecured	1,200
Prior unsecured	300
Total	7,600

Of the uncollected taxes, it is estimated that 75% of current and 50% of prior will be collected during the accrual period as established by the county auditor:

Account	Debit	Credit
County General Fund		
Taxes receivable	7,600	
Allowance for uncollectable taxes		1,725
Property taxes—current—secured		4,425
Property taxes—current—unsecured		900
Property taxes—prior—secured		400
Property taxes—prior—unsecured		150
(To record the year-end accrual of property taxes)		

Opening Entries—Unapportioned Tax Fund

On July 1 unpaid current secured and supplemental (due on or before June 30) property taxes for the previous fiscal year are tax defaulted. Current unsecured property taxes levied in the current fiscal year become prior unsecured taxes as well. These changes in status from current to prior should, therefore, be recorded in the *Unapportioned Tax Fund*. In each case, the entry would be to transfer the *Receivable* and the *Due to Other Funds and Entities* from current to prior accounts, as shown in the following example.

Example

The uncollected outstanding balance as of June 30 for current secured taxes is $1,500,000:

Account	Debit	Credit
Unapportioned Tax Fund		
Due to other funds and entities—current secured	1,500,000	
Taxes receivable—current secured		1,500,000
Taxes receivable—prior secured	1,500,000	
Due to other funds and entities—prior secured		1,500,000
(Entry to transfer tax-defaulted amounts from current to prior receivables)		

Penalties and Costs

A. Current Secured and Unsecured Levies

Penalties and costs attach to current property tax bills if not paid on or before specific dates. On a current secured tax bill, a 10% penalty is added to each delinquent installment. In addition, a $10 cost is added to all delinquent second installments. On current unsecured tax bills unpaid as of the delinquent date, only the penalty is imposed.

As penalties and costs are added to the tax rolls, the liability of these amounts may be reflected in the control accounts of the *Unapportioned Tax Fund* and added to the appropriate receivable and liability account. Penalties and costs are combined with existing balances and not recorded separately in the control accounts. The distinction between tax and penalty amounts are controlled in the tax charge, collection reports received from the tax collector, and the apportionment process.

Example

Account	Debit	Credit
Unapportioned Tax Fund		
Taxes receivable—current unsecured	50,000	
Due to other funds and entities—current unsecured		50,000
(To record penalties of $50,000 added to delinquent unsecured tax bills as of August 31)		

B. Supplemental Roll

Supplemental property tax bills may be prepared and mailed on a recurring basis (e.g., monthly) throughout the fiscal year. The date the bill is mailed determines the installment and delinquency dates. A 10% penalty is added to each delinquent installment and a $10 cost is added to the final installment. It is permissible to account for penalties and costs in the same manner used in redemption.

C. Redemption

If redemption penalties and costs are regularly added to all tax-defaulted property, they should be posted to the prior secured receivable and due to accounts. However, as redemption penalties accrue on these balances monthly and vary with the year of tax default, the usual practice is to compute the amount necessary to redeem upon request or at the time of payment. Prior secured taxes are recognized without regard to the fiscal year levied. Redemption penalties and fees are posted to the liability account when collected.

Example

A tax-defaulted parcel is redeemed by payment of the following amounts:

Payment		**Amount**
Amount of tax and fixed charges		**$ 150.00**
10% penalty		15.00
Delinquent cost		10.00
Redemption fee		15.00
Redemption penalties (6 months at 1.5% monthly)		13.50
Total Paid		$ 203.50
Account	Debit	Credit
Unapportioned Tax Fund		
Cash	203.50	
Taxes receivable—prior secured		175.00
Due to other funds and entities—prior secured ($15.00 + $13.50)		28.50
(To record redemption of tax-defaulted parcel)		

It should be noted that penalties are apportioned in the same manner as the property taxes and fixed charges that they are charged against. Costs collected are distributed to the county *General Fund*.

Redemption

A. Distribution of Collections

After the tax collector publishes the required statutory notice of delinquent secured taxes, secured property becomes tax-defaulted if unpaid as of June 30. This is the beginning of a five-year period at the end of which the property is subject to the tax collector's power of sale and may be sold at public auction, by sealed bid, or by agreement.

The apportionment of redemption collections is made using the prior fiscal year apportionment factors without regard to the fiscal years of the levy. The exception to this is tax-defaulted supplemental taxes, which are apportioned similarly but with certain changes for K-12 schools.

Example

At the close of a collection period the following redemption amounts have been deposited and are to be apportioned:

Deposited	**Amount**
Taxes—prior secured	$ 7,500
Penalties	1,200
Redemption fees	195
Delinquent costs	130
Total	$ 9,025

Account	Debit	Credit
Unapportioned Tax Fund		
Due to other funds and entities—prior secured	9,025	
Cash		9,025
(To record apportionment of prior secured taxes)		

Account	Debit	Credit
Other Agency Fund (fund used to account for amount due State)		
Cash	65	
Due to State—redemption fee		65
(To record State's portion of redemption fees, equal to one-third of the above redemption fees)		

Account	Debit	Credit
County General Fund		
Cash	2,870	
Property taxes—prior secured		2,250
Penalties and costs—delinquent taxes		620
(To record apportionment of redemption collections)		
(This example assumes that the county received 30% of collections)		

NOTE: The revenue amount shown as Penalties and Costs—Delinquent Taxes is comprised of the following:

Revenue	Amount
30% of the total penalties distributed	$ 360
100% of the costs apportioned	130
$^{2}/_{3}$ of the redemption fees distributed	130
Total penalties and costs received	$ 620

B. Installment Payment Plans

The law contains provisions allowing for the payment of delinquent taxes through installments. Under the plan, the taxpayer initially pays 20% of the redemption amount, and at least 20% annually thereafter, plus interest on the unpaid balance until payment is completed. During this period, the current taxes and penalties shall be paid on or before April 10 of each year to prevent default.

In the *Unapportioned Tax Fund*, the amounts due under installment plans cannot be shown as a separate asset, as the tax-defaulted amounts are already included in the *Taxes receivable—prior secured* account.

There are two basic methods of apportioning installment collections:

1. **Payments are held until either redemption is completed or the property has lost the right to receive credit for payments made.**

Example

A taxpayer agrees to redeem his/her property, having a redemption amount of $500, by paying $100 immediately and $100 plus accrued interest by April 10 of each of the four succeeding fiscal years:

	Unapportioned Tax Fund	Debit	Credit
a	Cash	100	
	Due to other funds and entities—redemption installments		100
	(Entry to record initial payment)		

	Unapportioned Tax Fund	Debit	Credit
b	Cash	172	
	Due to funds and entities—redemption installments		172
	(Entry to record $100 installment payment plus $72 interest based upon 1.5% per month x 12 months on a $400 unpaid balance)		

	Summary Entry	Debit	Credit
c	Cash	408	
	Due to other funds and entities—redemption installments		408
	(Entry to record 3 subsequent installment payments)		

	Summary Entry	Debit	Credit
d	Due to other funds and entities—redemption installments	680	
	Taxes receivable—prior secured		440
	Due to other funds and entities—prior secured taxes		240
	(Entry to record the issuance of a tax redemption certificate)		

Prior Secured Taxes Underlying Data	Amount
The $240 consists of:	
Notification fee	35
Delinquent second installment cost	10
Interest	180
Redemption fee	15
Total	240

2. Payments are included with the apportionment of other redemption collections.

Example:

Account	Debit	Credit
Unapportioned Tax Fund		
Cash	100	
Taxes receivable—prior secured		88
Due to other funds and entities—prior secured		12
(Summary entry to record payments)		

See *Redemption A, Distribution of Collections* for entries recording the apportionment of the collections

Tax-Defaulted Land Sales

After the five-year period, the property becomes subject to the tax collector's power of sale and may be sold at public auction, sealed bid sale, or by agreement. Sale proceeds may be greater or less than the total redemption amount. Procedures concerning the disposition of proceeds in excess of the redemption amount are covered in section 4671 et seq., of the Revenue and Taxation Code. When a sale occurs, adjusting entries in the accounts of the *Unapportioned Tax Fund* should be made.

Example

Tax-defaulted property, on which $635 is included in the Taxes receivable—prior secured account, is sold for $560.

Account	Debit	Credit
Unapportioned Tax Fund		
Cash	560	
Due to other funds and entities—tax-defaulted land sales		560
Due to other funds and entities—prior secured	635	
Taxes receivable—prior secured		635
(To record the sale of tax-defaulted property)		

Refundable Taxes

A multitude of situations can result in the issuance of tax refunds, including:

- Erroneous payments (paying the same bill twice, overpayments, etc.);
- Roll corrections reducing parcel valuation or entering an exemption such as a homeowners' exemption where the tax bill has already been paid; or
- Assessment appeal hearings that result in a reduction of value where the tax bill has already been paid.

In some cases, it is necessary for a "claim for refund" to be filed prior to the issuance of a refund of taxes. Procedures governing refunds are covered in section 5096, et seq., of the Revenue and Taxation Code. Interest on refunds, if applicable, is governed by RTC sections 5151 et seq.

Example

a) The tax collector discovers that a $125 duplicate current unsecured payment was received and issues a refund warrant to the taxpayer:

Account	Debit	Credit
Unapportioned Tax Fund		
Taxes receivable—current unsecured	125	
Cash		125
(To record refund of duplicate payment)		

b) A roll change to a prior-year paid tax bill results in a refund due of $75. Once the refund claim requirements are met, the following entries are recorded:

Account	Debit	Credit
Unapportioned Tax Fund		
Due to other funds and entities—current secured	75	
Due to taxpayers—refundable taxes		75
(To record the receipt of a claim for refund)		

Account	Debit	Credit
Unapportioned Tax Fund		
Due to taxpayers—refundable taxes	75	
Cash		75
(To record the issuance of a refund upon receipt of the claim for refund)		

The amount refunded would subsequently be reversed or deducted from the apportionment covering the period the refund was made.

Pursuant to RTC section 5102, : if a claim for refund on an overpayment is not filed within four years of the payment date, the unclaimed amount may be transferred to the county's general fund upon order of the board of supervisors.

18.26 Advance Collections

Current unsecured property taxes are, by statute, due and payable on the January 1 lien date of the preceding fiscal year for which they are levied. A deferred inflow of resources should be reported when tax payments are collected by the county tax collector before (a) the period for which property taxes are levied or (b) the period when resources are required to be used or when use is first permitted for all other imposed nonexchange revenues in which the enabling legislation includes time requirements.

In this instance, collections received prior to July 1 are credited to the Deferred Inflows of Resources account and subsequently transferred to the Tax Receivable account.

Example

Unsecured payments totaling $5,000 are deposited on May 13 and are applicable to the fiscal year beginning on July 1:

Account	Debit	Credit
Unapportioned Tax Fund		
Cash	5,000	
Deferred Inflows of Resources		5,000
(To record the receipt of advanced unsecured payments)		

After July 1, the unsecured tax levy was recorded. The deferred inflows of resources are transferred:

Account	Debit	Credit
Unapportioned Tax Fund		
Deferred Inflows of Resources	5,000	
Taxes receivable—current unsecured		5,000
(To reduce taxes receivable for unsecured advance collections)		

18.27 Disputed Taxes

In the previous section, refund claims were discussed in relation to over payments or erroneous payments. Disputed taxes are those in question for reasons other than errors in payment amounts. Within six months prior to taking legal action, a claim for refund must be filed with and rejected by the board of supervisors (RTC, §5141 and GOV, §26906.1).

In these instances, the tax amount under protest may be impounded by the auditor, with BOS approval, and not apportioned. The decision to determine whether or not to impound the disputed tax amount is a question of judgment, based on such factors as:

- The basis upon which the action is filed;
- The probability of a successful recovery;
- The dollar amount of the protested taxes in question; or
- County policies and procedures regarding disputed taxes within the jurisdiction of the county.

The impoundment of taxes should be handled in such a manner that interest earnings on the litigated amount may also be retained and impounded.

Example:

Legal action is filed involving $200,000 in protested secured taxes, and it is decided that the taxes are to be impounded:

Account	Debit	Credit
Unapportioned Tax Fund		
Due to other funds and entities—current secured	200,000	
Due to other funds and entities—protested taxes impounded		200,000
(To record the impound of protested secured taxes)		

18.28 Alternate Treatment of Tax Apportionment

The purpose of this section is to describe an alternative procedure for the distribution of property tax and/or direct assessment levies on the secured roll as outlined in RTC section 4701, et seq. This is an accrual method that recognizes taxes receivable as an expendable resource and, subsequently, simplifies the tax apportionment process.

Sequence of Events

- A resolution, indicating the board of supervisors' intention to operate under the Alternate Method of Tax Apportionment, must be adopted no later than July 15 of the fiscal year for which it is to first apply (October 15 for 1993/94) (RTC §4702).

- The *Tax Losses Reserve Fund* must be created to cover losses that may occur in the amount of tax liens as a result of special sales of tax-defaulted property (RTC §4703).

- The *Apportioned Tax Resources Fund* is established as a control for the funds to which taxes are apportioned and will be referred to in this discussion as the *Tax Resources Fund* (RTC §4705).

- The dollar value of the existing tax-defaulted property is entered on the rolls (RTC §4704).

- The dollar value of the delinquent abstracts ad valorem taxes is determined and ninety-five percent (95%) of the amount is apportioned to the countywide taxing agencies. The remaining five percent (5%) is credited to the *Tax Losses Reserve Fund*, and one hundred percent (100%) of delinquent assessments is apportioned to the levying funds (RTC §4713).

The accounting entries for implementing and administering the alternate method are illustrated in sections A through R using T-accounts.

ALTERNATE METHOD ACCOUNT ANALYSIS

Apportioned Tax Resources Fund																							
Cash				Due To Others				P/Y Taxes Receivable				P/Y Special Asset Receivable				C/Y Taxes Receivable				C/Y Special Asset Receivable			
C2	3,000,000	10,000,000	A2	A2	10,000,000	10,000,000	A1	A1	9,000,000	2,700,000	C2	A1	1,000,000	300,000	C2	B1	990,000,000	520,000,000	E1	B1	10,000,000	5,800,000	E1
E1	525,800,000	550,000,000	D1	D1	550,000,000	1,000,000,000	B1	K1	99,990,000	1,847,000	F2	K1	99,000	300,000	F2			370,000,000	H1			4,100,000	H1
F2	2,147,000	400,000,000	G1	G1	400,000,000																		
H1	374,100,000																						
					960,000,000	1,010,000,000			108,990,000	4,547,000			1,099,000	600,000			999,000,000	890,000,000					
	905,047,000	960,000,000		J1	11,000													10,000	J1		10,000,000	9,900,000	
		49,989,000	L1		960,011,000	1,010,000,000			108,990,000	4,547,000			1,099,000	600,000								1,000	J1
	905,047,000	1,009,989,000		L1	49,989,000												990,000,000	890,010,000				9,901,000	
								M1	104,443,000									99,990,000	K1			99,000	K1
										8,000	N3	M1	499,000										
		104,942,000	M1		1,010,000,000	1,010,000,000				8,000	P3			2,000	N3		990,000,000	990,000,000			10,000,000	10,000,000	
N3	10,000													2,000	P3								
P3	10,000								108,990,000	4,563,000													
													1,099,000	604,000									
	905,067,000	1,009,989,000						R1	104,427,000														
												R1	495,000										
		104,922,000	R1																				

Tax Losses Reserve Fund																Sale Trust Fund							
Cash				Equity				Delinquent Penalties				Redemption Penalties				Cash				Disbursements/Receipts			
A3	450,000					450,000	A3	Q1	352,000	200,000	C1	Q1	18,500	10,000	C1	N1	45,000	12,500	N2	N2	12,500	45,000	N1
C1	210,000					370,500	Q1			150,000	F1			8,000	F1	P1	9,000	9,000	P2	P2	9,000	9,000	P1
F1	158,000	1,000	P4	P4	1,000					2,000	N4			500	N4								
N4	2,500																						
	820,500	1,000			1,000	820,500			352,000	352,000			18,500	18,500			54,000	21,500			21,500	54,000	
	819,500					819,500																	

Other Entities								General Fund								Assessment Resources Fund							
Cash				Revenue				Cash				Revenue				Cash				Revenue			
A5	5,728,500					5,728,500	A5	A4	2,821,500					2,821,500	A4	A6	1,000,000					1,000,000	A6
D3	364,815,000					364,815,000	D3	D2	179,685,000					179,685,000	D2	D4	5,500,000					5,500,000	D4
G3	265,320,000					265,320,000	G3	G2	130,680,000					130,680,000	G2	G4	4,000,000					4,000,000	G4
L3	33,158,333					33,158,333	L3	L2	16,331,667					16,33,667	L2	L4	499,000					499,000	L4

Legend: Numbers to the left of debit entries and to the right of credit entries represent the journal entry number in the text of the explanation.

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Section A—Initial Apportionment of Delinquent Abstract

Example

Total taxes in the delinquent abstract are $10,000,000. The county's AB 8 tax allocation factor is 33%; 95% is apportioned to taxing jurisdictions, and the remaining 5% is apportioned to the Tax Losses Reserve Fund:

A1 Account	Debit	Credit
Tax Resources Fund		
P/Y taxes receivable	9,000,000	
P/Y special assessments receivable	1,000,000	
Due to others		10,000,000
(To record initial delinquency as a Taxes Receivable and a Fixed charges Receivable)		

The delinquent abstract amounts that have been established in the *Due to Others* account are then paid out as follows:

A2 Account	Debit	Credit
Tax Resources Fund		
Due to others	10,000,000	
Cash		10,000,000
(To record the payment of prior-year taxes to appropriate entities and the Tax Losses Reserve Fund)		

A3 Account	Debit	Credit
Tax Losses Reserve Fund		
Cash	450,000	
Equity		450,000
[To record the initial apportionment of the delinquent abstract [$9,000,000 x 5%] which represents 5% of P/Y Taxes Receivable. The Tax Losses Reserve Fund receives 5% of the delinquent taxes only. 100% of the delinquent assessments is paid to the levying funds (RTC §4713.5)]		

A4 Account	Debit	Credit
General Fund		
Cash	2,821,500	
Revenue—prior secured—property taxes		2,821,500
(To record the initial apportionment of the delinquent abstract in the General Fund [(9,000,000 x 0.95) x 0.33])		

A5 Account	Debit	Credit
All Other Funds and Entities		
Cash	5,728,500	
Revenue—prior secured—property taxes		5,728,500
(To record the initial apportionment of the delinquent abstract in all other funds and entities [(9,000,000 x 0.95)-2,821,500])		

A6	Account	Debit	Credit
Assessment Resources Fund			
Cash		1,000,000	
	Revenue—prior special assessments		1,000,000
(To record the initial apportionment of the delinquent abstract for fixed charge)			

Section B—Current-Year Apportionment

When the current-year levy is determined, the full amount is apportioned to the credit of those funds on the accounts of the county auditor and county treasurer. Exactly how the apportionment is accomplished and when cash is made available in these funds varies with participating counties and depends greatly upon individual system capabilities and county policies, respectively (RTC §4705).
General practice and cash flow limitations allow for a percentage allocation on specific dates determined by each county for entities receiving taxes that do not use the county treasury as a depository. These dates usually correspond closely with the delinquent dates for secured installments. These percentage allocations and apportionment dates are at the discretion of each county auditor.

Example

The following example assumes a current-year secured levy of $1,000,000,000 ($990,000,000 taxes and $10,000,000 fixed charges):

B1	**Account**	**Debit**	**Credit**
Tax Resources Fund			
C/Y taxes receivable		990,000,000	
C/Y special assessments receivable (fixed charges)		10,000,000	
	Due to others		1,000,000,000
(To record the levy of secured taxed and special assessments)			

Section C—Receipt of Redemption Payments

Example

After apportionment to the State of the amounts prescribed by Revenue and Taxation Code section 4656.2, the amount of $3,210,000 is received from redemptions of prior-year delinquencies. $2,700,000 represents prior-year taxes, $300,000 represents prior-year fixed charges, $200,000 represents delinquent penalties, and $10,000 represents redemption penalties. (RTC §4710).

C1	**Account**	**Debit**	**Credit**
Tax Losses Reserve Fund			
Cash		210,000	
	Delinquent penalties		200,000
	Redemption penalties		10,000
(To record the receipt of delinquent and redemption penalties receive on the abstract roll)			

C2	Account	Debit	Credit
Tax Resources Fund			
Cash		3,000,000	
	P/Y tax receivable		2,700,000
	P/Y special assessments receivable		300,000
(To record redemption payments received)			

Section D—Initial Apportionment to Entities

<u>Example:</u>

On December 10, the initial 55% of tax and fixed charges recorded in B1 is distributed to the appropriate entities:

D1	Account	Debit	Credit
Tax Resources Fund			
Due to Others		550,000,000	
	Cash		550,000,000
(To record the apportionment of 55% of taxes due to other entities [$1,000,000,000 x .55])			

D2	Account	Debit	Credit
General Fund			
Cash		179,685,000	
	Revenue—current secured property tax		179,685,000
(To record the apportionment of 55% of the annual tax [(990,000,000 x 0.55) x 0.67])			

D3	Account	Debit	Credit
All Other Entities			
Cash		364,815,000	
	Revenue—current secured property tax		364,815,000
(To record the apportionment of 55% of the annual tax [(990,000,000 x 0.55) x 0.67])			

D4	Account	Debit	Credit
Assessment Resources Fund			
Cash		5,500,000	
	Revenue—current special assessments		5,500,000
(To record the apportionment of 55% of the amounts attributed to fixed charges [10,000,000 x 0.55])			

Section E—Receipt of First Installment

Example:

The first installment of current taxes is received in the amount of $525,800,000, of which $520,000,000 is current taxes and $5,800,000 is current direct assessments (RTC §4710):

E1	Account	Debit	Credit
Taxes Resources Fund			
Cash		525,800,000	
	C/Y taxes receivable		520,000,000
	C/Y special assessments receivable		5,800,000
(To record collection of the first installment of current taxes)			

Section F—Additional Redemptions Received

Example:

Additional redemptions are received totaling $2,305,000. This represents $1,847,000 of prior-year taxes, $300,000 of prior-year direct assessments, $150,000 in delinquent penalties, and $8,000 in redemption penalties (RTC §4710):

F1	Account	Debit	Credit
Tax Losses Reserve Fund			
Cash		158,000	
	Delinquent penalties		150,000
	Redemption penalties		8,000
(To record receipt of delinquent and redemption penalties on the abstract roll. [Interest on installment plans is treated as redemption penalties])			

F2	Account	Debit	Credit
Taxes Resources Fund			
Cash		2,147,000	
	P/Y taxes receivable		1,847,000
	P/Y special assessments receivable		300,000
(To record receipt of taxed and assessments on the abstract roll)			

Section G—Second Apportionment to Entities

Example:

On April 10, an additional 40% of tax and fixed charges recorded in B1 is distributed to the appropriate entities:

G1	Account	Debit	Credit
Taxes Resources Fund			
Due to Others		400,000,000	
	Cash		400,000,000
(To record the apportionment of 40% of taxes due to other entities [$1,000,000,000 x .40])			

G2	Account	Debit	Credit
General Fund			
Cash		130,680,000	
	Revenue—current secured property tax		130,680,000
(To record apportionment of 40% of the annual tax [(990,000,0000 x 0.40) x 0.33])			

G3	Account	Debit	Credit
All Other Entities			
Cash		265,320,000	
	Revenue current secured property tax		265,320,000
(To record apportionment of 40% of the annual tax [(990,000,000 x 0.40) x 0.67])			

G4	Account	Debit	Credit
Assessments Resources Fund			
Cash		4,000,000	
	Revenue—current special assessments		4,000,000
(To record the apportionments of 40% of the amount attributed to fixed charges [10,000,000 x 0.40])			

Section H—Receipt of Second Installment

Example:

The second installments of the current taxes are received for $374,100,000, representing $370,000,000 in current taxes and $4,100,000 in current direct assessments (RTC §4710):

H1	Account	Debit	Credit
Taxes Resources Fund			
Cash		374,100,000	
	C/Y taxes receivable		370,000,000
	C/Y special assessments receivable		4,100,000
(To record the collection of the second installment of current taxes)			

Section J—Adjustments to Secured Roll for Corrections and Refunds

<u>Example:</u>

Corrections made throughout the tax year are netted and the following adjustment is made. This example uses a $10,000 decrease in tax and a $1,000 decrease in fixed charges as the net adjustment:

J1	Account	Debit	Credit
	Taxes Resources Fund		
	Due to Others	11,000	
	C/Y taxes receivable		10,000
	C/Y special assessments receivable		1,000
	(To record net adjustments for the tax roll)		

Throughout the year, corrections and cancellations are processed on the current-year tax bills. As a result, the initial apportionment is based on a gross billing that is not the same as the actual taxes collected plus year-end delinquencies. All C/Y and P/Y refunds and corrections are adjusted through the *Apportioned Taxes Fund*. Each entity pays its portion of the refund when all corrections, cancellations, and refunds from the C/Y and P/Y secured roll are netted and apportioned in what is referred to as a reverse apportionment (RTC §4707). Prior-year refunds and corrections may or may not affect the year-end buyout.

Section K—Current Roll Transfer to the Delinquent Roll

<u>Example:</u>

After June 30, the balance of current taxes and current direct assessments unpaid is transferred to a delinquent status (RTC §4710):

K1	Account	Debit	Credit
	Taxes Resources Fund		
	P/Y taxes receivable	99,990,000	
	P/Y special assessments receivable	99,000	
	C/Y taxes receivable		99,990,000
	C/Y special assessments receivable		99,000
	(To record transfer of current taxes and special assessments to P/Y status)		

Section L—Final Apportionment Net of Adjustments

Example

After June 30, the final 5% of taxes and fixed charges, less the adjustments made in Section J (J1), is apportioned to the various entities:

L1	Account	Debit	Credit
Taxes Resources Fund			
Due to Others		49,989,000	
Cash			49,989,000
(To record the apportionment of 5% if taxes due to other entities)			

L2	Account	Debit	Credit
General Fund			
Cash		16,331,667	
Revenue—current secured property tax			16,331,667
(To record apportionment of 5% of the annual tax [(990,000,000 x 0.33) - (179,685,000 + 130,320,000 + 6,667)])			

L3	Account	Debit	Credit
All Other Entities			
Cash		33,158,333	
Revenue—current secured property tax			33,158,333
(To record apportionment of 5% of the annual tax [(990,000,000 x 0.67) - (364,815,000 + 265,320,000 + 6,667)])			

L4	Account	Debit	Credit
Assessment Resources Fund			
Cash		499,000	
Revenue—current Special Assignments			499,000
(To record the apportionment of 5% of amounts attributed to fixed charges)			

Section M—Content of Tax Resources Fund

Example

The makeup of the *Tax Resources Fund* after the above entries is as follows:

M1 Account	Debit	Credit
Tax Resources Fund		
C/Y taxes receivables	0	
C/Y special assessments receivable	0	
P/Y taxes receivable	104,443,000	
P/Y special assessments receivable	499,000	
Cash		104,942,000
Total	104,942,000	104,942,000

The process begins again for the next year at this point.
Some additional areas that affect these special tax accounts is the sale of property at auction and the transfer to the *General Fund* when the balance of the tax losses reserve exceeds any of the options given in Section S of this chapter section.

Section N—Property Sold at Auction with a Surplus (RTC §4710 and §4711)

Example

A delinquent parcel sold at auction generates $45,000. The *Tax Resources Fund* is due $8,000 in *P/Y Taxes Receivable* and $2,000 in *P/Y Fixed Charges Receivable*. The *Tax Losses Reserve Fund* is due $2,000 in delinquent penalties and $500 in redemption penalties. The balance remains in the delinquent tax *Sale Trust Fund (Tax Collector's Fund)* for claim by parties of interest. The unclaimed portion is credited to the *Tax Losses Reserve Fund* a year after the date of sale. The journal entries are as follows:

N1 Account	Debit	Credit
Sales Trust Fund		
Cash	45,000	
Receipts		45,000
(To record proceeds from the sale of tax-defaulted property)		

N2 Account	Debit	Credit
Sale Trust Fund		
Disbursements	12,500	
Cash		12,500
(To record the payment to the Tax Resources Fund for prior receivables and the payments to the Tax Losses Reserve Fund for penalties and interest)		

N3	Account	Debit	Credit
Taxes Resources Fund			
Cash		10,000	
	P/Y taxes receivable		8,000
	P/Y special assessments receivable		2,000
(To record the payment of prior receivables from the sale of tax-defaulted property)			

N4	Account	Debit	Credit
Tax Losses Reserve Fund			
Cash		2,500	
	Delinquent penalties		2,000
	Redemption penalties		500
(To record recovery of penalties and interest on the sale of tax-defaulted property)			

Section P—Property Sold at Auction at a Loss (RTC §4711)

Example

A similar parcel, with the same taxes due, is sold at auction but generates only $9,000, leaving the *Tax Resources Fund* short $1,000:

P1	Account	Debit	Credit
Sale Trust Fund			
Cash		9,000	
	Receipts		9,000
(To record proceeds from the sale of tax defaulted property)			

P2	Account	Debit	Credit
Sale Trust Fund			
Disbursements		9,000	
	Cash		9,000
(To record the payment to the Tax Resources Fund for prior receivables)			

P3	Account	Debit	Credit
Taxes Resources Fund			
Cash		10,000	
	P/Y taxes receivable		8,000
	P/Y special assessments receivable		2,000
(To record the payment of prior receivables from the sale of tax-defaulted property)			

P4	Account	Debit	Credit
Tax Losses Reserve Fund			
Equity		1,000	
	Cash		1,000
(To record the loss from the sale of tax-defaulted property)			

Section Q—Delinquent and Redemption Penalties—Year-End

Example

The end-of-the-year adjustment in the *Tax Losses Reserve Fund* consists of closing the penalty and redemption interest accounts against the *Equity* account in this fund:

Q1	Account	Debit	Credit
Tax Losses Reserve Fund			
Delinquent penalties		352,000	
Redemption penalties		18,500	
Equity			370,500
(To record the closing of penalty and interest to Equity)			

Section R—Content of Tax Resources Fund

Example

The makeup of the *Tax Resources Fund* at year-end is as follows:

R1	Account	Debit	Credit
Tax Resources Fund			
C/Y taxes receivables		0	
C/Y special assessments receivables		0	
P/Y taxes receivables		104,427,000	
P/Y special assessments receivable		495,000	
Cash			104,922,000
		104,922,000	104,922,000

Section S—Transfer of Excess Balance in Tax Losses Reserve Fund

The *Tax Losses Reserve Fund* receives revenues from payment of delinquent penalties, redemption penalties, and redemption interest. Unclaimed proceeds from the sale of defaulted property are also a revenue to this fund. The fund is charged with the losses from the sale of defaulted property. Each fiscal year, the fund is subject to the provisions of RTC section 4703 or section 4703.2.

- Two alternatives exist for determining the maximum balance required in the Tax Losses Reserve Fund:
    - First, RTC section 4703 requires the *Tax Losses Reserve Fund* to have a balance in an amount equivalent to 1% of the total of all taxes and assessments levied on the secured roll for that year on behalf of the entities participating in the Alternate Method of Tax Apportionment before any transfers to the general fund can occur. Amounts in excess of the 1% threshold may, for the remainder of the fiscal year, be credited to the general fund.
    - Second, Revenue and Taxation Code section 4703.2 requires the *Tax Losses Reserve Fund* to have a balance in an amount equivalent to 25% of the total delinquent secured taxes and assessments of those entities participating in the Alternate Method of Tax Apportionment, as calculated at the end of the fiscal year, before any transfers to the general fund can occur. At the end of the fiscal year, amounts in excess of this threshold may be transferred to the *General Fund*.

The Tax Losses Reserve Fund requirements of Revenue and Taxation Code section 4703 must be used unless a county adopts a resolution by October 31 of any fiscal year electing to be governed by Revenue and Taxation Code section 4703.2

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Chapter 19: Sales, Pledges, and Intra-Entity Transfers of Future Revenues

Chapter Contents

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Chapter 19: Sales, Pledges, and Intra-Entity Transfers of Future Revenues

Introduction

This chapter will cover accounting and reporting standards for transactions in which a government receives or is entitled to receive resources in exchange for future cash flows.

Types of Future Revenues

19.01 Sales of Receivables

As stated in GASB Cod. Sec. S20.103 (Section S20, paragraph .103), a sale of receivables is a transaction in which a local government entity receives or is entitled to receive proceeds in exchange for future cash flows from its account receivables if the government's relationship with those receivables is effectively terminated. A government's continuing involvement is effectively terminated if <u>all</u> of the following criteria are met:

- The transferee's ability to subsequently sell or pledge the receivables is not significantly limited by constraints of the transferor government.
- The transferor government does not have the option or ability to unilaterally substitute or reacquire specific accounts from the receivables transferred, except as opted by the transferee.
- The sale agreement is not cancelable by either party.
- The transferor government has been isolated from the receivables and the cash resulting from their collection.

According to GASB Cod. Sec. S20.110 (Section S20, paragraph .110), the sale of receivables should no longer be carried as an asset by the transferor. For nongovernmental funds, the difference between the proceeds and the carrying value of the receivables should be recognized as a gain or loss in the period of the sale. In governmental funds, the difference between the proceeds received and the receivables sold should be recognized as revenue.

If the transferee is a government outside of the transferor government's financial reporting entity, the transferee government should recognize the acquisition of the receivables at cost. For a description of intra-entity transfers, refer to section 19.04, *Intra-Entity Transfers.*

19.02 Sales of Future Revenues

As discussed in GASB Cod. Sec. S20.105 (Section S20, paragraph .105), a transaction in which a local government entity receives proceeds in exchange for cash flows from specific future revenues should be reported as a sale if all of the following criteria are met:

- The transferor government will not have an active involvement in the future generation of those revenues.
- The transferee's ability to subsequently sell or pledge the future cash flows is not significantly limited by constraints imposed by the transferor.
- The cash resulting from collection of the future revenues has been isolated from the transferor government, other than to pass on receipts of the revenue to the transferee.
- The contract, agreement, or other arrangement between the original resource provider and the transferor government does not prohibit the transfer or assignment of those resources. The sale agreement is not cancelable by either party.

The GASB determined in GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, as amended, that accelerating revenue recognition ahead of the point that revenues would normally be recognized does not result in a faithful representation of the government's financial position or changes in financial position. Therefore, resources from the sales of future revenues represent an increase to net assets and should be classified as a deferred inflow of resources.

The deferred inflows should be recognized by the transferor in future periods over the duration of the agreement. The transferee should record the receivables at the purchase price, and should recognize the receivables as revenue when the recognition criteria appropriate to the type of revenue are met. For a description of intra-entity transfers, refer to section 19.04, *Intra-Entity Transfers*.

19.03 Pledges of Receivables

According to GASB Cod. Sec. S20.108 and Sec. S20.109 (Section S20, paragraphs .108 and .109), when the sale of receivables or future revenues do not meet the criteria required for sale reporting identified, the transaction should be reported as a collateralized borrowing and should be considered pledged rather than sold. The proceeds received by the pledging government should be reported as a liability in its statements of net position and as an other financing source in its governmental funds statement of revenues, expenditures, and changes in fund balance, if governmental funds receive the proceeds.

The pledging government would still carry the accounts receivable on its balance sheet or state as an asset, as it is not a sale, and would treat pledged revenues as its own revenues following normal revenue recognition rules. If the transferee receives revenues, it should reduce the pledging government's liability to the transferee.

19.04 Intra-Entity Transfers

When accounting for intra-entity (within the same financial reporting entity) sales of accounts receivable or future revenues, a transferee government should record the receivables or future revenues at the carrying value of the transferor. The difference between the amount paid and the carrying value of the receivables transferred should be reported as a gain or loss by the transferor and as a revenue or expenditure/expense by the transferee in their separately-issued statements, but reclassified as transfers or subsidies—as appropriate—in the financial statements of the reporting entity.

The GASB determined in GASB Statement No. 65, as amended, that the amount paid should be attributed to the future periods benefiting from the cash flow. Therefore, the carrying value should be recorded as a deferred outflow of resources, amortized over the duration of the sale agreement by the transferee. The transferor government should report the proceeds of the sale as a deferred inflow of resources and recognize the revenue over the life of the sale agreement.

Disclosure Requirements

19.05 Disclosure of Future Revenues

Disclosure of Future Revenues Sold

Local governments should disclose in the notes to the financial statements any information about the specific revenue sold in the year of sale.

Disclosure of Future Revenues Pledged

Pledging local governments should disclose pledged revenues that have been formally committed to collateralize or secure debt, or to collateralize or secure debt of a component unit.

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Chapter 20: Special Assessment Accounting

Chapter Contents

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Chapter 20: Special Assessment Accounting

Introduction

According to GASB Cod. Sec. S40.102 (Section S40, paragraph .102), local governments provide some capital improvements or services primarily to benefit a particular property owner or group of property owners rather than the general citizenry. The property owners will typically initiative these capital improvements or services—that is to say, the project is authorized by a special assessment petition signed by a majority of the property owners who will benefit from the proposed project. The local government then acts on behalf of those property owners by organizing a special assessment district to carry out the project. This includes:

- providing or arranging project financing;
- approving of projects;
- overseeing the progress and completion of a project; and
- collecting assessments to pay any debt incurred to finance the project.

As discussed in GASB Cod. Sec. S40.103 (Section S40, paragraph .103), the costs of providing the capital improvement or services described in the paragraph above will be either partially or totally charged to the property owners who receive the benefit. Sometimes the local government assumes a portion of the cost of an improvement, either by incurring debt or by using other available resources, in recognition of a "public benefit" that also results from the project.

All local governments should consult with their respective legal counsel for further clarification on statutory provisions relating to special assessments.

California Constitution Article XIIID, section two, defines an assessment as "any levy or charge upon real property by an agency for a special benefit conferred upon the real property. Assessment includes, but is not limited to, special assessment, benefit assessment, maintenance assessment, and special assessment tax." Typically, local governments can use special assessments to pay for public works like sewers, parks, water systems, and some services. Proposition 218 (1996) requires all local governments, including special districts, to obtain weighted ballot approval from property owners before levying any assessments.

According to Government Code section 56036, the terms *District* and *Special District* are synonymous and include county service areas, but excludes assessment districts and special assessment districts (refer to Gov. Code, §56306(b) for a complete list of excluded district types).

Types of Special Assessments

20.01 Service Assessments

As stated in GASB Cod. Sec. S40.104 (Section S40, paragraph .104), "Service-type special assessment projects are for operating activities and do not result in the purchase or construction of capital assets. Usually the assessments are for services that are normally provided to the public as general governmental functions and would otherwise be financed by the general fund or a special revenue fund."

Examples of such services include street lighting, street cleaning, and snow plowing. The financing for these routine services usually comes from general revenues. However, if the local government provided these routine services to property owners outside the normal service area of the local government, or the services are provided to property owners at a higher level or at more frequent intervals than for the general public, then special assessments are sometimes levied. Only the owners of the affected properties would be charged for the additional services.

As discussed in GASB Cod. Sec. S40.113 (Section S40, paragraph .113), the special assessment fund type, as identified in NCGA Statement 1, Governmental Accounting and Financial Reporting Principles, should not be used in basic financial statements to report the construction of public improvements or the provision of services financed by special assessments, unless there is a legal requirement.

20.02 Capital Improvement Assessments

As discussed in GASB Cod. Sec. S40.105 (Section S40, paragraph .105), "special assessment projects are usually capital in nature and enhance the utility, accessibility, or aesthetic value of the affected properties. Examples of typical special assessment capital improvements include construction or improvement of streets, sidewalks, parking facilities, and curbs and gutters."

According to GASB Cod. Sec. S40.106 (Section S40, paragraph .106), capital improvement special assessment projects have two distinct and functionally different phases. The initial phase is comprised of the financing and construction of the project, which in most cases is relatively short in duration—usually a few months to a couple of years. The second phase, which is usually substantially longer, consists of collecting the assessment principal and interest levied against the benefited properties and the repayment of the cost of financing the construction.

Local governments typically issue long-term debt (e.g., bonds) to finance capital improvement projects and secure these debts by placing a lien on the assessed properties of the beneficiaries as discussed in GASB Cod. Sec. S40.107 - .108 (Section S40, paragraph .107 - .108). The primary source of repayment of these debts is usually the assessments collected by the local government. However, a local government may sometimes choose to finance the debt by partially using its own funds (e.g., capital grants or tax revenues) and partially from assessments collected.

Accounting and Reporting For Special Assessments

Local governments are encouraged to modify their accounting systems so that they can account for the revenues and expenditures/expenses related to special assessment projects; this would also include the recording of bond proceeds and payments. For example, if a local government issues bonds to finance a capital project under the Municipal Improvement Act of 1913 (SHC. Code, §10602), the bond proceeds are required to be deposited into a special fund established for the purposes of the capital improvement project.

20.03 Special Assessment Debt

As previously noted in this chapter, special assessment debt can be repaid by more than one method. According to GASB Cod. Sec. S40.110 (Section S40, paragraph .110):

> The primary source for repayment of special assessment debt is assessments against benefiting property owners. However, because the government is often directly responsible for paying a portion of the project cost, either as a public benefit or as a property owner benefiting from the improvement, general governmental resources repay the portion of the debt related to the government's share of the project cost." In short, the type and structure of debt associated with special assessment-related capital improvements can vary considerably from one jurisdiction to another.

As stated in GASB Cod. Sec. S40.112 (Section S40, paragraph .112):

> Capital improvements involving special assessments may be financed by debt that is:
>
> A. General obligation debt that is not secured by liens on assessed properties but nevertheless will be repaid in part by special assessment collections.
>
> B. Special assessment debt that <u>is secured by liens</u> on assessed properties <u>and is also backed by the full faith and credit of the government</u> as additional security.
>
> C. Special assessment debt that <u>is secured by liens</u> on assessed properties <u>and is not backed by the full faith and credit of the government</u> but is, however, fully or partially backed by some other type of general governmental commitment.
>
> D. Special assessment debt that <u>is secured by liens</u> on assessed properties, <u>is not backed by the full faith and credit of the government</u>, <u>and is not backed by any other type of general governmental commitment</u>; the government is not liable under any circumstance for the repayment of this category of debt, should the property owner default.

20.04 Special Assessment Reporting Requirements

A local government can maintain special revenue, capital projects, and debt service funds for individual special assessment projects or separately identify special assessment transactions and accounts within the other funds.

If these accounting and reporting methods do not satisfy the legal requirement, additional schedules and narrative explanations may be presented in the notes to the basic financial statements, in the comprehensive annual financial report (CAFR), or in separate special-purpose reports. This would be in accordance with the guidance presented in GASB Cod. Sec. 1200.113 (Section 1200, paragraph .113).

20.05 Reporting Special Assessments for Services

In the fund financial statements, the transactions of a service-type special assessment should be reported in the fund type that best reflects the nature of the transactions, usually the general fund, a special revenue fund, or an enterprise fund, according to GASB Cod. Sec. S40.114 (Section S40, paragraph .114).

Only the minimum number of funds consistent with legal and administrative requirements should be established by the local government [refer to GASB Cod. Sec. 1100.104 (Section 1100, paragraph .104)].

GASB Cod. Sec. S40.114 (Section S40, paragraph .114) further states that:

> Service-type special assessments transactions (exchange or exchange-like) including related expenditures (expenses) should be recognized on the same basis of accounting as that normally used for that fund type. Both the assessment revenues and the expenditures (expenses) for which the assessments were levied should be recognized on the same basis of accounting as that normally used for that fund type. In the government-wide financial statements, exchange or exchange-like service type special assessments should be reported as either governmental or business-type activities using the full accrual basis of accounting.

As discussed in GASB Cod. Sec. S40.114 (Section S40, paragraph .114), "revenues from service-type special assessment transactions that are nonexchange transactions, as defined in GASB Cod. Sec. N50, (Section N50) should be reported in accordance with the provisions of that section."

20.06 Reporting Capital Improvement Special Assessments

According to GASB Cod. Sec. S40.115 (Section S40, paragraph .115), "the extent of a government's liability for a debt related to a special assessment capital improvement can vary significantly. For example, a government may be primarily liable for the debt, it may have no liability whatsoever, or it may be obligated in some manner to provide a secondary source of funds for repayment of the debt in the event of default by the assessed property owners."

A local government entity is obligated in some manner for special assessment debt if (a) it is legally obligated to assume all or part of the debt in the event of default or (b) the government may take certain actions to assume secondary liability for all or part of the debt—and the government takes, or gives indications that it will take, those actions.

As discussed in GASB Cod. Sec. S40.115 (Section S40, paragraph .115), the conditions that indicate that a government is obligated in some manner include:

a. The government is obligated to honor deficiencies to the extent that lien foreclosure proceeds are insufficient.
b. The government is required to establish a reserve, guarantee, or sinking fund with other resources. If a fund is established, GASB Cod. Sec. 1300.107 (Section 1300, paragraph .107) requires those transactions and balances to be reported in a debt service fund.
c. The government is required to cover delinquencies with other resources until foreclosure proceeds are received.
d. The government should purchase all properties ("sold" for delinquent assessments) that were not sold at public auction.
e. The government is authorized to establish a reserve, guarantee, or sinking fund, and it establishes such a fund. If a fund is not established, the considerations in subparagraphs “g” and “h” may nevertheless provide evidence that the government is obligated in some manner. If a fund is established, GASB Cod. Sec. 1300.107 (Section 1300, paragraph .107) requires those transactions and balances to be reported in a debt service fund.
f. The local government may establish a separate fund with other resources for the purpose of purchasing or redeeming special assessment debt, and it establishes such a fund. If a fund is not established, the considerations in subparagraphs “g” and “h” may nevertheless provide evidence that the government is obligated in some manner.
g. The government explicitly indicates by contract, such as the bond agreement or offering statement, that in the event of default it may cover delinquencies, although it has no legal obligation to do so.
h. Legal decisions within the State or previous actions by the government related to defaults on other special assessment projects make it probable that the government will assume responsibility for the debt in the event of default.

Simply put, the phrase “*obligated in some manner*” as used in this section is intended to include all situations other than those in which:

- The government is prohibited (by constitution, charter, statute, ordinance, or contract) from assuming the debt in the event of default by the property owner; or

- The government is not legally liable for assuming the debt and makes no statement, or gives no indication, that it will, or may, honor the debt in the event of default”.

As stated in GASB Cod. Sec. S40.116 (Section S40, paragraph .116):

> Debt issued to finance capital projects that will be paid wholly or partly from special assessments against benefited property owners should be reported as follows:
>
> a. General obligation debt that will be repaid, in part from special assessments should be reported as general long-term liabilities only in the governmental activities column in the government-wide statement of net position.

b. Special assessment debt for which the government is obligated in some manner as described in GASB Cod. Sec. S40.115 (Section S40, paragraph .115) should be reported as general long-term liabilities in the government-wide statement of net position, except for the portion, if any, that is a direct obligation of a proprietary fund, or that is expected to be repaid from operating revenues of a proprietary fund.

   (1) The portion of the special assessment debt that will be repaid from property owner assessments should be reported as "special assessment debt with governmental commitment."
   (2) The portion of special assessment debt that will be repaid from general resources of the government (the public benefit portion or the amount assessed against government-owned property) should be reported like other general long-term liabilities.
   (3) The portion of special assessment debt that is (a) a direct obligation of a proprietary fund or (b) not a direct obligation but is expected to be repaid from proprietary fund revenues should be reported as liabilities of those funds in the proprietary fund statement of net position as well as in the government-wide statement of net position.

c. Special assessment debt for which the government is not obligated in any manner should not be displayed in the government's financial statements. However, if the government is liable for a portion of that debt (the public benefit portion, or as a property owner), that portion should be reported as above.
d. If a governmental entity is obligated in some manner for capital improvement special assessment debt, as discussed in GASB Cod. Sec. S40.115 (Section S40, paragraph .115), capital assets constructed or acquired with capital improvement special assessment debt should be reported in the government-wide financial statements as capital assets of either governmental or business-type activities in the statement of net position.

20.07 Capital Improvements Financing—Governmental Funds

According to GASB Cod. Sec. S40.118 (Section S40, paragraph .118), <u>if the government is not obligated in some manner</u> to assume the payment of related debt service in the event of default by the property owners, as described in GASB Cod. Sec. S40.115 (Section S40, paragraph .115), then:

- All expenditure should be reported in the same manner as any other capital improvement and financing transaction. Revenue from special assessment capital improvement transactions that are exchange or exchange-like transactions and related expenditures should be recognized on the modified accrual basis of accounting.

- Transactions of the construction phase of the project should be reported in a capital projects fund or other appropriate fund. Transactions of the debt service phase should be reported in a debt service fund, if the use of a debt service fund is required by the guidance in GASB Cod. Sec. 1300.107 (Section 1300, paragraph .107). At the time of levy, receivables related to special assessments should be recognized and should be offset by a deferred inflow of resources. As the assessments become measurable and available, the deferred inflow of resources should be adjusted accordingly.

- The capital assets constructed or acquired (other than those related to proprietary funds—refer to section 20.09 of this chapter) should be reported as general capital assets only in the governmental activities column in the government-wide statement of net position, as stated in GASB Cod. Sec. 1400.101 (Section 1400, paragraph .101).

- The outstanding long-term debt should be reported as general long-term liabilities only in the governmental activities column in the government-wide statement of net position in according to the provisions outlined in section 20.09 of this chapter.

According to GASB Cod. Sec. S40.119 (Section S40, paragraph .119), if the government is not obligated in any manner for a special assessment issue then:

- The debt service transactions should be reported in an agency fund in the statement of fiduciary net position rather than a debt service fund. In this instance the government's duties are limited to acting as an agent for the assessed property owners and the bondholders.

- Transactions of the construction phase should be reported in a capital projects fund, or other appropriate fund. The source of funds in the capital projects fund should be identified by a description other than "bond proceeds," such as "contribution from property owners."

- The capital assets constructed or acquired should be reported only as general capital assets in the governmental activities column in the government-wide statement of net position. Displaying the transactions in this manner recognizes that the construction or acquisition is a governmental activity and results in the addition of a general capital asset, but is not financed by governmental debt.

As stated in GASB Cod. Sec. S40.120 (Section S40, paragraph .120):

> If an improvement is initially financed with existing governmental fund resources rather than with debt, either a direct capital expenditure or a transfer to a capital projects fund should be reported. At the time of the levy, special assessments receivable in the amount of the levy—and a deferred inflow of resources equal to the amount that is not measurable and available—should be recognized in the fund that provides the resources.

20.08 Capital Improvements Financing—Proprietary Funds

According to GASB Cod. Sec. S40.121 (Section S40, paragraph .121):

> If a local governmental entity is obligated in some manner for capital improvement special assessment debt and that debt is directly related to and expected to be paid from proprietary funds, all transactions related to capital improvements financed by special assessments should be reported in the same manner, and on the same basis of accounting, as any other capital improvement and financing transaction reported in proprietary funds. Special assessment revenue and receivables should be recognized on the full accrual basis of accounting.

Generally, the provisions of GASB Cod. Sec. S40.115 (Section S40, paragraph .115)—refer to section 20.06 of this chapter—should be followed even when the capital improvements financed by special assessments provide capital assets to a government's enterprise fund, as discussed in GASB Cod. Sec. S40.122 (Section S40, paragraph .122). However, the cost of the improvements should be capitalized on the enterprise fund's statement of financial position and an equal amount should be reported as capital contributions after nonoperating revenues and expenses in the statement of revenues, expenses and changes in fund net position.

As stated in GASB Cod. Sec. S40.123 (Section S40, paragraph .123):

> Only that portion, if any, of special assessment debt that is a direct obligation of the proprietary fund, or is not a direct obligation but is expected to be repaid from proprietary fund revenues, should be reported as a liability on the proprietary fund's statement of net position. However, this does not prohibit a governmental entity from reporting all of the transactions and balances of a special assessment project within a proprietary fund to properly reflect the actual administration of a project.

20.09 Capital Improvements Financing—Government-Wide Financial Statements

As discussed in GASB Cod. Sec. S40.124 (Section S40, paragraph .124), if a governmental entity is obligated in some manner for capital improvement special assessment debt—as outlined in section 20.06 of this chapter; and the provisions of GASB Cod. Sec. S40.115 (Section S40, paragraph .115), then "capital assets constructed or acquired with capital improvement special assessment debt should be reported as capital assets of either governmental or business-type activities in the government-wide statement of net position. Special assessment revenues and receivables should be recognized using the full accrual basis of accounting."

According to GASB Cod. Sec. S40.125 (Section S40, paragraph .125), "If a governmental entity is not obligated in any manner for special assessment debt, program revenue equal to the amount capitalized—along with other grants or contributions restricted for capital purposes—should be reported in the statement of activities using the full accrual basis of accounting."

20.10 Required Disclosures

According to GASB Cod. Sec. S40.126 (Section S40, paragraph .126), <u>if the government is obligated in some manner</u> for special assessment debt, the notes to financial statements should disclose the information required in the provisions of GASB Cod. Sec. 2300 (Section 2300), as it applies to long-term debt. The notes should describe the nature of the government's obligation, including the identification and description of any guarantee, reserve, or sinking fund established to cover defaults by property owners.

Additionally, the notes should also disclose the amount of special assessment receivables that are delinquent if not separately displayed on the face of the financial statements.

Following are some examples of disclosures that should be included in the notes*:*

- Nature of the local government's obligation for the special assessment debt.
- Descriptions of special assessment debt issues faced by the local government.
- Summary of debt service requirements to maturity.
- Special assessment debt authorized but unissued.
- Changes in general long-term debt (the portion for which the governmental entity is responsible.

As discussed in GASB Cod. Sec. S40.127 (Section S40, paragraph .127), if the government is not obligated in any manner for special assessment debt, then the notes to the financial statements should disclose the amount of the debt. Furthermore, the notes should also include the fact that the government is not liable in any way for repayment but is only acting as an agent for the property owners in collecting the assessments, forwarding the collections to bondholders, and—if appropriate—initiating foreclosure proceedings.

Some special assessment districts constitute component units. As stated in GASB Cod. Sec.S40.128 (Section S40, paragraph .128), "The accounts of those units, including the special assessment debt for which the component unit is obligated in some manner, should be included in the reporting entity in accordance with the provisions of GASB Cod. Sec. 2600 (Section 2600), even though the primary government may have no obligation for the debt."

20.11 Special Assessment Bonds

Special assessment bonds are payable from special assessments levied against the properties benefited. Typically, property owners are responsible for paying all or portion of a special assessment debt issued to finance capital improvements. For example, a local government may assess property owners in order to improve water lines. When a local government is primarily liable for the special assessment debt, or it is "obligated in some manner" to repay the debt, the local government should report the debt. GASB Statement No. 6, *Accounting and Financial Reporting for Special Assessments*, as amended, states that a governmental unit is obligated in some manner to pay special assessment debt if one of the following characteristics exist:

- The government unit is legally obligated to assume all or part of the special assessment debt if property owners default; or
- The government unit, although not required to do so, may assume secondary responsibility for all part of the special assessment debt, and the governmental unit has either taken such action in the past or indicated that it will take such action.

If a local government is obligated to pay a portion of the special assessment debt, the portion should be reported as general long-term debt only in the government-wide statement of net position, except for any portion that is a direct obligation of a proprietary fund. The debt should also be disclosed as applies to long-term liabilities in the Notes to Financial Statements and should describe the nature of the government's obligation, including the identification and description of any guarantee, reserve, or sinking fund established to cover defaults by property owners. The notes should also disclose the amount of special assessment receivables that are delinquent if not separately displayed on the face of the financial statements. If a local government has no obligation to pay the special assessment debt, then the special assessment does not need to reported it as an obligation and is not reported in the financial statements.

Special Assessments Related Laws

California has a variety of assessment laws. Following is a (not all-inclusive list) of some of the more commonly used assessment laws. As previously stated, local governments should refer to their respective legal counsel when interpreting the requirements of these statutory provisions.

Benefit Assessment Act of 1982 (Government Code section 54703 et seq.). Allows local governments to finance property related services through the imposition of an assessment upon those properties that benefit from those services.

Fire Suppression Assessments (Government Code section 50078 et seq.). Allows local government entities that provide fire suppression services directly or by contract with the State or a local agency to—by ordinance or by resolution adopted after notice and hearing—determine and levy an assessment for fire suppression services pursuant to this article. The assessment may be made for the purpose of obtaining, furnishing, operating, and maintaining fire suppression equipment or for the purpose of paying the salaries and benefits of firefighting personnel.

Improvement Act of 1911 (Streets and Highway Code 5000 et seq.). Allows local government entities to fund various types of projects such as transportation systems, street paving, parks, recreation areas, sewers, drainage systems, etc.

Improvement Bond Act of 1915 (Streets and Highway Code 8500 et seq.). This act is not an assessment act. It allows local government entities to issue assessment bonds or anticipation notes when using other assessment acts such as the Improvement Act of 1911.

Landscaping and Lighting Act of 1972 (Streets and Highway Code section 22500 et seq.). Allows local agencies to levy assessments for improvements and maintenance for parks, recreational areas and public lighting facilities.

Municipal Improvement Act of 1913 (Streets and Highway Code section 10000 et seq.). Allows local government entities to levy assessments for a variety of improvements, which include improvements related to water, electric power, gas services, and, necessary works and appliances for lighting purposes.

Chapter 21: Risk Management

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Chapter 21: Risk Management

Introduction

Local governments are exposed to a variety of risks that may result in losses. These risks include possible losses from natural disasters, injuries to employees, or breaches of contract. The purpose of this section is to provide general guidance on accounting and financial reporting standards for risk, financing, and insurance-related activities for local governments.

Overview of Risks

21.01 Risks

Local governments face a variety of risks, including:

- torts (wrongful acts, injuries, or damages, not involving breach of contract, for which a civil action can be brought);
- theft of, damage to, or destruction of assets;
- business interruptions;
- errors and omissions (deficiencies, such as omission of information, which can result in legal claims for negligence or failure to perform);
- job-related illnesses, employee related damages, or injuries to employees;
- liabilities for environmental remediation; and
- Natural disasters (events beyond human origin or control, such as lightning, windstorms, and earthquakes).

According to GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, as amended, defines *Risk Management* as "The process of managing an organization's activities to minimize the adverse effects of certain types of losses."

A local government should decide how to finance losses that may arise from the types of risks identified above. A local government should also consider whether an accrual for possible losses should be recognized at the end of an accounting period. The consideration for a possible accrual for losses by a local government is no different from the evaluation that a private enterprise should consider.

21.02 Costs of Risk

The costs of risk include:

- Administration costs such as salaries, benefits, and other operating expenses associated with managing the total risk of the local government;
- Mitigation costs, such as security software, background checks, and safety education programs;
- Transfer costs, such as insurance or financial instruments; and
- Uninsured losses, such as losses from accidents, repairs, or insurance deductibles.

Self-Insurance and Risk Pools

21.03 Self-Insurance Allocations

Self-insurance describes an entity's retention of its own risk, rather than transferring the risk through insurance. Risk financing techniques for self-insurance require an effective cost allocation system to formulate contributions. Contributions should be:

- equitable, reflecting actual hazards and costs;
- based on easily ascertained and quantifiable data;
- adjustable for different size deductibles, if units have widely disparate financial size; and
- within guidelines and contribution thresholds set by law.

21.04 Risk Pools without Transfer of Risk

A local government may participate in pools in which there is no transfer or pooling of risk, such as those in which only banking or servicing is the function of the pool. In this instance, the local government should measure and recognize its expenditures/expenses and reasonably estimated liabilities in accordance with the principles outlined in section 21.06, *Liability, and Expenditure/Expense Recognition of Claims.*

Payments, including capitalization contributions, made to risk pools to which there has been no transfer or pooling of risk, should be accounted for as either deposits or reductions of the claims liabilities account. A deposit should be recorded when there are no recorded liabilities for reasonably expected claims. A reduction of the claims liabilities account should be made when payments to the risk pools are to be used to pay claims as they are incurred.

21.05 Capitalization Contributions to Risk Pools

When a local government makes capital contributions to a risk pool whereby risk has been transferred or pooled, a determination should be made whether to record the contribution as an asset, deposit, or an expenditure/expense.

The contribution should be reported as a deposit if it is probable that the contribution will be returned to the local government upon either the dissolution of or the approved withdrawal from the risk pools. The decision as to whether an asset exists should be based on the type of fund, the pooling agreement, and the pool's ability to return the contribution.

In governmental funds, a capital contribution would be reported as the nonspendable asset, prepaid insurance, if it is contractually required to remain intact, but absent contractual requirements, it should be reported as an expenditure. In the proprietary funds, a contribution would be reported as prepaid insurance, allocated and recognized over the period of coverage.

Accounting

21.06 Liability and Expenditure/Expense Recognition of Claims

If a risk of loss from events has not been transferred to a third party, the local government should report estimated expenditures/expenses from a claim as an accrued liability if both of the following conditions exist:

- On the basis of information available, it is probable that an asset has been impaired or a liability has been incurred as of the date of the financial statements; and
- The loss can be reasonably estimated.

To determine whether a loss is probable, all relevant information available prior to the issuance of the financial statements should be evaluated. The expenditure/expense and liability related to the loss should be recognized and disclosed in the financial statements if a claim has been asserted and the probable loss related to the claim can be reasonably estimated.

An accrual of a loss is based on a strong likelihood that the future event will in fact occur. The accrual of a loss suggests that the local government will be held liable for the loss, which will eventually be confirmed when the local government is required to pay the injured party.

The various probabilities of whether a contingent loss will eventually be confirmed by a future event, for purposes of disclosure, include:

- *Probable*—the future event or events confirming the fact that a loss has occurred are likely to occur;
- *Reasonably Possible*—the chance of the future event or events occurring is more than remote by less than likely; or
- *Remote*—the chance of the future event or event occurring is slight.

Local governments should evaluate their exposure to liabilities related to unpaid claims, which includes both (1) claims that have been reported and (2) claims incurred but not reported. Liabilities for unpaid claims should be based on the following cost factors:

- Total ultimate costs of settling a claim, including provisions for inflation and other societal and economic factors;
- Past experience of settling claims; and
- Factors needed to make past experience trends consistent with current conditions.

Incurred but Not Reported Claims

Incurred but not reported claims (IBNR) are those claims that have not yet been asserted, as of the financial statements issuance date, even though, the incident related to the claim may have occurred before the date of the balance sheet date. If the local government concludes that it is not probable that the IBNR claim will be asserted, then the loss should not be accrued or disclosed in the financial statements. If the local government concludes that it is probable that another party will assert an IBNR claim, the expense/expenditure and liability related to the loss should be recognized in the financial statements.

IBNR claims include:

- known loss events that are expected to become claims;
- unknown loss events that are expected to become claims; or
- expected future development on claims already reported.

The *AICPA Audit and Accounting Guide—State and Local Governments* lists the following examples of loss contingencies that should be evaluated for possible accrual:

- Contractual actions (such as claims for delays or inadequate specification on contracts);
- Guarantees of another entities' debt;
- Unemployment compensation claims;
- Property tax appeals;
- Tax refund claims; or
- Refunds of nonexchange revenues when the recipient government does not satisfy a provider's requirements.

21.07 Valuation of Accrued Claims

The claim liability should be based on the estimated ultimate cost of settling the claims, including economic factors, using past experience as adjusted for current trends. The cost of settling should be evaluated in terms of the claims' estimated realizable value. When historical experience is used to estimate claim liability, the claims should be refined by the amount and type of claim to ensure that the estimate is reasonable. Other allocated or unallocated claim expenditures or expenses should be included in the estimated liability for claims; however, their inclusion is not required if not incremental to the claim. The composition of the accrual should be disclosed in the financial statements.

The estimated liability for claims costs should be reduced by estimated recoveries, such as salvage and subrogation, which may also arise from unsettled claims.

- *Salvage* is defined in GASB Cod. Sec. C50.528 (Section C50, paragraph .528) as the "amount received by a public entity risk pool from the sale of property (usually damaged) on which the pool has paid a total claim to the insured and has obtained title to the property."

- *Subrogation* is defined in GASB Cod. Sec. C50.532 (Section C50, paragraph .532) as "the right of an insurer to pursue any course of recovery of damages, in its name or the name of the policyholder, against a third party who is liable for costs of an insured event that has been paid by the insurer."

In addition to claims that have not been settled, the local government may also anticipate recoveries from claims that have already been settled. Anticipated recoveries on settled claims should be netted (reduced) against the estimated liability for claims costs.

21.08 Discounting

It is acceptable to report the accrual at either gross amounts or a discounted present value of estimated future amounts, with one exception—structured settlements should be discounted if the amount to be paid to the claimant is fixed by contract and the payment dates are fixed or determinable.

When claims liabilities are presented in the financial statements at discounted amounts, the rate selected to compute the discounted amounts should be the entities settlement rate and investment yield rate. Both types of rates are defined as follows:

- *Settlement Rate*—is defined in GASB Cod. Sec. C50.530 (Section C50, paragraph .530) as the rate at which a monetary liability with uncertain terms can be settled or a monetary asset (receivable) with uncertain terms can be sold.

- *Investment Yield Rate*—is defined in the *2016 Governmental GAAP Guide for State and Local Governments*, by Eric S. Berman, as the expected rate of return on investments held by the local government during the period in which the expected payments to the claimant will occur.

21.09 Insurance Related Transactions

According to GASB Statement No. 30*, Risk Financing Omnibus—an amendment of GASB Statement No. 10*, as amended, claims development information for public entity risk pools should be reported consistently, using either an accident-year basis, a report-year basis, or a policy-year basis. The type of policy affects the complexity of producing consistent risk information and may require added disclosures.

GASB Statement No. 30, as amended, also establishes that required supplementary information schedules should be presented as originally reported at the end of each of the past ten accident years (for occurrence-based policies or contracts), report years (for claims-made policies or contracts), or policy years, including the latest year. Amounts should be limited to provisions for claims resulting from events that triggered coverage under the policy or participation contract in that year. If amounts are not presented on an accident-year basis or a report-year basis, they should be reported on a policy-year basis.

Claims-Made Policies

A claims-made policy covers losses reported during the policy period, regardless of whether the event occurred in that period. A claims-made policy transfer's risk to the insurer or pool only for claims reported within an allowable period. The local government is separately liable for any claims that have been made but were not reported nor filed during the period allowed. In such cases, the government entity should account for the unreported risk using the recognition rules in section 21.06, *Liability, and Expenditure/Expense Recognition of Claims*. For claims-based policies, a report-year basis would include the claims that were reported during the same period for all policies, regardless of individual policy years.

Tail coverage is a type of policy designed to cover claims incurred before, but reported after, expiration of a claims-made policy. The risk exposure related to a claims-made policy can be avoided by acquiring a tail coverage insurance policy. When tail coverage is acquired, a local government does not have to evaluate the possible accrual or disclosure of unreported losses that are covered by the tail coverage policy.

Occurrence-Based Policies

An occurrence-based policy is a type of policy or participation contract that covers losses that happen during the policy period, regardless of when the claims are asserted, reported, or paid.

According to *GASB Statement No. 30, Risk Financing Omnibus—an amendment of GASB Statement No. 10*, as amended, "For occurrence-based policies, a policy-year basis includes the actual periods covered in each policy, whether or not they are coextensive."

If there is a possibility that the insurer or pool may not be able to fulfill its obligations or that the risk may fall outside the coverage of the policy due to type or timing of claim or occurrence, then risk may not effectively be transferred. The local government should evaluate the likelihood that it will be required to pay its own claims.

Retrospectively Rated Policies and Contracts

Retrospective (experience) rating is a method for determining premiums based on actual experience. When a local government acquires a retrospectively rated policy, the minimum premium should be recognized as an expenditure or expense over the period covered by the policy. Accruals should be done for estimated claim losses (reported and unreported) in the manner prescribed in section 21.06, *Liability, and Expenditure/Expense Recognition of Claims*. If there is a maximum contribution identified in the contract, the accrual should not exceed the amount of the maximum premium.

Some local governments purchase retrospectively rated policies that are based on the experience of a group of policyholders. When a retrospective-rated policy is based on group experience, the initial premium should be amortized pro rata as an expenditure or expense over the period of time covered by the contract.

The local government should accrue supplemental premiums or refunds that arise from the experience of the group to date. The accrual should be based on the ultimate cost of reported and unreported claims as of the date of the financial statements. In addition, both of the following additional disclosures should be made:

- Insurance coverage is based on retrospectively rated policies; and
- Premiums are accrued based on the experience to date of the ultimate cost of experience of a group.

The local government should rely on the insurer entity to provide the information necessary to accrue additional premiums or refunds as of the date of the statement of net position.

When a local government cannot estimate losses from reported or unreported claims, it should disclose the existing contingency in the notes to financial statements.

Cash Reserves for Self-Insurance

A local government may also consider maintaining cash reserves for self-insurance. A trust fund or reserve account can set aside money to pay for anticipated and unanticipated events. The local government should retain control of cash reserves for self-insurance until claims are actually paid.

A well-managed self-insurance program offers the potential for significant cost savings as compared to some of the more traditional insurance plans. Potential cost savings can result from reducing and controlling losses, increased awareness of claim payments, reduction in expenses associated with insurance plans, and the opportunity to generate investment income as a result of maintaining control of the cash reserves. Maintaining sufficient cash reserves for self-insurance can promote the local government's short-term and long-term sustainability as it minimizes the impact of potential financial losses.

The decision to self-insure should be based on a balanced consideration of the distinctive risks, reserve policies, and regulations. Any self-insurance program should be reviewed regularly, as the financial environment of a local government—which includes periodic applicable legislative or regulatory changes—is dynamic.

21.10 Policyholder or Pool Dividends

A local government may be entitled to a policyholder dividend or return of contribution based on the terms of its insurance or pool participation contract. A policyholder dividend should be recorded by the local government as a reduction of expenditures or expenses as of the date the dividend is declared by the insurer.

21.11 Annuity Contracts

A local government may satisfy its obligation to a claimant by purchasing an annuity in the claimant's name. If the possibility of making additional payments to the claimant is remote, then the claim should be removed as a liability on the proprietary and government-wide financial statements, and the purchase of the annuity contract should not be presented as an asset.

When claims have been removed from the claims liability account because of the purchase of an annuity contract, the amount removed should be disclosed as a contingent liability. The disclosure should continue as long as there is a legal possibility that the claimant could demand payment from the local government. Disclosure is not required for annuity contracts purchased if both of the following conditions exist:

- The claimant has signed an agreement releasing the local government from further obligation; and
- The likelihood of future payments to the claimant is remote.

If a claim was removed from the claims liability account because an annuity contract was purchased in a previous period, but in the current period it is determined that the governmental entity is primarily liable for the claim, then the claim should be reestablished as a claims liability.

Funds

21.12 Governmental Funds Used to Account for Risk Financing Activities

The modified accrual basis of accounting and current financial resources measurement focus should be applied to accounting for claims and judgments in governmental funds. As noted earlier, expenditures and liabilities should be recognized based on the principles discussed in section 21.06, *Liability, and Expenditure/Expense Recognition of Claims.*

If a local government is using a governmental fund to recognize claim expenditures and liabilities, then the local government may choose any methodology to allocate "loss expenditures" to other funds. When allocating the loss expenditures, the governmental fund managing the risk financing activity should reduce its own expenditures while the paying funds recognize the allocation as an expenditure. Any amounts allocated in excess of the local government's total expenditure should be treated as a transfer.

The governmental fund used to manage the risk financing activities should record contributions from other funds as interfund reimbursements. Claims liabilities should be reduced by amounts to be recovered through excess insurance.

21.13 Internal Service Funds Used to Account For Risk Financing Activities

When an Internal Service Fund (ISF) is used to account for a local government's risk financing activities, claims liabilities and the related expenses should be recognized based on the standards discussed in section 21.06, *Liability, and Expenditure/Expense Recognition of Claims*. Any accrual of claims liabilities should be reduced by amounts to be paid through excess insurance.

If a local government concludes that a loss related to risk-financing activities should not be accrued because the occurrence of the loss is not probable or the amount of the loss is not subject to reasonable estimation, then the loss should be evaluated to determine whether disclosure in the financial statement is necessary.

The risk-financing activities provided by the ISF should be charged to other funds using any method that the ISF considers appropriate as long as the following guidelines are satisfied:

- The total charges to other funds are calculated in accordance with the principles outlined in section 21.06, *Liability, and Expenditure/Expense Recognition of Claims*, or

- The total charges to other funds are based on an actuarial method or historical cost information, reasonably adjusted over time so that the expenses and revenues are approximately the same; and the total charge may include a reasonable provision to cover expected future catastrophic losses.

The amount charged by the ISF to the other funds should be recognized as revenue, and each fund should recognize the amount charged as expenditures/expenses. Deficits do not have to be adjusted in the year if adjustments are made over a reasonable period of time to reduce the difference, but the deficit should be disclosed in the notes to the local government's financial statements. Any amount in the ISF's net position that arose from an optional additional charge for catastrophic losses should also be reported in the notes to the financial statements, reported as restricted for future catastrophic losses.

21.14 Reporting Claim Losses in Proprietary and Fiduciary Funds

The full accrual basis of accounting and the economic resources measurement focus should be used to determine which claims should be presented in a proprietary or fiduciary fund. Estimated losses from a claim should be treated as an expense or deduction and a liability in the proprietary or fiduciary fund financial statements in accordance with the principles outlined in section 21.06, *Liability, and Expenditure/Expense Recognition of Claims*. Transactions related to insurance recoveries other than impairment of capital assets, such theft or embezzlement of monetary assets, should be accounted for separately as an other financing source or extraordinary item.

21.15 Reporting Claim Losses in Government-Wide Financial Statements

The full accrual basis of accounting and the economic resources measurement focus should be used to determine which claims and assessment should be presented in the government-wide financial statements. Reporting should be in accordance with the principles outlined in section 21.06, *Liability, and Expenditure/Expense Recognition of Claims.* If a claims liability is incurred, the liability should be presented as a debt obligation of the local government in its governmental and business activities columns of the statement of net position.

Liabilities that have an average maturity of greater than one year should be reported in two components on the statement of net position; namely, the amount due within one year (current liabilities) and the amount due in more than one year (long-term liabilities).

When claim expenses are recorded, the expenses should be evaluated to determine how the expense should be presented in the statement of activities. A determination should be made as to whether the claims expense is a direct expense, identifiable to a particular function or program. In some instances, a claims expense may be an extraordinary item and, therefore, should be presented in the lower section of the statement of activities. When a claims expense is either unusual or infrequent, the item should be disclosed in the notes to the financial statements.

21.16 Reporting Risk Financing

Internal Service Fund Balances and Activity in the Government-Wide Financial Statements

If an ISF is used to account for risk management activities, such activities should be eliminated to avoid doubling-up expenses and revenues in the government activities column of the statement of activities. Any residual risk activity balances related to the ISF's net position should usually be reported in the government activities column in the statement of net position. If, however, an enterprise fund is the main participant in the risk financing internal service fund, the assets, liabilities, deferred inflows and outflows should be reported in the business-type activities column of the statement of net position.

Disclosures

21.17 Disclosure of Loss Contingencies

When a possible future loss does not satisfy the criteria for an accrual in accordance with the principles outlined in section 21.06, *Liability, and Expenditure/Expense Recognition of Claims*, the loss should be evaluated to determine whether it should be disclosed in the governmental entity's financial statements. Any loss should be disclosed if there is a reasonable possibility that the loss may have been incurred.

When a loss contingency is disclosed in the financial statements, the following should be disclosed:

- Nature of the contingency; and
- Estimate, or estimated range of the loss (if no estimate can be made, the disclosure should state so).

When a loss is based on a future event whose likelihood of occurring is remote, the loss should not be accrued or disclosed in the financial statements.

21.18 Risk Management Disclosures

The following disclosures should be made in the financial statements, if applicable:

- Description of the types of risk to which the local government is exposed and how they are handled, such as the methods used for risk financing.

- Description of significant reductions in insurance coverage from the previous year, arranged by major category of risk, and an indication of whether settlements exceeded insurance coverage for each of the past three years.

- Disclosure of whether the local government participates in a risk pool and the nature of participation, if any, including rights and obligations of the local government and the risk pool.

- Disclosure of whether the local government has retained the risk of loss, and description of the following:

    - The basis of estimating liabilities for unpaid claims including the effects of specific, incremental claim adjustment expenditures and expenses, salvage and subrogation, and whether the allocated or unallocated claim adjustment expenditures and expenses are included. Include insurance that does not cover risk exposure (the local government has in-substance retained the risk of loss).

    - The carrying amount of unpaid claims liabilities that have been reported at present value and the range of discount rates used to compute the discount.

    - The aggregated total of outstanding claims liabilities that have been removed from the balance sheet because of the purchase of annuity contracts from third parties in the name of claimants.
    - Presentation of an aggregated claims liabilities reconciliation, including changes in aggregate liabilities for claims in the current year and prior year, using the following tabular format:

        - Beginning balance of claims liabilities;
        - Incurred claims for the year and increases or decreases in the provision for events that were incurred in prior years;
        - Payments made for claims arising during the current year and prior fiscal years;
        - Explanation of each material item; and
        - Ending balance of claims liabilities.

Component units that participate in the primary government's risk management internal service fund should make the above disclosures in their separate financial statements, disclosing the participation, nature, and rights and responsibilities of the unit and the primary government.

An example of risk management disclosure is contained in the examples at the end of Chapter 11, *Financial Reports.*

Level of Disclosure

Professional judgment should be exercised to determine the most appropriate level of disclosure. The notes to the financial statements should focus on the local government, including its blended component units, and supporting the information presented in the government-wide financial statements and the fund financial statements. A local government should also ensure that disclosures related to discretely presented units are identified separately. In some situations, it may be appropriate for the local government to make disclosures for the entity as a whole. Separate or additional disclosures by individual major funds may be appropriate in other situations.

21.19 Subsequent Events

To ensure that the financial statements are not misleading, the local government should consider whether to disclose subsequent events, which are events or transactions related to risk management that occurred after the date of the balance sheet but before the financial statements are issued.

Disclosure may be necessary to keep financial statements from being misleading for material items that have one of the following characteristics:

- The subsequent event resulted in the impairment of an asset or the incurrence of a liability; or
- A reasonable possibility exists that a subsequent event resulted in the impairment of an asset or the incurrence of a liability.

If a local government concludes that a subsequent event should be disclosed, the following information should be presented in the disclosure:

- The nature of the actual or contingent loss; and
- An estimate (or the range of estimates) of the actual or contingent loss (if no estimate can be made, disclose appropriately).

Sometimes a subsequent event may result in the presentation of pro forma financial statements to supplement the historical financial statements. Usually, a pro forma balance sheet or statement of net position is most informative when prepared on a comparative basis.

21.20 Risk Management Internal Service Fund Illustrative Entries

Assume that a local government is under a self-administered risk management program that includes workers' compensation and liability insurance, and is using a contracting claims adjuster.

a) On July 1, the local government's internal service fund (ISF) billed the General Fund and the Road Fund for annual liability premium charges and workers' compensation insurance charges, based on the relative risk factors and the loss experience for each department:

Account	Sub	Debit	Credit
Due From Other Funds		2,100,000	
Revenue From Liability Premium Charges			900,000
Revenue From Workers' Compensation Premium Charges			1,200,000
General Fund	1,100,000		
Road Fund	1,000,000		

b) Cash is received from the General Fund and the Road Fund as a result of billings by the ISF:

Account	Sub	Debit	Credit
Cash		2,100,000	
Due From Other Funds			2,100,000
General Fund	1,100,000		
Road Fund	1,000,000		

c) On September 1, the contract claims adjustor is paid the full amount of a 13-month contract at $1,000 per month, extending from July 1, 20X1 to July 31, 20X2:

Account	Debit	Credit
Professional and Specialized Services (claims adjustor expense)	2,000	
Prepaid Expenses	11,000	
Cash		13,000

d) Liability and workers' compensation payments are made by the ISF fund:

Account	Debit	Credit
Judgments and Damages—Liability	100,000	
Judgments and Damages—Workers' Compensation	470,000	
Cash		570,000

e) Revenue is received in the ISF fund from a third-party source whose liability resulted from actions that caused damage to a local government's property or an injury to a local government's employee:

Account	Debit	Credit
Cash	7,000	
Revenue from Recoveries		7,000

f) At year-end, the prepaid claims adjustor expense is adjusted and the current-year expense is recorded:

Account	Debit	Credit
Professional and Specialized Services (claims adjustor expense)	10,000	
Prepaid Expenses		10,000

g) At year-end, claims incurred but not yet reported, reported but not yet settled, and settled but not yet paid are accrued:

Account	Debit	Credit
Judgments and Damages—Liability	300,000	
Judgments and Damages—Workers' Compensation	200,000	
Liability Claims Payable		300,000
Workers' Compensation Claims Payable		200,000

Claims incurred but not reported should be accrued in accordance with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, as amended, and GASB Statement No. 30, *Risk Financing Omnibus—an amendment of GASB Statement No. 10*, as amended. This entry may be reversed at the beginning of the next fiscal year and then reestablished at the end of the year.

Chapter 22: Retirement Systems

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Chapter 22: Retirement Systems

Introduction

Although legislation specifies the organization, administration, and operating guidelines for pension plans, standards concerning the accounting and financial reporting of governmental pension plans are established by the Government Accounting Standards Board (GASB). The purpose of this chapter is to clarify GASB pension accounting and financial reporting pronouncements and explain the applicability of these standards to special districts retirement systems.

Pension Trusts

22.01 Statutory Requirements

Pursuant to Government Code section 53215 et seq., a legislative body of a local government may establish a pension trust for its officers and employees. Local governments may also refer to the County Employers Retirement Law of 1937 when setting up their retirement systems.

The County Employees Retirement Law of 1937 (Title 3, Division 4, Part 3, Chapters 3 and 3.9, Section 31450 et seq., of the California Government Code) governs the establishment and administration of county employee retirement systems for counties that establish retirement plans, and for cities or special districts within a county's boundaries that choose to participate in that county's employee retirement system.

Local governments should also refer to the legislation that created them to determine their statutory requirements relating to pension trusts or any other retirement plan. If a local government is a part of a Joint Powers Authority (JPA) and the JPA participates in a public retirement system, then prior to filing a notice of termination or upon a notice of termination by the Board of Administration of the Public Employees' Retirement System, the members of the JPA are required to mutually agree as to the apportionment of the agency's retirement obligations among themselves, provided that the agreement equals 100% of the retirement liability of the agency. For more information about a JPA's retirement liability obligations refer to Government Code section 6500 et seq.

Administration Expenses

According to the provisions of Government Code section 31580 and 31580.2:

> The board of supervisors shall appropriate annually from the proper county funds the amount necessary to defray the entire expense of administration of the retirement system based upon budget estimates prepared by the treasurer.

- In counties in which the board of retirement, or both the board of retirement and the board of investment, have appointed personnel pursuant to Section 31522.1, 31522.5, or 31522.7, the respective board or boards shall annually adopt a budget covering the entire expense of administration of the retirement system which expense shall be charged against the earnings of the retirement fund. The expense incurred in any year may not exceed the greater of either of the following:
    - Twenty-one hundredths of 1% of the accrued actuarial liability of the retirement system.
    - Two million dollars ($2,000,000), as adjusted annually by the amount of the annual cost-of-living adjustment computed in accordance with Article 16.5 (commencing with section 31870).
- Expenditures for computer software, computer hardware, and computer technology consulting services in support of these computer products shall not be considered a cost of administration of the retirement system for purposes of this section.

Financial Reporting For Pension Plans by Employers—GASB 68

22.02 Financial Reporting Framework

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, as amended, provides information at the employer level regarding the nature of the pension obligation and the ability of the state or local government employer to satisfy that obligation; specifically, the individual employer's share of the plan's assets, liabilities, including net pension liability, deferred inflows and outflows, and fiduciary net position.

The financial reporting framework for a local government's pension obligation is discussed extensively in GASB Statement No. 68, as amended, and GASB implementation guides. GASB Statement No. 68 as amended, also applies to the financial statements of all state and local government employers whose employees are provided with pensions through plans that are not administered through certain trusts, defined in GASB Statement No. 68, as amended, and for state and local governmental nonemployer contributors that have a legal obligation for direct contributions to these plans.

22.03 Types of Defined Benefit Pension Plans and Employers

Within the reporting scope, Governmental employers should define what type of defined benefit plan to which they belong. Generally, defined benefit plans are classified according to the number of employers within the plan and whether plan assets are shared across employers (if applicable).

The following are types of defined benefit plans and the characteristics that define them:

- Single Employer Defined Benefit Plan—A plan that provides pensions to the employees of only one employer.

- Multiple Employer Defined Benefit Plan—A plan that provides pensions to the employees of more than one employer. Additionally, there are two subtypes of multiple employer plans which are defined by how assets are reported and shared:
    - Agent Multiple Employer Defined Benefit Plan—A plan in which the assets are pooled for investment purposes but separate accounts are maintained for each individual employer so only assets of a particular employer are available to pay benefits to employees of only that employer.

    - Cost Sharing Multiple Employer Defined Benefit Plan—A plan in which the assets are pooled for investment purposes, but are available to pay benefits to employees of any employer within the plan.

22.04 Measurement of the Net Pension Liability

GASB Statement No. 68, as amended, states, in part:

> A liability should be recognized for the net pension liability. The net pension liability should be measured as the portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service in conformity with the requirements of total pension liability, net of the pension plan's fiduciary net position. The pension plan's fiduciary net position should be determined using the same valuation methods used by the pension plan for purposes of preparing its financial statements. The net pension liability should be measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year end, consistently applied from period to period.
>
> Whether pensions are provided through single-employer, agent, or cost-sharing pension plans, both liabilities for net pension liabilities associated with different pension plans, and assets for net pension assets associated with different pension plans, may be displayed in the aggregate in the financial statements. Aggregated pension liabilities should be displayed separately from aggregated pension assets.

When calculating total pension liability the following should be taken into account:

- Timing and frequency of actuarial valuations;
- Selection of assumptions;
- Projection of benefit payments;
- Discount rate; and
- Attribution of the actuarial present value of projected benefit payments to periods.

22.05 Single and Agent Employers: Economic Resources and Accrual Basis

Changes in Net Pension Liability

GASB Statement No. 68, as amended, states, in part:

> Changes in the net pension liability should be recognized in pension expense in the current reporting period except as indicated below:
>
> a) Each of the following should be recognized in pension expense, beginning in the current reporting period, using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees) determined as of the beginning of the measurement period:
>
> (1) Differences between expected and actual experience with regard to economic or demographic factors (differences between expected and actual experience) in the measurement of the total pension liability.
>
> (2) Changes of assumptions about future economic or demographic factors or of other inputs (changes of assumptions or other inputs).
>
> The portion of (1) and (2) not recognized in pension expense should be reported as deferred outflows of resources or deferred inflows of resources related to pensions.
>
> b) The difference between projected and actual earnings on pension plan investments should be recognized in pension expense using a systematic and rational method over a closed five-year period, beginning in the current reporting period. The amount not recognized in pension expense should be reported as deferred outflows of resources or deferred inflows of resources related to pensions. Deferred outflows of resources and deferred inflows of resources arising from differences between projected and actual pension plan investment earnings in different measurement periods should be aggregated and reported as a net deferred outflow of resources related to pensions or a net deferred inflow of resources related to pensions.
>
> c) Contributions to the pension plan from the employer should not be recognized in pension expense.
>
> d) Contributions to the pension plan from non-employer contributing entities that are not in a special funding situation should be recognized as revenue.

Contributions to the pension plan from the employer subsequent to the measurement date of the net pension liability and before the end of the reporting period should be reported as a deferred outflow of resources related to pensions.

22.06 Single and Agent Employers: Financial Resources / Modified Accrual Basis

GASB Statement No. 68, as amended, states, in part:

> The financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, a net pension liability should be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources.
>
> Pension expenditures should be recognized equal to the total of:
>
> - amounts paid by the employer to the pension plan and;
> - the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. Net pension liabilities are normally expected to be liquidated with expendable available financial resources to the extent that benefit payments have matured—that is, benefit payments are due and payable, and the pension plan's fiduciary net position is sufficient for payment of those benefits.

22.07 Cost-Sharing Employers: Economic Resources and Accrual Basis

Proportionate Share of the Collective Net Pension Liability

GASB Statement No. 68, as amended, states, in part:

> A liability should be recognized for the employer's proportionate share of the collective net pension liability, measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from period to period. The employer's proportionate share of the collective net pension liability should be measured by:
>
> a. Determining the employer's portion—a measure of the proportionate relationship of (1) the employer (and, to the extent associated with the employer, non-employer contributing entities, if any, that provide support for the employer but that are not in a special funding situation) to (2) all employers and all non-employer contributing entities. The basis for the employer's proportion should be consistent with the manner in which contributions to the pension plan, excluding those to separately finance specific liabilities of an individual employer to the pension plan, are determined. The use of the employer's projected long-term contribution effort to the pension plan (including that of non-employer contributing entities that provide support for the employer but that are not in a special funding situation) as compared to the total projected long-term contribution effort of all employers and all non-employer contributing entities to determine the employer's proportion is encouraged.
>
> b. Multiplying the collective net pension liability by the employer's proportion calculated in (a).

To the extent that different contribution rates are assessed based on separate relationships that constitute the collective net pension liability (for example, separate rates are calculated based on an internal allocation of liabilities and assets for different classes or groups of employees), the determination of the employer's proportionate share of the collective net pension liability should be made in a manner that reflects those separate relationships.

The employer's proportion should be established as of the measurement date, unless the employer's proportion is actuarially determined, in which case a proportion established at the date of the actuarial valuation used to determine the collective net pension liability may be used.

Whether pensions are provided through cost-sharing, single-employer, or agent pension plans, liabilities for net pension liabilities associated with different pension plans may be displayed in the aggregate, and assets for net pension assets associated with different pension plans may be displayed in the aggregate in the financial statements. Aggregated pension liabilities should be displayed separately from aggregated pension assets.

Proportionate Share of Deferred Outflows/Inflows of Resources Related to Pensions

GASB Statement No. 68, as amended, states, in part, "Pension expense, as well as deferred outflows of resources and deferred inflows of resources related to pensions, should be recognized for the employer's proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions. The employer's proportionate shares should be determined using the employer's proportion of the collective net pension liability."

Change in Proportion

GASB Statement No. 68, as amended, states, in part:

> If there is a change in the employer's proportion of the collective net pension liability since the prior measurement date, the net effect of that change on the employer's proportionate shares of the collective net pension liability and collective deferred outflows of resources and deferred inflows of resources related to pensions, determined as of the beginning of the measurement period, should be recognized in the employer's pension expense, beginning in the current reporting period, using a systematic and rational method over a closed period. For this purpose, the length of the expense recognition period should be equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees) determined as of the beginning of the measurement period. The amount not recognized in the employer's pension expense should be reported as a deferred outflow of resources or deferred inflow of resources related to pensions.

Contributions during the Measurement Period

GASB Statement 68, as amended, states, in part:

> For contributions to the pension plan, other than those to separately finance specific liabilities of an individual employer or non-employer contributing entity to the pension plan, the difference during the measurement period between (a) the total amount of such contributions from the employer (and amounts associated with the employer from non-employer contributing entities that are not in a special funding situation) and (b) the amount of the employer's proportionate share of the total of such contributions from all employers and all non-employer contributing entities should be recognized in the employer's pension expense, beginning in the current reporting period, using a systematic and rational method over a closed period.
>
> For this purpose, the length of the expense recognition period should be equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees) determined as of the beginning of the measurement period. The amount not recognized in the employer's pension expense should be reported as a deferred outflow of resources or deferred inflow of resources related to pensions.

> For contributions to the pension plan to separately finance specific liabilities of the individual employer to the pension plan, the difference during the measurement period between (a) the amount of such contributions from the employer (and amounts associated with the employer from non-employer contributing entities that are not in a special funding situation) and (b) the amount of the employer's proportionate share of the total of the contributions in (a), determined using the employer's proportion of the collective net pension liability, should be recognized in the employer's pension expense.

Additionally, GASB Statement No. 73, *Accounting and Financial Reporting for Pension Related Assets Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, states in part:

For contributions made by others to the pension plan during the measurement period to separately finance specific liabilities to the pension plan (excluding amounts associated with the employer from nonemployer contributing entities that are not in a special funding situation), the amount of the employer's proportionate share of the total of such contributions determined using the employer's proportion of the collective net pension liability should be recognized as a reduction of the employer's pension expense.

Employer Contributions Subsequent to Measurement Date

GASB Statement No. 68, as amended, states, in part:

> Contributions to the pension plan from the employer subsequent to the measurement date of the collective net pension liability and before the end of the employer's reporting period should be reported as a deferred outflow of resources related to pensions. In addition to the deferred inflows and outflows of resources arising from the calculation of pension expense, employers will also report a deferred outflow of resources for contributions to the pension system that occur after the measurement date.

Under new GASB standards, employer contributions to pension systems are no longer considered a component of administrative expenses. These contributions are now treated as a payment of an outstanding liability, the net pension liability created through the employment arrangement.

22.08 Cost-Sharing Employers: Financial Resources and Modified Accrual Basis

GASB Statement No. 68, as amended, states, in part,

> In financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, an employer's proportionate share of the collective net pension liability should be recognized to the extent the liability measured as of the end of the reporting period is normally expected to be liquidated with expendable available financial resources.
>
> Net pension liabilities are normally expected to be liquidated with expendable available financial resources to the extent that benefit payments have matured—that is, benefit payments are due and payable and the pension plan's fiduciary net position is not sufficient for payment of those

> benefits. Pension expenditures should be recognized equal to the total of (a) amounts paid during the reporting period by the employer (and, to the extent associated with the employer, by nonemployer contributing entities, if any) to the pension plan and (b) the change between the employer's (and to the extent associated with the employer, nonemployer contributing entities', if any) beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. Pension expenditures include amounts for payables to a pension plan.

Special Funding Situations

A "Special Funding" situation exists when a nonemployer is statutorily required to make contributions into a pension plan.

According GASB Statement No. 68, as amended, a special funding situation exists when:

(a) The amount of contributions for which the non-employer entity is legally responsible is *not* dependent upon one or more events unrelated to pensions.
(b) The non-employer is the only entity with a legal obligation to make contributions directly to a pension plan.

Special funding situations do not include circumstances in which resources are provided to the employer, regardless of the purpose for which those resources are provided.

GASB Statement No. 68 states in part:

> This Statement requires an employer that has a special funding situation for defined benefit pensions to recognize a pension liability and deferred outflows of resources and deferred inflows of resources related to pensions with adjustments for the involvement of non-employer contributing entities. The employer is required to recognize its proportionate share of the collective pension expense, as well as additional pension expense and revenue for the pension support of the non-employer contributing entities. This Statement requires the employer to disclose in notes to financial statements information about the amount of support provided by non-employer contributing entities and to present similar information about the involvement of those entities in 10-year schedules of required supplementary information.
>
> The approach required by this Statement for measurement and recognition of liabilities, deferred outflows of resources and deferred inflows of resources, and expense by a governmental non-employer contributing entity in a special funding situation for defined benefit pensions is similar to the approach required for cost-sharing employers.
>
> The information that should be disclosed in notes to financial statements and presented in required supplementary information of a governmental non-employer contributing entity in a special funding situation depends on the proportion of the collective net pension liability that it recognizes. If the governmental non-employer contributing entity recognizes a substantial proportion of the collective net pension liability, it should disclose in notes to financial statements

a description of the pensions, including the types of benefits provided and the employees covered, and the discount rate and assumptions made in the measurement of the net pension liability.

The governmental non-employer contributing entity also should present schedules of required supplementary information similar to those required of a cost-sharing employer. Reduced note disclosures and required supplementary information are required for governmental non-employer contributing entities that recognize a less-than-substantial portion of the collective net pension liability.

Employer Calculation of Pension Expense

	Change in NPL subject to immediate recognition
Plus (+)	Annual amount of service life amortization
Plus (+)	Annual amount of amortized investment returns
Equals (=)	Total Pension Expense

In general, pension expense represents a change in the NPL from one measurement date to the next. The beginning NPL balance represents the value as of the previous year's measurement date and the ending NPL balance represents the value as of the current year's measurement date. The difference between these two values is the change in NPL.

Because the NPL can increase or decrease from one year to the next depending on such things as investment return, it is possible to have a pension expense one year and pension revenue the next.

GASB recognizes that certain elements of the total pension liability and plan net position have a longer-term perspective than can be represented in the current period. To reduce the volatility of the annual pension expense/revenue, these elements are amortized over periods of specific duration.

Elements subject to amortization include:

- actuarial gains and losses representing difference between actual and projected member experience;
- changes in actuarial assumptions;
- differences between actual and projected investment gains and losses;
- the effect of a change in employer's total pension liability from one measurement date to the next; and;
- the difference between an employer's contributions during the measurement period and the employer's proportionate share of total contributions.

With the exception of differences between actual and projected investment gains and losses, each of these elements is amortized over the average expected remaining service lives of all plan members, determined as of the beginning of the measurement period. Differences between projected and actual investment gains and losses are amortized over a closed five-year period. The use of closed periods means that there will be multiple tiers of annual values subject to amortization.

Annual amounts subject to amortization are deducted from the change in NPL to determine the portion of the NPL that will be immediately recognized as pension expense in the current year.

Amounts subject to amortization that are not recognized in the current year's pension expense are reported as deferred inflows of resources or deferred outflows of resources. Each year thereafter, a portion of these balances equal to the annual amortization amount of each tier is recognized in the pension expense of that year until the value of the tier is fully expensed.

Average Expected Remaining Service Lives

The average expected remaining service lives of active members is determined by the actuary based on actuarial assumptions regarding exit age probabilities. Remaining service life does not apply to members who are no longer working. Depending on the relative size of the active employee population, an example aggregate average could be ten years. In that case, it would take an estimated ten years to fully recognize the pension expense associated with each year's deferred amounts subject to a closed period amortization schedule.

Expense recognition of amounts subject to amortization begins in the current measurement period and continues in equal amounts each year until the end of the average expected remaining service lives period for that tier. Amounts subject to amortization have an expense recognition period equal to the average expected remaining service lives determined as of the beginning of the measurement period.

It is possible for the average expected remaining service lives to change from one year to the next based on member demographics, such as significant attrition of active members anticipating a change in retirement benefits. However, the annual amortization amount for elements subject to amortization in a given measurement period is based on the average expected remaining service lives for that period.

22.09 Notes to Financial Statements

The total of the employer's pension liabilities (aggregate for all pensions, whether provided through single-employer, agent, or cost-sharing pension plans), pension assets, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense/expenditures for the period associated with net pension liabilities should be disclosed, if the total amounts are not otherwise identifiable from information presented in the financial statements.

Single and Agent Employers

Under circumstances in which the employees of a primary government and its component units are provided with pensions through the same single-employer or agent pension plan, the note disclosures in the reporting entity's financial statements should separately identify amounts associated with the primary government (including its blended component units) and those associated with its discretely presented component units.

Cost-Sharing Employers, Governmental Non-Employer Contributing Entities that Recognize a Substantial Proportion of Collective Net Pension Liability

Information should be disclosed for benefits provided through each cost-sharing pension plan in which the employer participates. Disclosures related to more than one pension plan should be combined in a manner that avoids unnecessary duplication.

Governmental Non-Employer Contributing Entities that Recognize a Less than Substantial Proportion of the Collective Net Pension Liability

If the governmental non-employer contributing entity recognizes more than one collective net pension liability, information may be presented in the aggregate for all such liabilities.

Defined Contribution Plans—No Special Funding Situation

In financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, pension expenditures should be recognized equal to the total of (a) amounts paid by the employer to the pension plan and (b) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable financial resources. A liability for defined contribution pensions should be recognized to the extent that the liability is normally expected to be liquidated with expendable available financial resources. Liabilities for defined contribution pensions are normally expected to be liquidated with expendable available financial resources to the extent that contributions are due and payable pursuant to legal requirements, including contractual arrangements.

Pension liabilities and assets for pensions provided through different pension plans may each be displayed in the aggregate in the financial statements. Aggregated pension liabilities should be displayed separately from aggregated pension assets.

Defined Contribution Plans—Special Funding Situation

The employer should disclose (a) the proportion of the total pension expense for pensions provided through the pension plan that is represented by the employer's expense and (b) the amount of revenue recognized as a result of the support provided by non-employer contributing entities.

NOTE: Refer to GASB Statement No. 68, as amended for further explanation of the note requirements.

22.10 Notes to Financial Statement—GASB Statement No. 68 Note Disclosures

NOTES TO FINANCIAL STATEMENT GASB 68 NOTE DISCLOSURES	DEFINED BENEFIT PLANS				DEFINED CONTRIBUTIONS PLANS	
	Single & Agent Employers	Cost Sharing Employers	Governmental Nonemployer Contributing Entities Recognizing Substantial Portion of Collective Net Pension Liability	Governmental Nonemployer Contributing Entities Recognizing Less Than Substantial Portion of Collective Net Pension Liability	No Special Funding	Special Funding Situations
Pension Plan Description						
Name of the Plan	X	X	X	X	X	X
Identification of Type of Plan	X	X	X	X	X	X
Description of Benefits and Authority Establishing Benefits	X	X	X		X	X
Contribution Requirements and Authority Establishing the Rates	X	X		X	X	X
Pension Expense Recognized					X	X
Amount of Forfeitures in Pension Expense Recognized					X	X
Liability Outstanding at the End of the Period					X	X
Number Outstanding at the End of the Period	X					
Whether the Plan Issues Stand Alone Financial Report	X	X	X			
Net Pension Liability						
Assumptions and Other Inputs						
Significant Assumptions and Sources	X	X	X			

NOTES TO FINANCIAL STATEMENT GASB 68 NOTE DISCLOSURES	DEFINED BENEFIT PLANS				DEFINED CONTRIBUTIONS PLANS	
	Single & Agent Employers	Cost Sharing Employers	Governmental Nonemployer Contributing Entities Recognizing Substantial Portion of Collective Net Pension Liability	Governmental Nonemployer Contributing Entities Recognizing Less Than Substantial Portion of Collective Net Pension Liability	No Special Funding	Special Funding Situations
Dates of experience Studies on which the Assumptions are Based	X	X	X			
Discount Rate Applied	X	X	X			
Assumptions about Projected Cash Flows Into and Out of the Plan	X	X	X			
Long Term Expected Rate of Return	X	X	X			
Municipal Bond Rate if Incorporated	X	X	X			
Periods of Projected Benefit Payments	X	X	X			
Asset Allocation of the Pension Plans Portfolio	X	X	X			
Sensitivity of Net Pension Liability to Changes in Discount Rate (+1% and -1%)	X	X	X			
Pension Plan's Fiduciary Net Position						
Assets						
Deferred Outflows of Resources						
Liabilities						
Deferred Inflows of Resources						
Fiduciary Net Position						
Changes in Net Pension Liability						
Beginning Total Pension Liability, Pension Plans Fiduciary Net Position and Net Pension Liability	X					

NOTES TO FINANCIAL STATEMENT GASB 68 NOTE DISCLOSURES	DEFINED BENEFIT PLANS				DEFINED CONTRIBUTIONS PLANS	
	Single & Agent Employers	Cost Sharing Employers	Governmental Nonemployer Contributing Entities Recognizing Substantial Portion of Collective Net Pension Liability	Governmental Nonemployer Contributing Entities Recognizing Less Than Substantial Portion of Collective Net Pension Liability	No Special Funding	Special Funding Situations
Service Cost	X					
Interest	X					
Changes in Benefit Terms	X					
Differences Between Expected and Actual Experience	X					
Changes in Assumptions	X					
Contributions from the Employer	X					
Contributions from Non-Employer Contributing Entities	X					
Contributions from Employees	X					
Pension Plan Net Investment Income (Loss)	X					
Benefit Payment Including Refunds	X					
Pension Plan Administrative Costs	X					
Other Changes	X					
Ending Balances of Total Pension Liability, Pension Plans Fiduciary Net Position and Net Pension Liability	X					
Special Funding Situation						

NOTES TO FINANCIAL STATEMENT GASB 68 NOTE DISCLOSURES	DEFINED BENEFIT PLANS				DEFINED CONTRIBUTIONS PLANS	
	Single & Agent Employers	Cost Sharing Employers	Governmental Nonemployer Contributing Entities Recognizing Substantial Portion of Collective Net Pension Liability	Governmental Nonemployer Contributing Entities Recognizing Less Than Substantial Portion of Collective Net Pension Liability	No Special Funding	Special Funding Situations
Non-employer Contribution Entitles' Total Proportionate Share of Collective Net Pension Liability	X					
Employer's Proportionate Share of the Collective Net Pension Liability	X					
Additional Disclosures if Applicable						
Measurement Date of Net Pension Liability	X	X	X			
Date of Actuarial Valuation Used	X	X	X			
Employer's Proportion of the Collective Net Pension Liability	X	X		X		
Basis on How the proportion was Determined	X	X	X	X		
Special Funding Situation						
Portion of Non-Employer Contributing Entities Total Proportionate Share of Collective Net Pension Liability Associated with the Employer		X	X			
Total of Employer's Proportionate Share of the Collective Net Pension Liability		X				
Change in Proportion from Prior Measurement Date	X	X			X	

NOTES TO FINANCIAL STATEMENT GASB 68 NOTE DISCLOSURES	DEFINED BENEFIT PLANS				DEFINED CONTRIBUTIONS PLANS	
	Single & Agent Employers	Cost Sharing Employers	Governmental Nonemployer Contributing Entities Recognizing Substantial Portion of Collective Net Pension Liability	Governmental Nonemployer Contributing Entities Recognizing Less Than Substantial Portion of Collective Net Pension Liability	No Special Funding	Special Funding Situations
Brief Description of Changes in Assumptions Affecting Changes in Total Pension Liability Since Prior Measurement Date	X	X	X			
Brief Description of Changes in Benefit Terms Affecting Changes in Total Pension Liability Since Prior Measurement Date	X	X	X			
Amount of Benefit Payments Attributed to Purchase of Allocated Insurance Contracts Including Obligation to Transfer Payments from the Employer to One or More Insurance Companies	X					
Brief Description of Nature of Changes Between Measurement Date and the Reporting Date that are Expected to have a Significant Effect on the Net Pension Liability	X	X	X			
Pension Expense Recognized by the Employer	X	X	X	X		
Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources						
Difference Between Expected and Actual Experience	X	X	X			

NOTES TO FINANCIAL STATEMENT GASB 68 NOTE DISCLOSURES	DEFINED BENEFIT PLANS				DEFINED CONTRIBUTIONS PLANS	
	Single & Agent Employers	Cost Sharing Employers	Governmental Nonemployer Contributing Entities Recognizing Substantial Portion of Collective Net Pension Liability	Governmental Nonemployer Contributing Entities Recognizing Less Than Substantial Portion of Collective Net Pension Liability	No Special Funding	Special Funding Situations
Changes of Assumptions	X	X	X			
Net Difference Between Projected and Actual Investment Earnings	X	X	X			
If Special Funding Situation—Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	X	X	X			
Subsequent Contributions to the Measurement Date	X	X	X			
Five Year Schedule						
Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources to be Recognized in the Pension Expense	X	X	X			
Special Funding Situations						
NO—Balance of Deferred Outflows to be Recognized as a Reduction of the Net Pension Liability	X					
YES—Balance of Deferred Outflows to be Included as a Reduction of the Collective net Pension Liability	X			X		

NOTES TO FINANCIAL STATEMENT GASB 68 NOTE DISCLOSURES	DEFINED BENEFIT PLANS				DEFINED CONTRIBUTIONS PLANS	
	Single & Agent Employers	Cost Sharing Employers	Governmental Nonemployer Contributing Entities Recognizing Substantial Portion of Collective Net Pension Liability	Governmental Nonemployer Contributing Entities Recognizing Less Than Substantial Portion of Collective Net Pension Liability	No Special Funding	Special Funding Situations
Revenue Recognized for Support by Non-Employer Contributing Entities	X	X				

22.11 Required Supplementary Information (RSI)

GASB Statement No. 68, as amended, states, in part:

> The following information should be presented in schedules of Required Supplementary Information (RSI) for each single-employer and agent pension plan through which pensions are provided. Information should be determined as of the measurement date of the net pension liability and may be presented in a single schedule. The information should be determined as of the employer's most recent fiscal year-end. If a primary government and one or more of its component units provide pensions through the same single-employer or agent pension plan, required supplementary information in the reporting entity's financial statements should present information for the reporting entity as a whole.

a) A 10-year schedule of changes in net pension liability that separately presents for each year:

1. The beginning and ending balances of the total pension liability, the pension plan's fiduciary net position, and the net pension liability; and

2. The effects of the following on items in (a) during the year, as applicable:
    - service cost;
    - interest on the total pension liability;
    - changes of benefit terms;
    - differences between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability;
    - changes of assumptions about future economic or demographic factors or of other inputs;
    - contributions from employers;
    - contributions from non-employer contributing entities;
    - contributions from plan members;
    - pension plan net investment income;
    - benefit payments, including refunds of plan member contributions;
    - pension plan administrative expense; and
    - other changes, separately identified if individually significant.

b) A 10-year schedule presenting the following for each year:
    - total pension liability;
    - pension plan's fiduciary net position;
    - net pension liability;
    - pension plan's fiduciary net position as a percentage of the total pension liability;
    - covered payroll; and
    - net pension liability as a percentage of covered payroll.

c) A 10-year schedule presenting the following information for each year, if an actuarially determined contribution is calculated:

- Actuarially determined contributions of the employer. For the purposes of this schedule, actuarially determined contributions should exclude amounts, if any, associated with payables to the pension plan that arose in a prior fiscal year and those associated with separately financed specific liabilities of the individual employer to the pension plan.
- Amount of contributions recognized during the fiscal year by the pension plan in relation to the actuarially determined contribution of the employer. For purposes of this schedule, contributions should include only amounts recognized as additions to the pension plan's fiduciary net position during the employer's fiscal year resulting from actual contributions and from contributions recognized by the pension plan as current receivables.
- Difference between the actuarially determined contributions of the employer and the amount of contributions recognized by the pension plan in relation to the actuarially determined contribution of the employer.
- Covered payroll.
- Amounts of contributions recognized by the pension plan in relation to the actuarially determined contribution of the employer as a percentage of covered payroll.

d) A 10-year schedule presenting the following information for each year, if an actuarially determined contribution is not calculated and the contribution requirements of the employer are statutorily or contractually established:

- Statutorily or contractually required employer contribution. For purposes of this schedule, statutorily or contractually required contributions should exclude amounts, if any, associated with payables to the pension plan that arose in a prior fiscal year and those associated with separately finance specific liabilities of the individual employer to the pension plan.
- Amount of contributions recognized during the fiscal year by the pension plan in relation to the actuarially determined contribution of the employer. For purposes of this schedule, contributions should include only amounts recognized as additions to the pension plan's fiduciary net position during the employer's fiscal year resulting from actual contributions and from contributions recognized by the pension plan as current receivables.
- Difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution.
- Covered payroll.
- Amounts of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of covered payroll.

The following information is required to be presented in schedules of Required Supplementary Information (RSI) for each cost-sharing pension plan through which pensions are provided. Information should be determined as of the measurement date of the collective net pension liability and should be determined as of the employer's most recent fiscal year-end.

- A 10-year schedule presenting the following for each year:
    - employer's proportion (percentage) of the collective net pension liability;
    - employer's proportionate share (amount) of the collective net pension liability;
    - employer's covered payroll
    - employer's proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered payroll; and
    - the pension plan's fiduciary net position as a percentage of the total pension liability.

- A 10-year schedule presenting for each year the information indicated below, if an actuarially determined contribution is not calculated and the contribution requirements of the employer are statutorily or contractually established:
- Employer's proportion (percentage) of the collective net pension liability.
- Statutorily or contractually required employer contribution. For purposes of this schedule, statutorily or contractually required contributions should exclude amounts, if any, to separately finance specific liabilities of the individual employer to the pension plan.
- Amount of contributions recognized during the fiscal year by the pension plan in relation to the actuarially determined contribution of the employer. For purposes of this schedule, contributions should include only amounts recognized as additions to the pension plan's fiduciary net position during the employer's fiscal year resulting from actual contributions and from contributions recognized by the pension plan as current receivables.
- Difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution.
- Employer's covered payroll.
- Amounts of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of covered payroll.

The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, that information should be presented for as many years as are available.

See the *Examples* subsection in Chapter 11, *Financial Reports* for illustrative examples.

22.12 Note to Required Schedules

Significant methods and assumptions used in calculating RSI should be reported in the notes to the RSI. Actuarially-determined contributions should be presented as well as factors that may have significant impacts on the other schedules.

Examples of these significant factors include the following:

- changes of assumptions;
- changes of benefit terms; and
- changes in size or composition of the population covered by the benefit terms.

22.13 Illustrations—Financial Statements, Notes, and RSI

EXAMPLE STATEMENT OF FIDUCIARY NET POSITION Fiscal Year Ended December 31, 20X1 and 20X2		
ASSETS	**20X1**	**20X2**
Cash & Cash Equivalents		
Receivables		
Contributions		
Member Contributions		
Employer Contributions		
Investments		
Accrued Interest		
Dividends		
Real Estate Mortgage Loans		
Hedge Funds		
Other Receivables		
Sales of Securities		
Real Estate Income		
Miscellaneous		
Investments (at Fair Value)		
Short-Term Investments		
Global Debt Securities		
U.S Government Securities		
Domestic Corporate Bonds		
Municipal Bonds		
International Bonds		
Global Equity Securities		
Domestic Stocks		
International Stocks		
Securities Lending Collateral		
Private Equity		
Real Estate Equity		
Other Investments		
Capital Assets (Net of Accumulated Depreciation)		
Equipment and Furniture		
Accumulated Depreciation—Equipment and Furniture		
Buildings and Improvements		
Accumulated Depreciation—Buildings and Improvements		
Land		
Other Assets		
Total Assets	$	$
Deferred Outflows of Resources		

EXAMPLE STATEMENT OF FIDUCIARY NET POSITION Fiscal Year Ended December 31, 20X1 and 20X2		
LIABILITIES	**20X1**	**20X2**
Accounts Payable		
Investment Purchase Payable		
Securities Lending Obligation		
Benefits Payable		
Other Liabilities		
Refunds Payable		
Actuarial Services Fee		
Custodian Services Fee		
Investment Counselor Fee		
Administrative Fee Expenses		
Total Liabilities	$	$
Deferred Inflows of Resources		
Net Position Held in Trust for Pension Benefits	$	$

COUNTY EMPLOYEE'S RETIREMENT ASSOCIATION STATEMENT OF CHANGES IN FIDUCIARY NET POSITION Fiscal Year Ended December 31, 20X1 and 20X2		
ADDITIONS	**20X1**	**20X2**
Contributions		
Employer Contributions		
Safety		
Miscellaneous		
Combined		
Member Contributions		
Safety		
Miscellaneous		
Combined		
Other Contributions		
Safety		
Miscellaneous		
Combined		
Investments Income (Loss)		
Securities Lending Income		
Interest Income		
Bonds		
Short-Term Investments		
Dividends Income		
Net Appreciation (Depreciation) in Fair Value of Investments		
Other Investment Income		
(Investment Expenses)		
(Cost of Lending Securities)		
Other Income		
Total Additions	$	$

COUNTY EMPLOYEE'S RETIREMENT ASSOCIATION STATEMENT OF CHANGES IN FIDUCIARY NET POSITION Fiscal Year Ended December 31, 20X1 and 20X2		
DEDUCTIONS	**20X1**	**20X2**
Benefit Payments		
Service Retirement		
Safety		
Miscellaneous		
Combined		
Disability		
Safety		
Miscellaneous		
Combined		
Other		
Safety		
Miscellaneous		
Combined		
Member Refunds		
Safety		
Miscellaneous		
Combined		
Member Withdrawals		
Safety		
Miscellaneous		
Combined		
Administration Expenses		
General		
Professional Services		
Other Expenses		
Total Deductions	$	$
Net Increase (Decrease) in Plan Fiduciary Net Position	$	$
Net Position Held in Trust for Pension Benefits Beginning of Year		
Net Position Held in Trust for Pension Benefits End of Year	$	$

Example
Notes to the Financial Statements
For the years ended December 31, 20X1 and 20X2
(Dollar Amounts in Thousands)

These Notes are recommended and are generally required by the Statements of the Governmental Accounting Standards Board.

Note 1: Plan Description

Plan Administration—The County Employees Retirement Association (CERA) administers the County Employees Pension Plan (CEPP), a single-employer defined benefit pension plan that provides pensions for all permanent full-time general and public safety employees of the County.

Plan Membership—At December 31, 20X2, plan membership consisted of the following:

Inactive plan members of beneficiaries currently receiving benefits	$X,XXX
Inactive plan members entitled to, but not yet receiving benefits	X,XXX
Active plan members	X,XXX
	$XX,XXX

Benefit Provided—CEPP provides retirement, disability, and death benefits

Contributions—The Board establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The County is required to contribute the difference between the actuarially determined rate and the contribution rate of plan members. For the year ended December 31, 20X2, the average active member contribution rate was XX% of annual pay, and the County's average contribution rate was XX.XX% of annual payroll.

Note 2: Summary of Significant Accounting Policies

Investments— Method used to value investments. Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Real estate assets are reported at fair value utilizing an income approach to valuation. By contrast, an independent appraisal is obtained once every year to determine the fair market value of the real estate assets.

Investment Policy—The pension plan's policy in regard to the allocation of the invested assets. The policy is established and may be amended by the CERA Board by a majority vote of its members. It is the policy of the CERA Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset allocations over short time spans. The following is the Board's adopted asset allocation policy as of December 31, 20X2:

Example
Notes to the Financial Statements (Continued)
For the years ended December 31, 20X1 and 20X2
(Dollar Amounts in Thousands)

Asset Class	**Target Allocation**
Domestic Equity	XX%
International Equity	XX
Fixed Income	XX
Real Estate	X
Cash	X
Total	100%

Net Pension Liability—The components of the net pension liability at December 31, 20X2, were as follows:

Total pension liability	**$X,XXX,XXX**
Plan fiduciary net position	(X,XXX,XXX)
Net pension liability	$X,XXX,XXX

Plan fiduciary net position as a percentage of the total pension liability	**XX.XX%**

Actuarial Assumptions—The total pension liability was determined by an actuarial valuation as of December 31, 20X2, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	**X.X%**
Salary increases	X.X%, average, including inflation
Investment rate of return	X.XX%, net of pension plan investment expense, including inflation
Mortality Assumptions	X.X%

Discount Rate—Sensitivity of the net pension liability to changes in the discount rate. The following table presents the net pension liability of the County, calculated using the discount rate of X.XX%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1% point lower (X.XX%) or 1% point higher (X.XX%) than the current rate:

	1% Decrease	**Current Rate**	**1% Increase**
Net Pension Liability	$X,XXX,XXX	$X,XXX,XXX	$X,XXX,XXX

Example
Notes to the Financial Statements (Continued)
For the years ended December 31, 20X1 and 20X2
(Dollar Amounts in Thousands)

Actuarial Valuation—The information presented was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

- Valuation date
- Actuarial cost method
- Amortization method
- Remaining amortization period
- Asset valuation method
- Actuarial assumptions
- Investment rate of return
- Project salary increases
- Cost of living adjustments (Includes inflation at 0.00%)

Deferred Outflows/Inflows of Resources—CERA may enter into transactions that result in the consumption or acquisition of net assets in one period that are applicable to the future periods. Those consumptions or acquisitions are identified as deferred outflows of resources and deferred inflows of resources, respectively, and distinguished from assets and liabilities.

Funding Policy—Pension Plan—The plan classifies contributions as being employer-made due to a collective bargaining agreement. The pension periodically remits plan contributions to the administered trust in amounts authorized by the Board of Directors.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of net position. Actual results could differ from those estimates.

Note 3: Cash and Cash Equivalents

Cash and cash equivalents represent short term funds in operating accounts and deposits held in a pooled account. Short-term investments are expected to be utilized within 30 days and are reported at fair value.

Note 4: Receivables

Pension plan receivables generally are short term and consist of interest and dividends on investments, and contributions due as of the end of the reporting period from employers, non-employer contributing entities, and plan members. Amounts recognized as receivables for contributions should include only those due pursuant to legal requirements.

Example
Notes to the Financial Statements (Continued)
For the years ended December 31, 20X1 and 20X2
(Dollar Amounts in Thousands)

Note 5: Investments

The pension may invest, in accordance with state statutes, in any form or type of investment deemed prudent. The Board may invest, or delegate the authority to invest, the assets of the fund through the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction.

Note 6: Capital Assets

Capital assets consist of furniture, equipment, tangible assets (including computer software), and building and improvements for the portion of a headquarters building used for plan administration. Capital assets are defined as assets with an initial, individual cost of more than $25,000 and estimated useful life in excess of one year. Such assets are recorded at cost. Capital assets are depreciated using the straight-line depreciation method over their estimated useful lives.

Note 7: Deferred Outflows/Inflows of Resources

Deferred outflows/inflows of resources are detailed below:

	CY 20X2	PY 20X1
Deferred Outflow of Resources:	$	$
Accumulated decrease in fair value of hedging derivatives	**$**	**$**
Deferred Inflows of Resources:	$	$
Accumulated increase in fair value of hedging derivatives	$	$

Note 8: Commitments and Contingencies

At December 31, 2012, the pension plan was involved in various litigation matters. In management's opinion, and after consultation with legal counsel, the outcome of these matters is not expected to have a materially adverse effect on the financial position.

Required Supplementary Information:

- Schedule of changes in the net pension liability and related ratios;
- Schedule of employer's contributions; and
- Schedule of investment returns.

Example
Notes to the Financial Statements (Continued)
For the years ended December 31, 20X1 and 20X2
(Dollar Amounts in Thousands)

Methods and assumptions used in calculations of actuarially determined contributions. The actuarially determined contribution rates in the schedule of contributions are calculated as December 31, two years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial Cost Method	**Entry Age**
Amortization method	Level percentage of closed payroll
Remaining amortization period	XX years
Asset valuation method	X-year smoothed market
Inflation	X.X%
Salary increases	X.X%, average, including inflation
Investment rate of return	X.XX%, net of pension plan investment expense, including inflation

Example
Schedules of Required Supplementary Information
Schedule of Changes in the Employer's Net Pension Liability and Related Ratios
(Dollar Amounts in Thousands)

Total Pension Liability	**20X2**
Service Cost	$ 72,924
Interest	219,455
Changes of benefit terms	---
Difference between expected and actual experience	(37,539)
Changes of assumptions	---
Benefit payments, including refunds of member contributions	(119,434)
Net change in total pension liability	135,406
Total pension liability—beginning	2,853,455
Total pension liability—ending (a)	$ 2,988,891
Plan Fiduciary Net Position	
Contributions—employer	$ 79,713
Contributions—member	31,451
Net investment income	196,154
Benefit payments, including refunds of member contributions	(119,434)
Administrative expense	(3,373)
Other	8
Net change in plan fiduciary net position	184,519
Plan fiduciary net position—beginning	2,052,589
Plan fiduciary net position—ending (b)	$ 2,237,108
Employer's net pension liability—ending (a-b)	$ 751,753
Plan fiduciary net position as percentage of the total pension liability	74.85%
Covered payroll	$ 449,293
Employer's net pension liability as a percentage of covered payroll	167.32%

Example
Schedule of Employer Contributions
(Dollar Amounts in Thousands)

	20X2
Actuarially-determined contribution	$ 79,713
Contributions in relation to the actuarially-determined contribution	79,713
Contribution deficiency (excess)	$ -- --
Covered payroll	$ 449,293
Contributions as a percentage of covered payroll	17.74%

Notes to Schedule:

- Valuation date
- Actuarially-determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported
- Methods and assumptions used to determine contribution rates
- Actuarial cost method
- Amortization method
- Remaining amortization period
- Asset valuation method
- Inflation
- Salary increases
- Investment rate of return
- Retirement Age
- Mortality

Schedule of Investment Returns

	20X2
Annual Money-weighted rate or return, net of investment expense	9.58%

Other Post-Employment Benefits Reporting

GASB Statements No.'s 74 and 75 have superseded GASB Statement No.'s 43, 45 and 57. Accounting and Financial Reporting requirements for other post-employment benefits will be covered in future editions of this manual.

Financial Reporting for Pension Plans by Trusts

22.14 Financial Reporting for Pension Plans—GASB 67

This section will provide a brief overview of the accounting and reporting guidance for plans administered through a trust or equivalent arrangement as required by GASB Statement No. 67, *Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25*, as amended.

GASB Statement No. 67 as amended, requires pension plans administered by a trust to present two financial statements prepared using the full accrual basis of accounting.

- Statement of Fiduciary Net Position
- Statement of Changes in Fiduciary Net Position

Statement of Fiduciary Net Position

The purpose of statement of fiduciary net position is to provide the fiduciary net position of a pension plan at the end of the reporting period. A statement of fiduciary net position should provide the following information in relation to a pension plan:

- Assets such cash/cash equivalents, receivables from employers, other contributing entities and plan members, and pension assets held as investments;
- Deferred outflow of resources (e.g. pension expense attributed to future reporting periods);
- Liabilities such as benefit payment due to members;
- Deferred inflows of resources (e.g. pension contributions belonging to future periods received in the current reporting period); and
- Fiduciary net position.

The GASB defines *Fiduciary net position* is defined as "assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources at the end of the pension plans reporting period as net position restricted for pensions".

Statement of Changes in Fiduciary Net Position

The statement of changes in fiduciary net position should provide the following information for the plans reporting period:

- Additions such as employer and employee contributions, contributions from nonemployer entities, and net investment income.
- Deductions such as benefit payments and administrative expenses.
- Net increase (decrease) in fiduciary net position which is the difference between total additions and deduction for the plan's reporting period.

Other Plan Reporting Requirements

At minimum, the following should also be reported as part of the pension plan financial statements:

- Notes to financial statements
- Disclosures specific to single-employer and cost sharing pension plans
- Required supplementary information:
  - Single Employer and Cost-Sharing Plans
  - Agent Pension Plans
  - Notes to required schedules

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Chapter 23: Deferred Compensation Plans

Chapter Contents

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Chapter 23: Deferred Compensation Plans

Introduction

This chapter provides an overview of the accounting and reporting requirements for local governments entities that provide deferred compensation plans to their employees.

Overview of Deferred Compensation Plans

23.01 Nature and Purpose

Deferred compensation refers to an eligible deferred payment plan offered to employees whereby reporting of gross earnings is postponed to a future year, providing an exception to the general rule for reporting gross income to the Internal Revenue Service. The rules for eligibility for this timing for State and local governments are covered under U.S. Code: Title 26, Internal Revenue Code (IRC) section 457. To postpone earnings, an employee must agree to contribute current earnings according to the terms of the eligible plan.

The governing body of a local government may provide deferred compensation plans to the employees of the local government, including any of their subdivisions, agencies, or instrumentalities as long as they meet the requirements of IRC section 457. A primary benefit of most deferred compensation plans is the deferral of individual taxes on amounts being invested. Deferred compensation plans can be made up of annuities, pensions, deferred savings plans, stock options, and other deferred earnings. Vacation leave, sick leave, disability pay, or death benefit plans are excluded from eligibility. Some common examples of governmental deferred compensation plans include individual retirement accounts (IRA) accounts, 401(a) employer sponsored retirement plans, 401(k) profit-sharing plans, 403(b) tax-sheltered annuity plans, 457(b) retirement savings account, among others.

23.02 Deferred Compensation Plans

The deferred compensation plans should explain:

- the meaning of words and terms;
- who will administer the plan;
- the types of investments to be made;
- who bears the cost of administration;
- which employees are eligible;
- how employees may enroll;
- the sign-up period;
- the maximum and minimum contributions;
- the investment options available to employees;
- how earnings are credited to individual accounts; and
- the processes if contributions are changed or terminated in full.

In addition, the employer is required to disclose the options available to the employee and beneficiary in the event of retirement, separation, disability, death, leave of absence, or hardship. Provisions must be made for the issuance of either W-2 or 1099 forms to former employees or their beneficiaries, covering plan disbursements.

23.03 Contributions

To be considered an eligible plan, IRC section 457 plans must be funded with assets held in trust for the benefit of employees. The deferred compensation fund should be reported as the appropriate fiduciary fund type according to the criteria covered in the Chapter 5, *Funds*. An eligible plan may defer contributions from income up to an annual limit. In addition, "catch-up" contributions may be made to employees age 50 or older.

As defined in the plan documents, employee contributions may be pre-tax salary reductions (elective deferrals), designated Roth contributions, post-tax contributions, or catch-up contributions. The employer may make matching contributions, which can be discretionary or mandatory, for employees who contribute elective deferrals.

According to the IRS in *Retirement Topics—Contributions*: "Employers must deposit employee contributions to the retirement plan's trust or individual accounts as soon as they can reasonably be segregated from the employer's general assets. The Department of Labor provides a 7-business-day safe harbor rule for employee contributions to plans with fewer than 100 participants." For more information on contributions refer to the IRS website, at https://www.irs.gov/.

23.04 Qualified and Nonqualified Plans

A *qualified employer plan* is a pension plan governed by the *Employee Retirement Income Security Act* (ERISA) and it must be offered to all employees, such as 401(k), 403(b), and 457(b) plans. The IRS administers a determination letter for sponsors to get advance assurance that their retirement plan is qualified. The local government should ensure their plan is operated in accordance to the plan document and that the determination letter is up to date. Online guidance to qualified plan requirements can be found at the IRS website, at https://www.irs.gov/ along with other guidance on retirement plans.

A nonqualified deferred compensation plan is a contractual agreement between the employer and employee to defer gross earnings. Rules for eligibility of a nonqualified plan are outlined in IRC section 409A. If an arrangement does not meet the requirements in IRC section 409A for a "qualified" plan, the deferred compensation must then meet the IRC section 409A criteria for a "nonqualified" plan to defer the income. If income is deferred but not in compliance with these requirements, then the employee becomes subject to interest and additional income tax, including a 20% additional tax and a possible penalty interest assessment.

Accounting for Deferred Compensation Plans

23.05 General Accounting

Accounting for deferred compensation plans requires an understanding of the underlying general transactions taking place. While the local government records the earnings paid to the employee, deferred compensation is withheld from current earnings, similar to the withholding of payroll taxes and, therefore, there is a liability to the employee for the withheld amount. To be eligible for the plan, the liability should be "funded." In other words, an equivalent amount of assets should be held in trust to fund the liability, therefore there is a transfer of assets to the trust.

Some deferred compensation contracts provide for periodic payments to employees or their surviving spouses for life, with provisions for a minimum lump-sum settlement in the event of the early death of one or all of the beneficiaries. The estimated present value of future payments to be made under these types of contracts is required to be accrued over the period of active employment from the time the contract is agreed upon or entered into.

The measurement of the total liability for the deferred compensation plan will depend on the individual plan and the value is usually provided through the services of an actuary. Chapter 22, *Retirement Systems* provides additional guidance on the measurement of the total pension liability (TPL) for deferred compensation contributions to a pension plan.

Local governments should refer to the following GASB Statements for additional accounting and reporting guidance:

- GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans, as amended.
- GASB Statement No. 67, Reporting for Pensions Plans—an amendment of GASB Statement No. 25, as amended.
- GASB Statement No. 68, Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27, as amended.
- GASB Statement No. 73, Accounting and for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB 67 and 68, as amended.
- GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended.
- GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, as amended.
- GASB Statement No. 82, Pensions Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73, as amended.

Laws and Related Codes

23.06 State and Federal Law

Significant state and federal regulations pertaining to the deferred compensation plans are covered in multiple codes. Each local agency may establish a deferred compensation plan under California's Government Code section 53213, et seq., and each is obligated to identify risks and financial condition information annually under Labor Code section 2809. Deferred compensation plans are further covered in IRC sections 401 through 436, and 457.

For the most current regulations relating to the deferred compensation plans such as the IRC 401(a) plan—qualified plan, IRC 403(b) plan—annuity for public schools, and the IRC 457(b)/457(f) plans—nonqualified deferred compensation plans, refer to the IRS website at https://www.irs.gov/retirement-plans.

23.07 Income Security Act of 1974 (ERISA)

The Income Security Act of 1974 (ERISA) set forth provisions that established new uniform requirements for all employee benefit plans, including notice and disclosure protections. Government plans are exempt from the requirements of ERISA, although many of the ERISA requirements have been incorporated into California statutory law and, therefore, made applicable to local government plans. ERISA provisions have been codified in U.S. Code, Title 29, Chapter 18, Retirement Income Security; the government exclusion is listed in Subchapter I, section 1003.

23.08 Small Business Job Protection Act of 1996

The purpose of the Small Business Job Protection Act of 1996 is to provide tax relief for small businesses, protect earnings, create opportunities, and increase the take-home pay of workers. The Act is the foundation for nondiscrimination provisions and new pension amendments that are in the current IRC.

23.09 Taxpayer Relief Act of 1997

The Taxpayer Relief Act of 1997 added provisions to U.S. Code for civil service retirement systems of State or local government, with administrative guidelines for trust funds. As part of this Act, Roth IRAs were established, permanently exempting these retirement accounts from capital gains taxes.

23.10 State and Federal Wages and Payroll Taxes

Under U.S. Code section 3401, deferred compensation plans are included in the definition of wages for the purpose of employment taxes. The Code of Federal Regulations includes IRC provisions regarding the requirements for nonqualified plans in regard to the liability for social security tax. Refer to social security tax under Title 26, Chapter I, Subchapter C, Part 31, Subpart B, Section 31.3121(v)(2)-1 and federal unemployment tax under Title 26, Chapter C, Part 31, Subpart D, Section 31.3306(r)(2)-1.

The unique guidelines regarding the local government's responsibility for withholding employee taxes and proper payroll tax reporting for deferred compensation can be obtained from the California State Employment Development Department (EDD) website, at https://www.edd.ca.gov, and the Internal Revenue Service (IRS) website, at https://www.irs.gov.

Helpful employer publications to reference include the following:

- IRS Publication 5138, Quick Reference Guide for Public Employers;
- IRS Publication 15, Circular E, Employer's Tax Guide;
- IRS Publication 15-A, Employer's Supplemental Tax Guide;
- IRS Publication 963, Federal-State Reference Guide;
- EDD Information Sheets DE 231A, Wages; and
- DE 231EB, Taxability of Employee Benefits.

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Chapter 24: Compensated Absences

Chapter Contents

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Chapter 24: Compensated Absences

Introduction

Compensated absences are absences for which employees are paid, such as vacation, sick leave, and sabbatical leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the employer and the employee should be accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the employer and the employee should be accounted for in the period in which those services are rendered or take place. For more information on the accounting and reporting requirements for compensated absences, local government entities may refer to GASB Cod. Sec. C60 (Section C60).

Overview of Compensated Absences

24.01 Vacation Leave

Vacation leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees if both of the following conditions are met:

- The employees' rights to receive compensation are attributable to services already rendered; and

- It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

24.02 Sick Leave

A liability for sick leave and other compensated absences with similar characteristics should be accrued using one of the following termination approaches:

- A liability should be accrued as the benefits are earned by the employees if it is probable that the employer will compensate the employees for the benefits through cash payments conditioned on the employees' termination or retirement. Sick leave balances should not be accrued for employees who receive only additional service time for pension benefit purposes or who take the leave due to illness; or

- A governmental entity should estimate its accrued sick leave liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments, as well as by other employees who are expected to become eligible in the future to receive such payments. Sick leave balances should not be accrued for employees who receive only additional service time for pension benefit purposes or who take the leave due to illness.

24.03 Sabbatical Leave

A liability for sabbatical leave should be accrued during the period the employees earn the right to the leave if it is probable that, for past service, the employer will compensate the employees for the benefits through paid time off or by some other means.

The compensated absence liability should be calculated based on the pay or salary rates in effect at the balance sheet date. However, if the employer pays employees for their compensated absences at other than their pay or salary rates (for example: at a lower amount as established by contract, regulation, or policy), then the other rate as of the balance sheet date should be used to calculate the liability.

An additional amount should be accrued as a liability for salary-related payments (i.e., the employer's share of Social Security and Medicare taxes, pension plans, etc.) associated with the payment of compensated absences, using the rates in effect at the balance sheet date.

24.04 Reporting Compensated Absences

Compensated absences in proprietary and fiduciary funds should be reported as a fund liability. Compensated absences in governmental funds should be recognized as expenditures each period using the modified accrual basis of accounting. Because the balance sheets of these funds report current liabilities, only the portion of the liability that will be liquidated with available current financial resources should be reported in the fund. When the liquidated amount is known, the remainder of the liability should be accounted for in the debt accounting records.

<u>Example:</u>

The following is the status for compensated balances as of June 30, 20X1:

	General	Enterprise
Current Value of Compensated Absences	100,000	10,000
Short-term portion	5,000[1]	4,000
Long-term portion	95,000	6,000
Amount currently in debt accounting records	80,000	
Amount currently in long-term liability		3,000

[1] The full amount for fiscal year 20X1–20X2 compensated leave balances is included in the budget. The $5,000 represents the estimated terminal payments resulting from these accrued balances.

Account	Debit	Credit
General Fund		
Expenditure—Salaries and Employee Benefits	5,000	
Short-term Liabilities—Salaries and Benefits Payable		5,000
Debt Accounting Records Amount to be Provided	15,000	
Employee Salaries and Benefits Payable		15,000

Account	Debit	Credit
Proprietary Fund		
Expenses—Salaries and Employee Benefits	7,000	
Short-Term Liabilities—Salaries and Benefits Payable		4,000
Long-Term Liabilities—Salaries and Benefits Payable		3,000

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Chapter 25: Municipal Solid Waste Landfill Closure and Postclosure Care Costs

Chapter Contents

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Chapter 25: Municipal Solid Waste Landfill Closure and Postclosure Care Costs

Introduction

GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*, as amended, sets standards of accounting and financial reporting for the cost of Municipal Solid Waste Landfill (MSWLF) closure and postclosure care. The local government's financial statements should reflect the impact of all closure and postclosure care costs during the life of a MSWLF rather than after its closing. Costs that result in disbursements near or after the date that the MSWLF stops accepting solid waste and during the postclosure period should be included in the estimated total current cost of MSWLF closure and postclosure care, regardless of their capital or operating nature. The estimated total current cost should include:

- the cost of equipment expected to be installed and facilities expected to be constructed near or after the date that the MSWLF stops accepting solid waste and during the postclosure period;
- the cost of final cover (capping) expected to be applied near or after the date that the MSWLF stops accepting solid waste; and
- the cost of monitoring and maintaining the expected usable MSWLF area during the postclosure period.

The estimated total current cost is the amount that would be paid if all equipment, facilities, and services included in the estimate were acquired during the current period. These costs should be adjusted annually for the effects of inflation and/or changes in technology, expected usable landfill area, or regulations.

Accounting and Reporting for Municipal Solid Waste Landfill Closure and Post-Closure Costs

25.01 Allocation of Costs

The estimated total current cost should be allocated over the life of the MSWLF using the following formula:

Estimated Total Cumulative Current Cost x Capacity Used / **Total Estimated Capacity**	**—**	**Amount Previously Recognized**	**= Annual Allocation**

It should be noted that costs are allocated based on usage rather than the passage of time.

25.02 Assets Placed in Trusts

Some local governments may be required by the regulatory authorities or contractual provisions to provide financial assurances for closure and postclosure care by placing assets in a trust. These amounts should be reported in the fund used to report the landfill operations and be identified by a description such as *amounts held by trustee*.

25.03 Proprietary Funds (MSWLF)

Local governments reporting MSWLF using proprietary funds should recognize the amount computed through the formula in 25.01, *Allocation of Costs*, as an expense and as a liability for each period that the MSWLF accepts solid waste.

Capital assets included in the estimated costs of closure and postclosure care should not be reported as capital assets, but should be reported as a reduction to accrued liability for MSWLF closure and postclosure costs. Capital assets not included in the estimated costs of closure and postclosure care but were exclusively acquired for MSWLF purposes should be fully depreciated until the MSWLF stops accepting solid waste.

25.04 Governmental Funds (MSWLF)

Local governments reporting MSWLFs using governmental funds should measure fund liabilities similar to that of proprietary funds. MSWLF expenditures and liabilities are recognized in governmental funds using the modified accrual basis of accounting. Fund liabilities are usually expended with current financial resources, and expenditures and liabilities should be recognized in the governmental financial statements when payments for goods and services are due.

Liabilities not liquidated with current financial resources should be treated as long-term liabilities and reported in the government-wide financial statements in the governmental activities column. In the statement of revenues, expenditures and changes in fund balance, acquisition of facilities and equipment that were included in the estimated total current costs should be reported as closure and post-closure care expenditures.

Accounting Standards and Procedures for Counties

Chapter 26: Leases

Chapter Contents

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Chapter 26: Leases

Introduction

Guidance for GASB Statement No. 87, *Leases*, is not included in this chapter. The provisions of GASB Statement No. 87 are effective for reporting periods beginning after December 15, 2019 and will not be adopted by SCO prior to the final effective date. Appendix A, *Upcoming Changes*, provides guidance to help local governments prepare for future implementation. Local governments should prepare for the implementation at their earliest opportunity, as the requirements will result in substantial changes to reporting.

Local governments that are early adopters of the provisions in GASB Statement No. 87 should add a disclosure in their financial statements to recognize the difference in accounting treatment.

Up until implementation of GASB Statement No. 87 leases are generally classified as either capital leases or operating leases. Leases that have been determined to represent substantially all of the risks and benefits inherent to ownership of an asset are capital leases. These type of leases should be accounted for as the acquisition of an asset and the incurrence of an obligation by the local governmental entity (lessee). Other leases should be accounted for and reported as operating leases, i.e., the rental of property.

Overview of Leases

26.01 Capital Leases

If, at its inception, a lease meets one or more of the following criteria, it should be accounted for by the lessee as a capital lease:

- The lease transfers ownership of the property to the lessee by the end of the lease term;
- The lease contains an option to purchase the leased property at a bargain price;
- The lease term is equal to or greater than 75% of the estimated economic life of the leased property; or
- The present value of rental and other minimum lease payments at the beginning of the lease term equals or exceeds 90 percent of the fair value of the leased property.

The last two criteria are not applicable when the beginning of the lease term falls within the last 25% of the total estimated economic life of the leased property.

According to GASB Cod. Sec. L20.111 (Section L20, paragraph .111):

> The lessee should record a capital lease as an asset and an obligation at an amount equal to the present value at the beginning of the lease term of minimum lease payments during the lease term, excluding that portion of the payments representing executory costs such as insurance and maintenance to be paid by the lessor, together with any gain thereon. However, if the amount so determined exceeds the fair value of the leased property at the inception of the lease, the amount recorded as the asset and obligation should be the fair value. If the portion of the minimum lease payments representing executory costs, including gain thereon, is not determinable from the provisions of the lease, an estimate of the amount should be made. The discount rate to be used in determining present value of the minimum lease payments should be that prescribed for the lessee as outlined in GASB Cod. Sec. L20.105d (Section L20, paragraph .105d).

26.02 Operating Leases

If none of the criteria for capital leases is met, then the lease is classified as an *operating lease*. Neither an asset nor an obligation is recorded for operating leases. Rental payments are recognized as expenditures on the books of the fund from which the payment is made.

Operating leases should be accounted for by the lessor as follows:

a. The leased property should be included with or near capital assets in the statement of net position. The lease property should be depreciated and the investment in the lease property should be reduced by the accumulated depreciation amount in the statement of net position.
b. Initial direct costs should be recognized as an expense/expenditure in the period incurred.
c. If the fair value of the property in an operating lease involving real estate that does not qualify as a sales-type lease is less than its cost or carrying amount, the loss resulting from the difference between the fair value and the cost or carrying amount of the lease asset should be recognized at the inception of the lease.

26.03 Sale-Leaseback Transactions

Sale-leaseback transactions involve the sale of property by the owner and a lease of the property back to the seller. Any gain or loss arising from the sale of property that is accompanied by a leaseback of all or part of the property for all or part of its remaining economic life should be recorded as a deferred inflow of resources or a deferred outflow or resources, respectively.

For a capital lease, the gain or loss should be recognized in a systematic and rational manner over the lease term in proportion to the recognition of the leased asset. For an operating lease, the gain or loss should be recognized in a systematic and rational manner as well, but in proportion to the related gross rental charged to expense/expenditure over the lease term.

APPENDICES

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Appendix A: Upcoming Changes

Appendix Contents

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Appendix A: Upcoming Changes

LEASES (GASB Statement No. 87)

Effective for reporting periods beginning December 15, 2020.

The following guidance is scheduled for release in a future publication of the manual.

Introduction

This appendix is intended to prepare the reader for upcoming changes related to leases that are not yet effective. The SCO will not be applying these changes for reporting (e.g., FTRs) in the fiscal year prior to the effective date according to GASB Statement No. 95. Local governments that are early adopters of the provisions in GASB Statement No. 87 should add a disclosure in their financial statements to recognize the different accounting treatment.

App A.01 Historical Background

Existing accounting and reporting standards classify leases as being either an "operating" or "capital" lease. The current guidance provided by the Governmental Accounting Standards Board (GASB), considers a lease to be a capital lease, if it meets any of the criteria in ¶212 of GASB Statement No. 62, as amended. For a capital lease, the lessee reports a capital asset and a long-term liability, which are equal to the present value of the future lease payments. In the case of operating leases however, no long-term liabilities, long-term receivables, or capital assets are reported at the inception of the lease. Any payments made or received related to operating leases are reported each year as expenses/expenditures and revenues, respectively.

The current methodology allows a lease to be structured in a manner that avoids reporting the economic substance of the transaction. In other words, a long-term liability and related asset are not reported as a result of the lease transaction. Due to the extensive unreported liabilities for future operating lease payments, the GASB determined that financial reports needed to capture related long-term liabilities and assets not previously reported, aligning the accounting and reporting of lease transactions more closely with their economic substance.

To achieve this goal, the GASB issued Statement No. 87, *Leases*, which provides guidance for lease contracts for nonfinancial assets—including vehicles, heavy equipment, and buildings—but excludes nonexchange transactions, including donated assets, and leases of intangible assets (such as patents and software licenses). Once the provisions of GASB Statement No. 87 become effective, the current distinction between operating and capital leases and the associated lease terminology will be eliminated and no longer applicable. The provisions of GASB Statement No. 87 are effective for reporting periods beginning after June 15, 2021 according to the newly released effective date in GASB Statement No. 95.

The State Controller's Office (SCO) has compiled the following suggested preliminary steps in preparation for the implementation of GASB Statement No. 87, *Leases*.

Implementation Steps:

- **Step 1:** Identify all leases (e.g., rental contracts, contractual arrangements, etc.) and calculate the remaining life for each one.
- **Step 2:** Verify if the leases identified in Step 1 meet the definition of a *Lease* according to GASB Statement No. 87.
- **Step 3:** Verify the *Lease Term* for each lease identified in Step 2, and if applicable, confirm that it meets the value threshold for reporting as a lease.
- **Step 4:** Determine the lease liability and the lease asset (*Lessee*) for each lease, measured at present value.
- **Step 5:** Determine the value of the lease receivable and the deferred inflows of resources (*Lessor*), measured at present value.
- **Step 6:** Determine if there are multiple components within each lease that will need to be reported separately.
- **Step 7:** Identify those leases that may need to be modified or are close to terminating.
- **Step 8:** Identify any sublease or leaseback type contracts.
- **Step 9:** Use the following guidance for entering the full value of the future lease payments in the appropriate accounting records.

Foundational Guidance

App A.02 Definition, Scope, and Applicability

With the exception of short-term leases, the provisions of GASB Statement No. 87 are based on the foundational principle that leases are financings of the right to use an underlying asset. Going forward, all *leases* will now be defined as "a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction."

This new definition for a lease includes contracts that are not explicitly identified as leases, but may now meet the definition of a lease. Governments should, therefore, evaluate all of their lease contracts based on the facts and circumstances of the lease in the period of *implementation* and not the *inception* of the lease.

As previously mentioned, the measurement provisions outlined in GASB Statement No. 87 do not apply to short-term leases since leases of this type have a maximum time period of 12 months or less. Government entities should report payments on short-term leases as outflows of resources (expense) and report lease payments received concerning short-term leases as inflows of resources (revenue).

Items excluded from the provisions of GASB Statement No. 87 are as follows:

1) contracts for services (exceptions apply),
2) leases of intangible assets (exceptions apply),
3) leases of biological assets,
4) leases of inventory,
5) service concession arrangements,
6) leases where the asset is financed with outstanding conduit debt (exceptions apply), and
7) supply contracts (e.g., power purchase agreements).

App A.03 Lease Term and Lease Thresholds

In order to determine the present value of the lease payments, local government entities need to first calculate the *Lease Term*. The lease term is the period during which a lessee has a *noncancelable* right to use an underlying asset, plus any time period option where it is *reasonably certain* the time period option will be exercised (extend or terminate).

Time periods for which both the lessee and the lessor have an option to terminate the lease without permission from the other party (or if both parties have to agree to extend) are cancelable periods and are excluded from the lease term. Fiscal funding or cancellation clauses may affect the lease term if it is not reasonably certain that the clause will be exercised.

Similar to capital asset threshold policies, government entities may develop policies that specify thresholds for when identifying immaterial lease assets that should be expensed. When establishing these policies, government entities should specify amounts that they consider to be significant, individually or in the aggregate.

Recognition, Measurement, and Disclosure Responsibilities

App A.04 Lessee

Full Accrual Basis (Economic Resources Measurement Focus)

The following guidance applies only to financial statements that are prepared using the *full accrual* basis (economic resources measurement focus) and, if applicable, to financial statements prepared using the *modified accrual* basis (current resources measurement focus).

At the commencement of the lease term, the lessee should recognize a *Lease Liability* and a *Lease Asset*. The lease liability should be measured at the present value of lease payments expected to be made during the lease term. If required by a lease, the measurement should include, among other items, any fixed payments, variable payments dependent on an index rate or a rate (e.g., Consumer Price Index), the exercise price of a purchase option (exceptions apply), payments for penalties for terminating the lease (exceptions apply), and any lease incentives receivable from the lessor.

Initially the measurement of the lease asset amount should include the sum of the initial measurement of the lease liability, any lease payments made to the lessor at or before the commencement of the lease term (less any lease incentives), and any initial direct costs necessary to place the lease asset into service. The lease asset should be amortized in a systematic and rational manner over the shorter of the lease term or useful life of the lease asset.

The notes to the financial statements should include, among other requirements, a general description of the leasing arrangements, the total amount of lease assets recognized, and the amount of lease assets by major classes of underlying assets (disclosed separately from other capital assets). If a lessee receives lease incentives, then the lessee should adjust its lease liability accordingly.

Modified Accrual Basis (Current Resources Measurement Focus)

The following guidance should be applied only to financial statements that are prepared using the modified accrual basis (current resources measurement focus).

The lease should be accounted for and reported on a basis consistent with governmental fund accounting principles, if lease payments are expected to be paid from general government resources. The lessee should report an *Expenditure* and *Other Financing Source* in the period the lease is initially recognized. The lease expenditure and other financing source should be measured at the present value of lease payments expected to be made during the lease term.

The notes to the financial statements should include, among other requirements, a general description of the leasing arrangements, the total amount of lease assets recognized, and the amount of lease assets by major classes of underlying assets (disclosed separately from other capital assets). If a lessee receives lease incentives, the lessee should adjust its lease liability accordingly.

App A.05 Lessor

Full Accrual Basis (Economic Resources Measurement Focus)

The following guidance applies only to financial statements that are prepared using the full accrual basis (economic resources measurement focus) and, if applicable, to financial statements prepared using the modified accrual basis (current resources measurement focus).

At the commencement of the lease term, the lessor should recognize a *Lease Receivable* and a *Deferred Inflow of Resources*. Any initial direct costs incurred by the lessor should be reported as outflows of resources (e.g., expense) for the period.

The lease receivable should be measured at the present value of lease payments expected to be received during the lease term, less any provision for estimated uncollectible amounts. If required by a lease, the measurement should include, among other items, any fixed payments, variable payments dependent on an index rate or a rate (e.g., Consumer Price Index), residual value guarantee payments that are fixed in substance, and any lease incentives payable to the lessee.

The deferred inflow of resources is the amount of the initial measurement of the lease receivable, plus any lease payments received from the lessee at or before the commencement of the lease that relate to future periods, less any lease incentives paid to, or on behalf of, the lessee at or before the commencement of the lease term. The lessor should subsequently recognize the deferred inflow of resources as inflows of resources (e.g., revenues) in a systematic and rational manner over the term of the lease.

The notes to the financial statements should include, among other requirements, a general description of the leasing arrangements and the total amount of inflows of resources recognized in the reporting period from leases. If applicable, the lessor should also disclose information on leases of investments and regulated assets. Should the lessor offer lease incentives to the lessee, the lessor should adjust its lease receivable accordingly.

Modified Accrual Basis (Current Resources Measurement Focus)

The following guidance should be applied only to financial statements that are prepared using the modified accrual basis (current resources measurement focus).

The lessor should recognize a lease receivable and a deferred inflow of resources to account for the lease. The lease receivable should be measured at the present value of lease payments expected to be received during the lease term, less any provision for estimated uncollectible amounts. If required by a lease, the measurement should include, among other items, any fixed payments, variable payments dependent on an index rate or a rate (e.g., Consumer Price Index), residual value guarantee payments that are fixed in substance, and any lease incentives payable to the lessee.

The deferred inflow of resources should be measured at the initial value of the lease receivable, plus the amount of any lease payments received at or before the commencement of the lease term that relate to future periods. Subsequently the lessor should recognize the deferred inflow of resources as inflows of resources, if available, in a systematic and rational manner over the term of the lease.

The notes to the financial statements should include, among other requirements, a general description of the leasing arrangements and the total amount of inflows of resources recognized from leases. If applicable, the lessor should also disclose information on leases of investment and regulated assets. Should the lessor offer lease incentives to the lessee, the lessor should adjust its lease receivable accordingly.

Exceptions and Special Circumstances

App A.06 Transfer of Ownership

A lease should be reported as a financed purchase of the underlying asset by the Lessee or sale of the asset by the lessor, if 1) ownership of the underlying asset transfers to the lessee by the end of the contract, and 2) the lease does not contain any termination options. The lease may contain a fiscal funding or cancellation clause that is not reasonably certain of being exercised.

App. A07 Lease Incentives

A *Lease incentive* could be described as equivalent to a rebate or discount. According to the provisions of GASB Statement No. 87, *lease incentives* can either be payments made to, or on behalf of, the lessee or other concessions granted to the lessee. Lease incentives include any assumption of a lessee's preexisting lease obligations to a third party, other reimbursements of lessee's costs, rent holidays, and any reductions of interest or principal charges by the lessor.

App A.08 Leases with Multiple Components/Contract Combinations

If a lease involves multiple assets and the assets have different lease terms, then the lessee and lessor should treat each underlying asset as a separate lease component. Additionally, the lessee should account for each underlying asset as a separate lease component if the underlying assets are in different major classes of assets for disclosure purposes.

App A.09 Lease Modifications and Terminations

Lease contracts may be amended while the contract is in effect. Examples of amendments include a change in lease terms, a change in the right to use the underlying asset, or a change in lease payments. An amendment is considered a modification of the provisions of the lease contract, unless the lessee's right to use the underlying asset decreases. A lease modification that does not qualify as a separate lease should be accounted for by remeasuring the lease liability and adjusting the related lease asset by the lessee and remeasuring the lease receivable and adjusting the related deferred inflows of resources by the lessor.

If a lease contract reduces the lessee's right to use the lease asset, it could result in a partial or full lease termination. In this case the lessee would reduce the carrying values of the lease liability and the lease asset, while the lessor would reduce the lease receivable and deferred inflows of resources.

App A.10 Subleases and Leaseback Transactions

Subleases

A sublease involves three parties:

- The original lessor;
- The original lessee (who also is the lessor in the sublease); and
- The new lessee.

The original lessor should continue applying the general lessor guidance (as mentioned above). The original lessee should account for the original lease and the sublease as two separate transactions (as a lessee and a lessor, respectively) and disclose them separately in their financial statements. The new lessee should follow the general lessee guidance stated above.

Sale-Leaseback

A sale-leaseback transaction involves the sale of an underlying asset by the owner and a lease of the property back to the seller (original owner). If the sale-leaseback transaction does not include a qualifying sale, it should be accounted for as borrowing activity by the seller (lessee) and a lending activity by the buyer (lessor).

The sale and the lease portions of a sale-leaseback transaction should be accounted for in financial statements prepared using full accrual (economic resources measurement focus) separately. Any difference between the carrying value of the capital asset that was sold and the net proceeds from the sale should be reported as a deferred inflow of resources or a deferred outflow of resources and subsequently recognized over the term of the lease.

Lease-Leaseback Transactions

In a lease-leaseback transaction, an asset is leased by one party (first party) to another party and then leased back to the first party. A lease-leaseback transaction should be accounted for as a net transaction. Both parties to a lease-leaseback transaction should disclose the amounts of the lease and the leaseback separately in the notes to financial statements.

App A.11 Intra-Entity Leases

The reporting requirements of GASB Statement No. 87 are not applicable when the lessee or lessor is included as a blended component unit of the primary government. When the lessor is a blended component unit, the debt and assets of the lessor should be reported as if they were the primary government's debt and assets.

Lease arrangements between the primary government and discretely presented component units (or between discretely presented component units) should be treated in the same manner as any other lease under the provisions of GASB Statement No. 87. Any related receivables and payables should not be combined with other amounts due to or due from discretely presented component units or with lease receivables and payables with organizations outside the reporting entity.

App A.12 Leases Between Related Parties

In the separate financial statements of the related parties, the classification and accounting should be the same as for similar leases between unrelated parties, except in cases in which it is clear that the terms of the transaction have been significantly affected by the fact that the lessee and lessor are related. In such cases, the classification and accounting should be modified as necessary to recognize the substance of the transaction rather than merely its legal form. The nature and extent of leasing transactions with related parties should be disclosed.

In financial statements for which an interest in an investee is accounted for using the equity method, any inflow of resources or outflow of resources (for example, gain or loss) on a leasing transaction with the related party should be accounted for in accordance with the principles set forth in paragraphs 202–210 of GASB Statement No. 62 and paragraph 77 of GASB Statement No. 72.

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Appendix B: Glossary

Appendix Contents

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Accounting Standards and Procedures for Counties

This glossary is a practical and easy-to-use guide for terms used in the manual. While every effort has been made to present accurate and up-to-date definitions, this glossary should be used only as a resource, not as an authority.

Acronyms

The following are some of the acronyms used in governmental accounting:

AICPA	American Institute of Certified Public Accountants
AcSEC	Accounting Standards Executive Committee
APB	Accounting Principles Board
CAFR	Comprehensive Annual Financial Report
CDFA	Catalogue of Federal Domestic Assistance
CPA	Certified Practicing Accountant
EDP	Electronic Data Processing
GAAP	Generally Accepted Accounting Principles
GAAS	Generally Accepted Auditing Standards
GAGAS	Generally Accepted Government Auditing Standards
GAN	Grant Anticipation Note
GAO	Governmental Accountability Office
GASB	Governmental Accounting Standards Board
GFOA	Government Finance Officers Association
GNMA	Government National Mortgage Association
IGAS	Interpretation of Governmental Accounting
LAFCo	Local Agency Formation Commission
NCGA	National Council on Governmental Accounting
OPEB	Other Postemployment Benefits
SEC	Securities and Exchange Commission
SGAC	Statement of Governmental Accounting Concepts
SGAS	Statement of Governmental Accounting Standards
TB	Technical Bulletin

Appendix B: Glossary

A

AB 8. Assembly Bill 8, Chapter 282, Statutes of 1979. (State law governing the distribution of property tax.)

Abatement. A complete or partial cancelation of a levy imposed by a government. Abatements usually apply to tax levies, special assessments, and service charges.

Abstract. See Redemption Roll.

Accountability. Term used by GASB to describe a government's duty to justify the raising and spending of public resources. GASB identified accountability as the "paramount objective" of financial reporting "from which all objectives" flow.

Account. A record of a type of monetary transaction maintained in a ledger. Also sometimes referred to as object (for example, objects of expenditures or revenues). See Object.

Accounting Change. A change in 1) an accounting principle, 2) an accounting estimate, or 3) the reporting entity. The correction of an error in previously issued financial statements is not an accounting change.

Account Number. See Coding.

Accounting Period. See Fiscal Period.

Accounting Principle. The standards, rules, guidelines and industry-specific requirements for financial reporting.

Accounting Principles Board (APB). The authoritative private-sector standard-setting body that preceded the Financial Accounting Standards Board. The APB issued guidance in the form of opinions.

Accounting Procedures. All processes that discover, record, classify, and summarize financial information to produce financial reports and to provide internal control.

Accounting Standards Executive Committee (AcSEC). AICPA committee authorized to issue Practice Bulletins.

Accounting System. The methods and records established to identify, assemble, analyze, classify, record and report a government's transactions and to maintain accountability for the related assets and liabilities.

Accounts Payable. A short-term (or current liability) liability account reflecting amounts owed to private persons or organizations for goods and services received by a government (but not including amounts due to other funds of the same government).

Accounts Receivable. A current asset account reflecting amounts due from private persons or organizations for goods and services furnished by a government (but not including amounts due from other funds or other governments).

Accreted Value. A valuation basis for certain investments and debt instruments that report on the balance sheet only that portion of their face value that reflects principal and interest accrued to date.

Accrual Basis. The method of accounting that recognized the financial effect of transactions, events, and interfund activity when they occur, regardless of the timing of related cash flows.

Accrued Expenses. Expenses incurred but not paid.

Accrued Interest Payable. A liability account reflecting interest costs incurred but not due until a later date.

Accrued Revenue. Revenues earned but not received. See Modified Accrual Basis.

Accrued Taxes Payable. A liability account reflecting taxes incurred but not due until a later date.

Accrued Salaries and Wages Payable. A liability account reflecting salaries and wages earned by employees but not due until a later date.

Accumulated Depreciation. The amount of a long-term asset's cost that has been allocated to depreciation expense since a time the asset is put into service. A contra-asset account to report the accumulation of periodic credits (depreciation expense) made to reflect the expiration of the estimated service life of capital assets.

Acquisition Costs. The costs incurred by the acquiring government to affect a government acquiring a new contract or renewing an existing contract. Acquisition costs include, but are not limited to, fees for legal, accounting, valuation, professional, or consulting services.

Acquisition Value. The price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date, or the amount at which liability could be liquidated with the counterparty at the acquisition date. Acquisition value is also referred to as "acquisition costs: adjusted for discounts, incentives, closing costs and other expenditures but before sales tax.

Active Employees. Individuals employed at the end of the reporting or measurement period, as applicable.

Activity. Specific and distinguishable service performed by one or more organizational components of a government to accomplish a function for which the government is responsible. (Police is an activity within the public safety function.)

Activity Classification. Expenditure classification according to the specific lines of work performed by organization units. For example, "sewage treatment and disposal," "garbage collection," "garbage disposal," and "street cleaning" are activities performed in carrying out the function of "sanitation." The segregation of the expenditures made for each of these activities constitutes an activity classification.

Actual Accounts. Accounts that show actual financial position and results of operations, such as actual assets, liabilities, fund balances, revenues, expenditures, and expenses, as distinguished from budgetary accounts. See Budgetary Accounts.

Actual Contributions. In the context of defined benefit pension and OPEB plans, cash contributions recognized as additions to a pension plan's fiduciary net position.

Actuarial Accrued Liability. In the context of defined benefit pension and OPEB plans, it is the present value of benefits already earned by employees.

Actuarial Assumptions. In the context of defined benefit pension and OPEB plans, the assumptions as to the occurrence of future events affecting pension costs, such as mortality, withdrawal, disablement and retirement; changes in compensation and government provided pension benefits; rates or depreciation; procedures used to determine future entrants for Open Group Actuarial Cost Methods; and other relevant items.

Actuarial Basis. A basis used in computing the amount of contributions to be made periodically to a fund or account so that the total contributions plus the compounded earnings thereon will equal the required payments to be made out of the fund. The factors taken into account in arriving at the amount of these contributions include the length of time over which each contribution is to be held and the rate of return compounded on such contribution over its life. A Pension (and Other Post-Employment Benefits) Trust Fund for a public employee retirement system is an example of a fund used to account for a defined benefit pension plan concerned with actuarial basis data.

Actuarial Cost Method. A procedure for determining the Actuarial Present Value of pension plan benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of a Normal Cost and Actuarial Accrued Liability.

Actuarial Method. Any of several techniques that actuaries use to determine the amounts and timing of contributions needed to finance claims liabilities so that the total contributions plus compounded earnings on them will equal the amounts needed to satisfy claims liabilities. It may or may not include a provision for anticipated catastrophe losses.

Actuarial Section. One of the five sections of a public employee retirement system's CAFR.

Actuarial Valuation. In the context of defined benefit pension and OPEB plans, the determination, as of a point in time (the actuarial valuation date), of the service cost, total pension or OPEB liability, and related actuarial present value of projected benefit payments for pensions performed in conformity with Actuarial Standards of Practice unless otherwise specified by the GASB.

Actuarial Valuation Date. The date as of which an actuarial valuation is performed.

Actuarial Value of Assets. The value of cash, investments, and other property belonging to a pension plan, as used by the actuary for the purpose of an Actuarial Valuation.

ADA. Average Daily Attendance, as determined by the State Department of Education.

Additions. A term used to describe increases in the net position of fiduciary funds.

Administration Cost. Includes only those direct costs for administration, data processing, collection, and appeal that are incurred by a special district.

Adopted Budget. The budget document formally approved by the board of supervisors after the required public hearings and deliberations on the recommended budget. See Final Budget and Recommended Budget.

Ad Valorem Property Tax. Any assessment imposed on the basis of the value of the real property, including any special ad valorem assessment.

Ad valorem property taxation. Any source of revenue derived from applying a property tax rate to the assessed value of the property.

Advance-From-Fund. A liability account used to record noncurrent portions of long-term debt owed by one fund to another fund within the same reporting entity. See Due-From Fund and Interfund Receivable/Payable.

Advance Refunding. Transaction in which new debt is issued to refinance existing debt (old debt), but the proceeds should be placed in escrow pending call date or maturity (refunding in advance of redemption).

Advance Refunding (of Bonds). In an advance refunding transaction, new debt is issued to provide money to pay interest on old, outstanding debt as it becomes due, and to pay the principal on the old debt either as it matures or at an earlier call date. An advance refunding occurs before the maturity or call date of the old debt, and the proceeds of the new debt are invested unit the maturity or call date of the old debt. Most advance refunds result in defeasance of debt. Defeasance of debt can be either legal or in substance.

Advance-To-Fund. An asset account used to record noncurrent portions of a long-term loan from one fund to another fund within the same reporting entity. See Due-To-Fund and Interfund Receivable/Payable.

Adverse Opinion. An opinion stating the auditor's view that the financial statements do not present the financial position fairly, results of operations, or changes in financial position, in conformity with generally accepted accounting principles.

Agency Funds. Use to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, a private organization, or other governments. See Fiduciary Funds.

Agent Employer. In the context of defined benefit pension and OPEB plans, an employer whose employees are provided with pensions or OPEB through an agent multiple-employer defined benefit pension or OPEB plan.

Agent Fees. Amounts paid by a lender to its securities lending agent as compensation for managing its securities lending transactions.

Agent Multiple-Employer Defined Benefit Pension or OPEB Plan. A multiple-employer defined benefit pension (or OPEB) plan in which pension plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.

Aggregate Actuarial Cost Method. A method under which the excess of the Actuarial Present Value of Projected Benefits of the group included in an Actuarial Valuation over the Actuarial Value of Assets is service of the group between the valuation date and assumed exit. This allocation is performed for the group as a whole, not as a sum of individual allocations. That portion of valuation year is called the Normal Cost. The Actuarial Accrued Liability is equal to the Actuarial Value of Assets. This method is not widely used.

Agricultural Land. See Open Space Land.

Agricultural Preserve. An area devoted to either agricultural use, recreational use, open space use, or any combination of such uses, and which is established in accordance with the provisions of the California Land Conservation Act of 1965.

Agricultural Use. Use of land for the purpose of producing an agricultural commodity for commercial purposes.

AICPA. American Institute of Certified Public Accountants.

Allocate. To divide a lump-sum appropriation into parts which are classified as expenditure by specific organization units and/or for specific purposes, activities, or objects.

Allocated Claims Adjustment Expenses. In the context of risk financing activities, expenses associated directly with specific claims paid or in the process of settlement, such as legal and adjusters' fees.

Allocation. A part of a lump-sum appropriation that is classified as an expenditure by specific organization units and for special purposes, activities, or objects.

Allotment (or Allot). Where spending authority is apportioned for a particular period by an approving authority.

Allotment Ledger. A subsidiary ledger which contains an account for each allotment showing the amount allotted, expenditures for the allotment period, outstanding encumbrances, and net balance. See Appropriation Ledger.

Allotment Period. A period of time during which an allotment is effective. Monthly and quarterly allotments are most common. See Allotment.

Allowance for Uncollectibles. A contra-asset valuation account used to indicate the portion of a receivable not expected to be collected.

Alternate Method of Tax Apportionment. Allows counties to allocate secured property taxes to jurisdictions at 100% of the billed amount rather than actual tax collections. The county collects all future delinquent payments, penalties, interest, and distributes them to the appropriate funds.

Amortization. (1) The portion of the cost of a limited-life or intangible asset charged as an expense during a particular period. (2) The reduction of debt by regular payments of principal and interest sufficient to retire the debt by maturity.

Amortization Schedule. A schedule of debt service payments separating the portions of payments attributable to principal and interest.

Analytical Review. A term used by auditors to describe the process of attempting to determine the reasonableness of financial data by comparisons made with other financial and nonfinancial data.

Annexation. Changes in the territorial boundaries of governments. An annexation may also be known as reorganization. In a government annexation arrangement, one government extends the bounds of its geographic footprint to include newly incorporated or unincorporated areas. Often, annexations result only in changes in boundaries, and the annexed governments generally do not give up assets or gain relief from liabilities. However, in annexations in which assets, deferred outflows of resources, liabilities, and deferred inflows of resources comprising an operation are transferred, those items are required to be recognized at the carrying amounts reported by the transferring government.

Annual Budget. A budget applicable to a single fiscal year. See Budget and Operating Budget.

Annual Covered Payroll. In the context of defined benefit pension and OPEB plans, all element of annual compensation paid to active employees on which contributions to a plan are based.

Annual Financial Report. A financial report applicable to a single fiscal year.

Annual Inflation Factor. See Cost of Living.

Annual Operating Budget. See Operating Budget.

Annual OPEB Cost. An accrual-basis measure of the periodic cost of an employer's participation in a defined benefit OPEB plan.

Annual Required Contribution of the Employer(s) (ARC). In the context of OPEB, the employer's periodic required contributions to a defined benefit OPEB plan, calculated in accordance with the parameters.

Annual Tax Increment. The difference resulting from the comparison of base-year to current-year values.

Annuities Payable. A liability account reflecting the amount of annuities due and payable to retired employees in a public employee retirement system.

Annuity. A series of equal payments made or received at equal intervals over a specified period of time.

Annuity, amount of. The total amount of money accumulated or paid during an annuity period from an annuity along with compound interest at a specified rate.

Annuity Bonds. See Serial Bonds.

Annuity Period. The length of time during which annuity payments are to occur.

APB. See Accounting Principles Board.

Application Development Stage. In the context of internally generated computer software, the stage of development that includes the design of the chosen path, including software configuration and software interfaces, coding, installation to hardware, and testing, including the parallel processing phase.

Appoint. To select members of a governing body, as long as the ability to do so is not severely limited by a nomination process, or to confirm appointments made by others, provided the confirmation is more than a formality or part of a ministerial responsibility.

Apportionment. Division and sharing carried out according to a plan or formula.

Appraise. To estimate the value, particularly the value of property. If the property is valued for purposes of taxation, the narrower term *assess* is substituted.

Appropriated Budget. The expenditure authority created by a bill or ordinance that is in law. It may also include revenues, transfers, allocations, allotments and program changes. It may be for a single period or for multiple years and for capital or for operating purposes or both.

Appropriated Fund Balance. A portion of existing fund balance that is incorporated into the subsequent year's budget to "balance" expected expenditures in excess of expected revenues.

Appropriation. A line item giving spending authority in a budget.

Appropriation Account. A budgetary account set up to record spending authorizations for specific purposes. The account is credited with the original appropriation and any supplemental appropriations and is charged with expenditures and encumbrances.

Appropriation Balance. See Unallocated Balance of Appropriation, Unencumbered Allotment, Unencumbered Appropriation, Unexpended Allotment, and Unexpended Appropriation.

Appropriation Bill. A bill through which appropriations are given legal effect. See Ordinance, Resolution, Order.

Appropriation Expenditure. An expenditure chargeable to an appropriation. As virtually all expenditures of governments are chargeable to appropriations, the term *expenditures* by itself is widely and properly used.

Appropriation Expenditure Ledger. See Appropriation Ledger.

Appropriation for Contingencies. A budgetary provision representing that portion of the financing requirements set aside to meet unforeseen expenditure requirements.

Appropriation Ledger. A subsidiary ledger containing an account for each appropriation. Each account usually includes the amount originally appropriated, transfers to or from the appropriation, amounts charged against the appropriation, the available balance, and other related information. See Allotment Ledger.

Arbitrage. In the context of government finance, the reinvestment of the proceeds of tax-exempt securities in materially higher-yielding taxable securities.

Assess. To establish an official property value for taxation. See Appraise.

Assessed Value. One hundred percent of full value for the 1981–82 fiscal year and the following fiscal years. For 1980–81 and prior fiscal years, the assessed value was 25% of the full value.

Assessed Valuation. The valuation that a government sets on real estate or other property as a basis for levying taxes.

Assessee. The person to whom the property tax is assessed.

Assessment. (1) The process of making the official valuation of property for taxation. (2) The valuation placed on property as a result of this process. See Special Assessment.

Assessment Year. The period beginning with a lien date and ending immediately prior to the succeeding lien date for taxes levied by the same agency.

Assessor Roll. See Roll Being Prepared.

Assessment Roll. With real property, the official list containing the legal description of each parcel of property and its assessed valuation. The name and address of the last known owner usually are listed. With personal property, the assessment roll is the official list containing the name and address of the owner, a description of the personal property and its assessed value.

Asset. Resources with present service capacity that the government presently controls.

Asset Allocation. In connection with pension and OPEB plans, the process of determining which types of investments are to be included in an investment portfolio and percentage of each.

Asset Impairment. A significant, unexpected decline in the service utility of a capital asset.

Assigned Fund Balance. Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by 1) the governing body itself, or 2) a body (a budget or finance committee, for examples) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.

Assignment. In the context of hedge accounting, an assignment occurs when a swap agreement is amended to replace an original swap counterparty, or the swap counterparty's credit support provider, but all the other terms of the swap agreement remain unchanged.

Attained Age Actuarial Cost Method. A method under which the excess of the Actuarial Present Value of Projected Benefits over the Actuarial Accrued Liability is respect of each individual included in an actuarial Valuation is allocated on a level basis over the earnings or service of the individual between the valuation date and assumed exit. The porting of this Actuarial Present Value which is allocated to a valuation year is call the Normal Cost. The Actuarial Accrued Liability is determined using the Unit Credit Actuarial Cost Method.

Audit. A methodical examination of the use of resources. An audit concludes in a written report of its findings. An audit is a test of management's accounting system to determine the extent to which internal accounting controls are both available and being used. See also Internal Auditing, Independent Audit, Financial Audit, Program Compliance Audit, Single Audit, and Performance Auditing.

Audit Committee. A group of individuals charged by the governing body with overseeing how management fulfills its responsibility for internal control and financial reporting.

Audit Finding. In the context of a financial audit, a weakness in internal controls or an instance of noncompliance with applicable laws and regulations that are presented in the audit report in conformity with GAGAS. A typical audit finding is composed of a statement of the condition (i.e., weakness or instance of noncompliance) and the criterion or criteria used to define it, an explanation of the cause of the condition, a discussion of its results, and recommendations for improvement. Findings ordinarily are presented together with a response from management stating management's concurrence or disagreement with each finding and its plan for corrective action.

Audit Guides. Series of AICPA publications, typically regarded as Nonauthoritative literature according to the GAAP hierarchy. In the public sector, a commonly referenced publication is the *State and Local Governments—Audit and Accounting Guide.*

Audit Management. The process used to procure auditing services to monitor the performance of the auditor, and to ensure the satisfactory resolution of issues raised by the audit.

Audit Procurement. The process used to obtain auditing services from independent public accountants.

Audit Program. A detailed outline of work to be performed and procedures to be followed in any given audit.

Auditor's Report. In the context of a financial audit, a statement by the auditor describing the scope of the audit and the auditing standards applied in the examination and setting forth the auditor's opinion on the fairness of presentation of the financial information in conformity with GAAP or some other comprehensive basis of accounting.

Audit Resolution. The process whereby corrective action is planned, implemented and monitored to remedy weaknesses discovered and reported in conjunction with an audit.

Audit Scope. In the context of a financial statement audit, the specific contents of a financial report for which the independent auditor offers an opinion.

Audited Claims Payable. See Accounts Payable.

Auditor. See Internal Auditor and Independent Auditor.

Auditor-Controller. If the office of the controller is established by the county, then the county auditor is the ex-officio controller, charged with the additional duties of auditing and statistical and financial reporting. See County Auditor or Director of Finance.

Auditor Rotation Policy. A policy that requires a government periodically to replace the independent auditor of its financial statements.

Auditor's Opinion. An expression in the audit report of the auditor's position on whether the financial information of the entity is presented fairly, in all material respects, in conformity with generally accepted accounting principles (or with other specified accounting principles applicable to the auditee).

Auditor's Report on Internal Controls and Compliance over Financial Reporting. Report issued in conjunction with a financial audit performed in accordance with GAGAS. In this report, the independent auditor reports on internal control weaknesses and instances of noncompliance discovered in connection with the financial audit, but does not offer an opinion on internal controls or compliance.

Authority. A government or public agency created to perform a single function or a restricted group of related activities. Usually, such units are financed from service charges, fees, and tolls, but in some instances they also have taxing powers. An authority may be completely independent of other governments or partially dependent on other governments for its financing or the exercise of certain powers. See Special District.

Available Financing. In governmental fund types, the sum of the components that are available to meet the financing requirements for the accounting period involved. Available Financing includes unassigned fund balance, decreases in other fund balance classifications (non-spendable, restricted, committed and assigned), revenues, other financing sources, and transfers in. This is a conventional term and should not be used in the financial statement presentation.

Available Fund Balance. For budgetary presentation purposes, that portion of the governmental type fund balance which is available for financing the budget requirements for the accounting period involved. This is a conventional term, which is synonymous with the accepted term *unassigned fund balance*, of the general fund, and for other governmental fund types, the portion of the assigned fund balance being used to finance budget requirements.

Availability Criterion. The requirement under the modified accrual basis of accounting that revenues be recognized only if they are collected or collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Availability Period. The designated period immediately following the close of the fiscal year by the end of which cash should be collected for related revenue to be recognized under the modified accrual basis of accounting.

Available Revenue. Money that is available for spending and saving. Also referred to as Disposable Income.

B

Back Taxes. All payments required to be made under any provision of law allowing payment of delinquent taxes in installments, except payments of current taxes due on the property and the penalties and costs on the current taxes.

Balance sheet. Report of information about the current financial resources (assets, liabilities, and fund balances) of each major governmental fund and for nonmajor governmental funds in the aggregate and totaled as of the reporting date.

Bank Balance. In the context of GASB Statement No. 3, Deposits With Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements, the amount credited by a financial institution to the government's account as opposed to the government's own ledger balance for the account (e.g., if checks have been written against an account but have not yet cleared the bank, the ledger balance would be lower than the bank balance).

Basic Financial Statements (BFS). The core required financial statements of a government, including management's discussion and analysis, government-wide financial statements, fund financial statements, notes to the financial statements and required supplementary information other than the management's discussion and analysis. See Financial Statements.

Bank Holding Company. A company that controls one or more banks and may contain subsidiaries with operations related to banking.

Bank Investment Contract (BIC). A separate account at a financial institution that functions like a guaranteed investment contract (GIC).

Bankers' Acceptances. Bankers' acceptance generally is created based on a letter of credit issued in a foreign trade transaction. Bankers' acceptance is short-term, noninterest-bearing notes sold at a discount and redeemed by the accepting banks at maturity for face value.

Banking Pools. Risk financing arrangement in which monies are loaned to pool members in the event of loss.

Base Year (Assessor). The assessment year FY 1975–76 serves as the original base year. Thereafter, any assessment year in which real property, or a portion thereof, is purchased, is newly constructed, or changes ownership shall become the base year used in determining the full cash value of such real property, or a portion thereof.

Basis Differences. Differences that may arise when the basis of budgeting is different from GAAP.

Basis of Accounting. The timing of recognition for financial reporting purposes when the effects of transactions or events should be recognized in financial statements.

Basis of Budgeting. Method used to determine when revenues and expenditures are recognized for budgetary purposes.

Betterment. Addition made to, or change made in, a capital asset, other than maintenance, to prolong its life or to increase its efficiency or capacity. The cost of the addition or change normally is added to the book value of the asset. The term improvement is preferred.

Bill. A term used to denote a law or statute introduced by certain legislative bodies. A bill has greater legal formality and standing than a resolution. See Appropriation Bill, Ordinance, Resolution, and Order.

Blending (Blended). The method of reporting the financial data of a component unit that presents the component unit's balances and transactions in a manner similar to the presentation of the balances and transactions of the primary government.

Blue Book. A term commonly used to designate the GFOA's publication, *Governmental Accounting, Auditing, and Financial Reporting* (GAAFR).

Board Roll. See State Assessed Roll.

Bond. A written promise to pay a specified sum of money, called the *face value* or *principal amount*, at a specified date or dates in the future, called the *maturity date(s)*, together with periodic interest at a specified rate. Sometimes, however, all or a substantial portion of the interest is included in the face value of the security. The difference between a note and a bond is that the latter is issued for a longer period and requires greater legal formality.

Bond Anticipation Note (BAN). Short-term, interest-bearing note issued by a government in anticipation of bond proceeds to be received at a later date. The note is retired from proceeds of the bonds to which it is related.

Bond Covenant. A legally enforceable promise made by an issuer of bonds to the bondholders, normally contained in the bond resolution or indenture (e.g., pledged revenues).

Bond Discount. The difference between the present value and the face amount of bonds when the former is less than the latter. In common usage, the term also often includes issuance costs withheld from the bond proceeds by the underwriter.

Bond Indenture. A formal agreement, also called a deed of trust, between an issuer of bonds and the bondholder.

Bond Ordinance (Resolution). An ordinance or resolution authorizing a bond issue.

Bond Premium. The difference between the present value and the face amount of bonds when the former is greater than the latter.

Bonded Debt. That portion of indebtedness represented by outstanding bonds. See Gross Bonded Debt, Net Bonded Debt, and Funded Debt.

Bonds Authorized and Unissued. Bonds that have been legally authorized but not issued and that can be issued and sold without further authorization.

Bonds Issued. Bonds sold by the government.

Bonds Payable. Generally, the face value of bonds issued and unpaid. In the case of deep-discount and zero-coupon bonds, however, only the accreted value of the security is reported as bonds payable on the balance sheet.

Book Entry. A system that eliminates the need for physically transferring bearer-form paper or registering securities by using a central depository facility.

Book of Original Entry. The record in which the various transactions are formally recorded for the first time (e.g., cash journal, check register, or general journal). With automated bookkeeping methods, one transaction may be recorded simultaneously in several records, one of which may be regarded as the book of original entry. Memorandum books, check stubs, files of duplicate sales invoices, etc., on which first or prior business notations may have been made, are not books of original entry in the accepted meaning of the term, unless they are also used as the media for direct posting to the ledgers.

Book Value. Value as shown by books of account. In the case of assets that are subject to reduction by valuation allowances, "book value" refers to cost or stated value less the appropriate allowance. Sometimes a distinction is made between "gross book value" and "net book value," the former designating value before deduction of related allowances and the latter the value after their deduction. In the absence of any modifiers, however, the term book value is understood to be synonymous with net book value.

Borrower. A broker-dealer or other entity that transfers collateral to a governmental entity in a securities lending transaction.

Budget. A plan of financial operation embodying an estimate of proposed expenditures for a given period and the proposed means of financing them. Used without any modifier, the term usually indicates a financial plan for a single fiscal year. The term *budget* is used in two senses in practice. Sometimes it designates the financial plan presented to the board of supervisors for adoption and sometimes the plan finally approved by that body. See Annual Budget, Capital Budget, Capital Program, Long-term Budget, Operating Budget, Performance Budget, Program Budget and Traditional Budget.

Budget Document. (1) The instrument used by the budget-making authority to present a comprehensive financial program to the appropriating body. The budget document usually consists of three parts. The first part contains a message from the budget-making authority, together with a summary of the proposed expenditures and the means of financing them. The second consists of schedules supporting the summary. These schedules show in detail past years' actual revenues, expenditures, and other data used in making the estimates. The third part is composed of drafts of the appropriation, revenue, and borrowing measures necessary to put the budget into effect. (2) The instrument used to present the plan of financial operations of the county and of the special district whose affairs and finances are under the supervision and control of the board of supervisors.

Budget-GAAP Basis Differences. Differences arising from the use of a basis of accounting for budgetary purposes that differs from the basis of accounting applicable to the fund type when reporting on operations in conformity with GAAP. For example, a cash-basis budget would produce a budget-GAAP basis difference.

Budget-GAAP Differences. Differences between the GAAP reporting model and a government's budgetary practices.

Budget-GAAP Entity Differences. Differences arising from the inclusion or exclusion in the budget of organizations, programs, activities and functions that may or may not be compatible with the criteria defining the government reporting entity.

Budget-GAAP Perspective Differences. Differences that result when the structure of financial information for budgetary purposes is not compatible with the fund structure prescribed by GAAP (i.e., some governments budget on the basis of organizational or program structures that differ from the funds used for financial reporting purposes).

Budget-GAAP Timing Differences. Variations such as continuing appropriations, project appropriations, automatic reappropriations, and biennial budgeting that separate budgetary accounting from GAAP.

Budget Message. A general discussion of the proposed budget as presented in writing by the budget-making authority to the legislative body. The budget message should contain an explanation of the principal budget items, an outline of the government's experience during the preceding period and its financial status at the time of the message, and recommendations regarding the financial policy for the coming period.

Budget Request. The sum of the organizational estimates of available financing and financing requirements for the period involved. The budget requests are compiled to prepare the recommended budget. See Recommended Budget.

Budget Unit. That classification of the expenditure budget requirements into appropriately identified accounting or organizational units deemed necessary or desirable for control of the financial operation.

Budget Year. For budgetary purposes, the budget year means the fiscal year (July 1 through June 30) for which the budget is being prepared.

Budgetary Accounts. Special accounts used to achieve budgetary integration that is not reported in the financial statements. By convention, ALL CAPS commonly are used to designate budgetary accounts. The most common budgetary accounts are Estimated Revenues, Appropriations, and Encumbrances.

Budgetary Basis of Accounting. The method used to determine when revenues and expenditures are recognized for budgetary purposes.

Budgetary Comparison. Schedules presented as required supplementary information for the general fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedule should present both 1) the original and 2) the final appropriated budgets for the reporting period, as well as 3) actual inflows, outflows, and budgetary basis. A separate column to report variances between the final budget and actual amounts is encouraged but not required. Governments may also report the variance between original and final budget amounts.

Budgetary Comparison Schedules. Schedules presented as required supplementary information for the general fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedule should present both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and budgetary basis. A separate column to report variances between the final budget and actual amounts is encouraged but not required. Governments may also report the variance between original and final budget amounts.

Budgetary Control. The control or management of a government or enterprise in accordance with an approved budget to keep expenditures within the limitations of available appropriations and available revenues.

Budgetary Guidelines. Recommendations on budgeting issued by the National Advisory Council on State and Local Budgeting (NACSLB). The NACSLB's budgetary guidelines are chiefly of interest to accountants because of the emphasis they place on performance measurement in the context of the budgetary process.

Budgetary Integration. Use of budgetary accounts to record the operating budget in the general ledger to facilitate control during the year by providing a point of reference for comparison with actual results.

Budgetary Journal Entries. Journal entries involving budgetary accounts. Budgetary journal entries arise in connection with budgetary integration.

Budgetary Reporting. In the context of financial reporting, the requirement to present budgetary comparisons in connection with general purpose external financial reporting. Budgetary reporting is required in connection with the basic financial statements for both the general fund and individual major special revenue funds with annual (or biennial) appropriated budgets. Budgetary reporting also is required within the CAFR to demonstrate compliance at the legal level of control for all governmental funds with annual (or biennial) appropriated budgets.

Buildings and Improvements. A capital asset account reflecting the acquisition cost of permanent structures owned or held by a government, and improvements thereon.

Business-Type Activities. Activities financed in whole or in part by fees charged to external parties for goods and services.

C

Calendar year. The yearly period from the first day of January to the last day of December, inclusive, for which the tax is imposed.

California Special Districts Association (CSDA). The not-for-profit association that assists in providing services for all independent special districts throughout California.

Call Option. An option that gives its holder the right but not the obligation to purchase a financial instrument or commodity at a certain price for a period of time.

Callable bond. A type of bond with a feature that permits the issuer to pay the obligation before the stated maturity date by giving notice of redemption in a manner specified in the bond contract.

Capital and Related Financing Activities. The 1) acquisition and disposal of capital assets used in providing services or producing goods, 2) borrowing money for acquiring, constructing, or improving capital assets and repaying the amounts borrowed, including interest, and 3) paying for capital assets obtained from vendors on credit.

Capital Assets. Assets including land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

Capital Budget. A plan of proposed capital outlays and the means of financing them. See Capital Program.

Capital Expenditures. Expenditures are resulting in the acquisition of or addition to the government's general capital assets.

Capital Grants. Grants restricted by the grantor for the acquisition and/or construction of capital assets. See Operating Grants.

Capital Improvement Assessment. Increase in taxes for capital asset acquisition or construction for a specific amount of time, for specific debts for specific property owners.

Capital Improvement Program. See Capital Program.

Capital Improvement Special Assessments. Special assessment projects that are capital in nature and enhance the utility, accessibility, or aesthetic value of the affected properties. Usually, the projects also provide improvements or additions to a government's general capital assets. Typical special assessment capital improvements are streets, sidewalks, parking facilities, and curbs and gutters. Sometimes the improvements provide capital assets that become an integral part of a government's enterprise activities (e.g., water or sewer main construction).

Capital Lease. An agreement that conveys the right to use property, plant or equipment, usually for a stated period of time, that meets one or more of the criteria set forth in SFAS No. 13 for lease capitalization.

Capital Outlays. See Capital Expenditures.

Capital Program. A plan for capital expenditures to be incurred each year over a fixed period of years to meet capital needs arising from the long-term work program or other capital needs. A capital program sets forth each project or other contemplated expenditure in which the government is to have a part and specifies the resources estimated to be available to finance the projected expenditures.

Capital Projects Funds. Funds used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Capitalization Contribution. Contribution to a public-entity risk pool to meet initial or ongoing capital minimums established by statute, regulation, or the pooling agreement itself. Capitalization contributions generally take the form of cash.

Capitalization Policy. The criteria used by a government to determine which outlays should be reported as capital assets.

Capitalization Threshold. Dollar value at which a government elects to capitalize tangible or intangible assets that are used in operations than that have initial useful lives extending beyond a single reporting period. Generally, capitalization thresholds are applied to individual items rather than groups of items unless the result would be to exclude items that in aggregate would clearly be material to the financial statements.

Capping. The cost of final cover expected to be applied near or after the date that the landfill stops accepting solid waste.

Carrying Amount (Book Value). The amount at which assets and liabilities are reported in the financial statements. See Book Value.

Cash. In the context of cash flows reporting, not only currency on hand but also demand deposits with banks or other financial institutions. Cash also includes deposits in other kinds of accounts or cash management pools that have the general characteristics of demand deposit accounts.

Cash Basis of Accounting. The basis of accounting that recognizes transactions or events when related cash amounts are received or disbursed.

Cash Conduit. A grantee that transmits grantor-supplied monies to sub-recipients without having administrative or direct financial involvement in the program.

Cash Discount. An allowance received or given if payment of an account is completed within a stated period of time.

Cash Equivalent. Cash equivalents are defined as short-term, highly liquid investments that are both 1) readily convertible to known amounts of cash, and 2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Cash Flow Underwriting. The practice of an insurance enterprise depending on investment income rather than on positive underwriting results to achieve a profit.

Cash with Fiscal Agent. An asset account reflecting deposits with fiscal agents, such as commercial banks, for the payment of long-term debt principal and interest.

Catastrophe. A fire, earthquake, windstorm, explosion, or similar event resulting in substantial losses or an unusually large number of unrelated and unexpected losses occurring in a single period.

Cede. To transfer all or part of an insurance risk to another enterprise through reinsurance.

Ceded Premiums/Claims Costs. Premiums paid to a public entity risk pool and claims costs that are transferred to another enterprise in connection with a reinsurance arrangement.

Certificate of Achievement for Excellence in Financial Reporting Program. Program sponsored by the GFOA to encourage and assist state and local governments to prepare high-quality CAFRs. The program has been in continuous operation since 1946. The program originally was known as the Certificate of Conformance Program.

Certificates of Participation (COP). Certificates issued for the financing of capital assets. COPs represent undivided interests in the rental payments under a tax-exempt lease.

Certified Public Accountant (CPA). An accountant who has met all the statutory and licensing requirements of a given state for use of that designation. All U.S. states require accountants, at a minimum, to complete successfully a uniform national examination before being allowed to designate themselves as CPAs.

Change in Accounting Estimate. Changes in estimates used in accounting are necessary consequences of periodic presentations of financial statements. Preparing financial statements requires estimating the effects of future events. Accounting estimates change as new events occur, as more experience is acquired or as additional information is obtained.

Change in Accounting Principle. Adoption of a generally accepted accounting principle different from the one used previously for reporting purposes.

Change in Ownership. A transfer of a percent interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee interest.

Chapter 9 (U.S. Bankruptcy Code). Section of the Uniform Commercial Code (UCC) intended to protect a financially distressed government from its creditors while it develops and negotiates a plan for adjusting its debts. Chapter 9 must be approved by a state prior to usage by a government.

Character Classification. Classification of expenditures according to the periods they are presumed to benefit. The four character groupings are (1) current operating expenditures, presumed to benefit the current fiscal period; (2) debt service expenditures, presumed to benefit prior fiscal periods as well as current and future periods; (3) capital outlay expenditures, presumed to benefit the current and future fiscal periods; and (4) intergovernmental expenditures.

Charges for Services. The term used for a broad category of program revenues that arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services. Revenues in this category include fees charged for specific services such as water use or garbage collection; licenses and permits, such as dog licenses, liquor licenses, and building permits; operating special assessments, such as for street cleaning or special street lighting; and any other amounts charged to service recipients. Fines and forfeitures are also included in this category because they result from direct charges to those who are otherwise directly affected by a program or service, even though they receive no benefit. Payments from other governments for goods or services—for example, when a county reimburses a special district for borrowing the district's equipment—also should be reported in this category.

Check. A bill of exchange drawn on a bank and payable on demand; a written order on a bank to pay on demand a specified sum of money to a named person, to his or her order, or to the bearer out of money on deposit to the credit of the maker. A check differs from a warrant in that the latter is not necessarily payable on demand and may not be negotiable. A check differs from a voucher in that the latter is not an order to pay. A voucher-check combines the distinguishing characteristics of a voucher and a check; it shows the propriety of a payment and is an order to pay.

Claim. (1) Potential losses that can arise from a) employment (e.g., workers' compensation and unemployment), b) contractual actions (e.g., delays or inadequate specifications), c) actions of government personnel (e.g., medical malpractice, damage to privately owned vehicles by government-owned vehicles, improper police arrest), and d) governmental properties (e.g., personal injuries, property damage). (2) In the context of insurance, demand payment of a policy benefit because of the occurrence of an insured event, such as the destruction or damage of property and related deaths or injuries.

Claims Made Policy. In connection with public entity risk pools, a type of policy that covers losses from claims asserted (reported or filed) against the policyholder during the policy period, regardless of whether the liability-imposing events occurred during the current or any previous period in which the policyholder was insured under the claims-made contract or other specified period before the policy period (the policy retroactive date).

Claims Servicing Pool. Public entity risk pool that manages separate accounts for each pool member from which the losses of that member are paid. Also referred to as an Account Pool.

Classification of Property. Any enumeration or grouping of property by a statute which results in it being treated differently from other property for the purpose of taxation.

Classified Presentation. Separate reporting of the current and noncurrent portions of assets and liabilities that permits the calculation of working capital. A classified presentation is required for the proprietary fund statement of net position.

Closed Amortization Period. A specific number of years that is counted from one date and, therefore, declines to zero with the passage of time. For example, if the amortization period initially is thirty years on a closed basis, twenty-nine years remain after the first year, twenty-eight years after the second year, and so forth. In contrast, an open amortization period (open basis) is one that begins again or is recalculated at the exact actuarial valuation date. Within a maximum number of years specified by law or policy (for example, thirty years), the period may increase, decrease, or remain stable.

Closed End Mutual Fund. An SEC-registered investment company that issues a limited number of shares to investors that are then traded like an equity security on a stock exchange. See Open End Mutual Fund.

Closed Period. A specific number of years that is counted from one date and declines to zero with the passage of time. For example, if the recognition period initially is five years on a closed basis, four years remain after the first year, three years after the second year, and so forth.

Code. See Coding.

Coding. A system of numbering or otherwise designating accounts, entries, invoices, vouchers, etc., in such a manner that the symbol used reveals quickly certain required information. To illustrate the coding of accounts, numbers in the 400 range could be used for expenditures, numbers between 420 and 430 for expenditures within the public safety function, and the number 421 for expenditures incurred in connection with the police activity classification. Within the police activity classification, the number 421.5 could be used for support services, and the number 421.51 for communications support services. Accordingly, expenditure for police radios would be classified as 421.51 (i.e., expenditures for communications services, within support services, within the police activity classification, within the public safety function).

Collateral. The cash, securities, or letters of credit received by the lender from the borrower as protection against the borrower's failure to return the underlying securities.

Collateral Investment Pool. An agency-managed pool that for investment purposes commingle the cash collateral provided on the securities lending transactions of more than one lender.

Collector's Roll. See Tax Roll.

Combination Bond. A bond issued by a government that is payable from the revenues of a governmental enterprise but that is also backed by the full faith and credit of the government.

Combining Financial Statements. Financial statements that report separate columns for individual funds or component units. Combining financial statements normally are required in a CAFR to support each column in the basic financial statements that aggregate information from more than one fund or component unit.

Commercial Paper. An unsecured promissory note issued primarily by corporations for a specific amount and maturing on a specific day. The maximum maturity for commercial paper is 270 days, but most is sold with maturities of up to 30 days. Almost all commercial paper is rated as to credit risk by rating services.

Commitment Fees (Lending Activities). Fees charged for entering into an agreement that obligates the government to make or acquire a loan or to satisfy an obligation of the other party under a specified condition. May include fees for letters of credit and obligation to purchase a loan or group of loans.

Committed Fund Balance. Amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority should be reported as committed fund balance. Those committed amounts cannot be used for any other purpose unless the government removed or changes the specified use by taking the same type of action (for example, internal resolution and/or ordinance) it employed to commit previously those amounts. The authorization specifying the purposes for which amounts can be used should have the consent of both the legislative and executive branches of the government, if applicable. Committed fund balance also should incorporate the contractual obligation to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Commitments. In the context of note disclosure, contingent obligations at the balance sheet date, arising from the terms of executory contracts.

Committee on Accounting Procedure (CAP). The authoritative private-sector standard-setting body that preceded the Accounting Principles Board and the FASB. The CAP issued guidance in the form of Accounting Research Bulletins.

Commodities Programs. Distribution of surplus agricultural products as a form of assistance, often in connection with school lunch programs.

Comparability. The principle according to which differences between financial reports should reflect substantive differences in the underlying transactions or the governmental structure rather than the selection of different alternatives in accounting procedures or practices.

Comparative Data. Information from one or more prior fiscal periods that is provided to enhance the analysis of financial data of the current fiscal period.

Comparative Financial Statements. When a statement of net position and the flows statement are presented for one or more preceding periods, as well as the current period, along with notes to the financial statements for the preceding periods that are repeated to the extent that they continue to be of significance.

Compensated Absences. Accrued vacation and sick leave (and similar entitlements) that will be paid in accordance with the terms and conditions of laws, regulations, and contracts. Compensated absence is earned on the basis of services already performed by employees.

Compliance Auditing. Auditing for compliance with applicable laws and regulations. Tests of compliance with laws and regulations are substantive tests; therefore, the term "compliance auditing" should not be confused with the similar term "compliance testing," which usually refers to testing for compliance with internal control procedures.

Compliance Supplement. A publication of the U.S. Office of Management and Budget that outlines compliance requirements for federal awards programs. The publication is designed to assist independent auditors performing Single Audits.

Component Units. Legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, a component unit can be another organization for which the nature and significance of its relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Component Unit Financial Report (CUFR). A report covering all funds of a component unit.

Component Unit Financial Statements. Financial statements of a component unit that may be issued separately from the component unit financial report.

Composite Depreciation Methods. Depreciation methods applied to groups of assets rather than to individual assets.

Comprehensive Annual Financial Report (CAFR). Financial report that contains, at a minimum three sections: 1) introductory, 2) financial, and 3) statistical, and whose financial section provides information on each individual fund and component unit.

Comprehensive Framework of Internal Controls. A structure of internal controls that provides for: (a) a favorable control environment, (b) the continuing assessment of risk, (c) the design, implementation, and maintenance of effective control-related policies and procedures, (d) the effective communication of information, and (e) the ongoing monitoring of the effectiveness of control-related policies and procedures as well as the resolution of potential problems identified by controls.

Concession. A grant of rights, land or property in return for services or for a particular use, a right to undertake and profit by a specified activity, or a lease for a particular purpose. This may also refer to an agreement between the owner of a facility and the concession owner and/or concessionaire that grants the exclusive rights to operate a specified business in the facility under specified conditions. The concessionaire usually has to pay the party that grants it the concession's ongoing fees that may either be a fixed amount or a percentage of revenues. See **Service Concession Arrangement (SCA).**

Condensed Financial Statements. Abbreviated financial statements (condensed in one page) sometimes required by GAAP to be presented within the notes to the financial statements in connection with component units, external investment pools, and segments. In addition, GAAP prescribes the presentation of condensed financial information for the prior fiscal year as part of management's discussion and analysis.

Conduit Debt. Certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing capital financing for a specific third party that is not a part of the issuer's financial reporting entity. Although conduit debt obligations bear the name of the governmental issuer, the issuer has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf they are issued.

Connection Fees. Fees charged to join or to extend an existing utility system. Often referred to as tap fees or system development fees.

Consistency. The notion that once an accounting principle or reporting method is adopted, it will be used for all similar transactions and events.

Construction Contracts Payable. A liability account reflecting amounts due on contracts for construction of buildings and other improvements.

Construction/Development in Progress. A capital asset account reflecting the cost of construction or development work for projects not yet completed. The terms Construction in Progress and Development in Progress are used when recognizing project expenditures in the capital assets accounting system for the construction of capital assets, such as building and improvements, infrastructure or the development of internally generated intangible assets.

Consumption Method. The method under which inventories are recorded as expenditures/expenses when used. See Purchases Method.

Contingency. An existing condition, situation, or set of circumstances involving uncertainty as to possible gain (referred to as a gain contingency) or loss (referred to as a loss contingency) to a government that will ultimately be resolved when one or more future events occur or fail to occur. Resolution of the uncertainty may confirm the acquisition of an asset or the reduction of liability or the loss or impairment of an asset or the incurrence of liability.

Contingency Appropriation. See Appropriation for Contingencies.

Contingent Liabilities. Items may become liabilities as a result of conditions undetermined at a given date, such as guarantees, pending lawsuits, judgments under appeal, unsettled disputed claims, unfilled purchase orders, and uncompleted contracts. Contingent liabilities should be disclosed in the financial statements (including the notes) when there is a reasonable possibility that a loss may have been incurred. Guarantees, however, should be disclosed even though the possibility of loss may be remote.

Continuing Appropriation. An appropriation that, once established, is automatically renewed without further legislative action, period after period, until altered or revoked. The term should not be confused with Indeterminate Appropriation.

Contracts Payable. A liability account reflecting amounts due on contracts for goods or services furnished to a government. Amounts withheld as guarantees on contracts should be classified separately in an account entitled Retainage Payable. See Accounts Payable.

Contributions. In the context of defined benefit pension and OPEB plans, contributions are additions to a pension or OPEB plan's fiduciary net position for amounts from employers, nonemployer contributing entities (for example, state government contributions to a local government pension or OPEB plan), or employees.

Control Account. An account in the general ledger where there is recorded the aggregate of debit and credit postings to a number of related accounts called *subsidiary accounts*. For example, Taxes Receivable is a control account supported by the aggregate of individual balances in individual property taxpayers' subsidiary accounts. See General Ledger and Subsidiary Account.

Control Cycle. A term used in connection with the evaluation of internal control to describe a series of logically interrelated transactions/processes and associated control-related policies and procedures.

Control Deficiency in Internal Control. A control deficiency in internal control exists when the design or operation of control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

Controller. See Auditor-Controller.

Corrective Action Plan. A plan that state and local officials are required to submit to appropriate federal officials under the Single Audit Act. The plan details how material noncompliance or weaknesses found in the audit will be eliminated or why corrective action is not necessary.

Correction of an Error. Changes to previously issued financial statements after discovering mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were prepared.

Cost. The amount of money or other consideration exchanged for property or services.

Cost Accounting. The method of accounting that provides for the assembling and recording of all of the elements of cost incurred to accomplish a purpose, carry on an activity or operation, or complete a unit of work or a specific job.

Cost Ledger. A subsidiary record wherein each project, job production center, process, operation, product, or service is given a separate account to which all items entering into its cost are posted in the required detail. Such accounts should be arranged and kept such that the results shown in them may be reconciled with and verified by a control account or accounts in the general books.

Cost of Living. The Annual Percentage Factor as determined by the California Department of Industrial Relations used in determining the annual inflation factor (not to exceed 2%), pursuant to Revenue and Taxation Code section 51.

Cost of Living Adjustments. Postemployment benefit changes intended to adjust benefit payments for the effects of inflation.

Cost of Replacement. See Replacement Cost.

Cost of Reproduction. See Reproduction Cost.

Cost Records. All ledgers, supporting records, schedules, reports, invoices, vouchers, and other records and documents reflecting the cost of projects, jobs, production centers, processes, operations, products, or services, or the cost of any of the component parts thereof.

Cost Reimbursement Basis. Setting of charges so that costs are systematically recovered on a break-even basis over time.

Cost-Sharing Multiple-Employer Defined Benefit Pension or OPEB plan. A multiple-employer defined benefit pension or OPEB plan that is administered through an irrevocable trust and in which the pensions or OPEB obligations to the employees of more than one employer are pooled and pensions or OPEB assets can be used to pay the benefits of pensions or OPEB through the pension or OPEB plan.

Cost Unit. A term used in cost accounting to designate the unit of product or service whose cost is computed. These units are selected for the purpose of comparing the actual cost with a standard cost or with actual costs of units produced under different circumstances or at different places and times. See Unit Cost and Work Unit.

Counterparty. The party that pledges collateral or repurchase agreement securities to the government or that sells investments to or buys them for the government.

County Budget Act. Under Title 3 Government of Counties, Gov. Code section 29000–29144 is referred to as the "County Budget Act" and defines the requirements concerning county budget matters prescribed by the Controller. The Chapter applies to counties, dependent special districts, and other agencies under the supervision of the county board. Refer to the *Introduction* section of Chapter 6, *Budgetary Accounting* to access a link to the *County Budget Guide* (which includes the County Budget Act).

Coupon Rate. The interest rate specified on interest coupons attached to a bond. The term nominal interest rate is also used in this sense.

Covenant. See Bond Covenant.

Coverage Ratio. A measure of the magnitude of resources available to pay the interest on and repay the principal of debt backed by pledged revenues. For each type of debt backed by pledged revenues, a coverage ratio is generally calculated by dividing gross pledged revenues or pledged revenues net of specific operating expenses by the sum of interest expenses and principal repayments.

Credit Risk. The risk that an issuer or counterparty to an investment will not fulfill its obligations.

Crossover Refunding. Types of advance refunding in which the escrow established with the proceeds of the refunding bonds only begins to secure repayment of the refunded debt at some designated future time, known as the "crossover date".

Current. As applied to budgeting and accounting, the operations of the present fiscal period, as opposed to past or future periods. *Current* usually connotes items likely to be used up or converted into cash within one year.

Current Assets. For accounting and financial reporting purposes, the term current assets are used to designate cash and other assets or resources commonly identified as those that are reasonably expected to be realized in cash or sold or consumed within a year. Therefore, current assets generally include such resources as (a) cash available for current operations and items that are the equivalent of cash; (b) inventories of merchandise, raw materials, goods in process, finished goods, operating supplies, and ordinary maintenance material and parts; (c) trade accounts, notes, and acceptances receivable; (d) receivables from taxpayers, other governments, vendors, customers, beneficiaries, and employees, if collective within a year; (e) installment or deferred accounts and notes receivable if they generally conform to normal trade practices and terms within the business-type activities; (f) marketable securities representing the investment of cash available for current operations; and (g) prepayments such as insurance, interest, rents, unused royalties, current paid advertising service not yet received, and operating supplies. Prepayments are not current assets in the sense that they will be converted into vast but in the sense that, if not paid in advance, they would require the use of current assets within a year. Current assets excludes such resources as: (1) cash and claims to cash that are restricted at to withdrawal or use for other than current operations, that are designated for disbursement in the acquisition or construction of noncurrent assets, or that are segregated for the liquidation of long-term debts; (2) receivables arising from unusual transactions (such as the sale of capital assets) that are not expected to be collected within 12 months; (3) cash surrender value of life insurance policies; (4) land and other natural resources; (5) depreciable assets; and (6) long-term prepayments that are applicable to the operations of several years, or deferred changes such as bonus payments under a long-term lease.

Current Costs. In connection with municipal solid-waste landfills and pollution remediation obligations, the amount that would be paid if all equipment, facilities, and services included in the estimate of the obligation were acquired during the current period.

Current Financial Resources Measurement Focus. Measurement focus where the aim of a set of financial statements is to report the near-term (current) inflows, outflows, and balances of expendable financial resources. The current financial resources measurement focus is unique to accounting and financial reporting for state and local governments and is used solely for reporting the financial position and results of operations of governmental funds.

Current Liabilities. Used principally to designate obligations whose liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets or the creation of other current liabilities. As a category in the statement of net (position), the classification is intended to include obligations for items that have entered into the operating cycle, such as payables incurred in the acquisition of materials and supplies to be used in providing services; collections received in advance of the performance of services' and debts that arise from operations directly related to the operating cycle, such as accruals for wages, salaries, commissions, rentals, and royalties. Other liabilities who regular and ordinary liquidation is expected to occur within one year also are intended for inclusion, such as short-term debts arising from the acquisition of capital assets, serial maturities of long-term obligations, amounts required to be expended within one year under sinking fund provisions, and certain agency obligations arising from the collection or acceptance of cash or other assets for the account of third parties. The current liability classification also is intended to include obligations that, by their terms, are due on demand or will be due on demand within one year from the date of the financial statements, even though liquidation may not be expected within that period. It also is intended to include long-term obligations that are or will be callable by the creditor either because the debtor's violation of a provision of the debt agreement at the date of the financial statement makes the obligation callable or because the violation, if not cured within a specified grace period, will make the obligations callable. According, such callable obligations should be classified as current liabilities unless one of the following conditions is met:

(1) The creditor has waived or subsequently lost the right to demand repayment for more than one year from the date of the financial statement.

(2) For long-term obligations containing a grace period within which the debtor may cure the violation, it is probable that the violation will be cured within that period, thus preventing the obligation from becoming callable.

Current Refunding. Refunding transaction when the issuance of new debt immediately replaces previously outstanding issued debt.

Current Resources. Resources available to meet current obligations and expenditures. Examples: current assets, estimated revenues of a particular period not yet realized, transfers from other funds authorized but not received, and, in the case of certain funds, bonds authorized and unissued.

Current Roll Auditor's/Auditor's Roll. The roll containing the property on which current taxes are a lien.

Current Roll Supplemental/Supplemental Roll. The roll for the fiscal year during which the change in ownership occurs or the new construction is completed.

Current Tax Rate. The tax rate applicable to the current roll, including any rate for voter-approved indebtedness.

Current Taxes. Taxes levied and became due within one year.

Current Value. The amount that would be paid if all equipment, facilities, and services included in the estimate were acquired during the current period.

Custodial Agreement. A written contract is establishing the responsibilities of a custodian who holds collateral for deposits with financial institutions, investment securities, or securities underlying repurchase agreements.

Custodial Credit Risk. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

Customer Deposits. A liability account used in an Enterprise Fund to reflect deposits made by customers as a prerequisite to receiving services and/or goods provided by the fund.

D

Data Processing. (Information Systems) (1) The preparation and handling of information and data from source media through prescribed procedures to obtain such end results as classification, problem solution, summarization, and reports. (2) Preparation and handling of financial information wholly or partially by mechanical or electronic means. See Electronic Data Processing (EDP).

Debt. An obligation resulting from the borrowing of money or from the purchase of goods and services. Debts of governments include bonds, time warrants, and notes. See Accounts Payable, Bonds, Note Payable, and General Long-Term Debt.

Debt Extinguishments. See Advance Refunding Bonds, Defeasance, and In-Substance Defeasance of Debt.

Debt Limit. The maximum amount of outstanding gross or net debt legally permitted.

Debt Proceeds. The difference between the face amount of debt and the issuance discount or the sum of the face amount and the issuance premium. Debt proceeds differ from cash receipts to the extent issuance costs, such as underwriters' fees, are withheld by the underwriter.

Debt Ratios. Comparative statistics illustrating the relation between the issuer's outstanding debt and such factors as its tax base, income, or population. These ratios often are used as part of the process of determining the credit rating of an issue, especially with general obligation bonds.

Debt Service. Appropriations required to pay the cost of interest and redemption charges, including the funding of any reserve or sinking fund requirements on indebtedness existing or legally authorized as of January 1, 1979, or on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity, voting in an election for such purpose.

Debt Service Fund. Governmental Fund used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should be used to report resources if doing so is legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in debt service funds.

Debt Service Fund Requirements. The resources that should be provided for a debt service fund so that all principal and interest payments can be made in full and on schedule.

Debt Service Requirements. The amount of money required to pay interest on outstanding debt, serial maturities of principal for serial bonds, and required contributions to accumulate money for future retirement of term bonds.

Deduction. A term used to describe decreases in the net position of fiduciary funds.

Deep-Discount Debt. Debt issued with a stated interest rate significantly less than the effective interest rate (e.g., less than 75 percent of the effective interest rate).

Defaulted Taxes. Delinquent secured property taxes that become subject to redemption penalties and fees as of July 1st. Property, by operation of law, becomes subject to the Tax Collector's power to sell five years after becoming tax defaulted.

Defeasance. In the context of financial reporting, netting of outstanding liabilities and related assets on the statement of financial position. Most refundings result in the defeasance of the refunded debt. Defeasance also is sometimes encountered in conjunction with annuity contracts purchased in connection with lottery prizes and settlements of claims and judgments.

Deferred Inflow(s) of Resources. An acquisition of net assets by the government that is applicable to a future reporting period. A deferred inflow of resources has a negative effect on net position, similar to liabilities.

Deferred Outflow(s) or Resources. A consumption of net assets by the government that is applicable to a future reporting period. A deferred outflow of resources has a positive effect on net position, similar to assets.

Deferred Retirement Option Program (DROP). An optional program that permits an employee to elect a calculation of benefit payments based on service credits and salary, as applicable, as of the DROP entry date. The employee continues to provide service by the employer after the DROP entry date; however, the pensions that would have been paid to the employee (if the employee had retired and not entered the DROP) are credited to an individual employee plan until the end of the DROP period.

Deficiency. A general term indicating the amount by which anything falls short of some requirement or expectation. For example, a local governments' net assets may be insufficient to meet its net liabilities. The term should not be used without qualification.

Deficit. (1) The excess of the liabilities of a fund over its assets. (2) The excess of expenditures over revenues during an accounting period; or, in the case of proprietary funds, the excess of expenses over revenues during an accounting period.

Defined Benefit Pension Plan (or OPEB). Pension or OPEB plans that are used to provide defined benefit pensions or OPEB.

Defined Benefit Pensions (or OPEB). Pensions or OPEB for which the income or other benefits that the employee will receive at or after separation from employment are defined by the benefit terms. The pensions or OPEB may be stated as a specified dollar amount or as an amount that is calculated based on one or more factors such as age, years of service, and compensation.

Defined Contribution Pensions (or OPEB) Plan. Pensions or OPEB having terms that 1) provide an individual account for each employee; 2) define the contributions that an employer is required to make (or the credits that it is required to provide) to an active employee's account for period in which that employee renders service; and 3) provide that the pensions an employee will receive will depend only on the contributions (or credits) to the employee's account, actual earnings on investments of those contributions (or credits), and the effects of forfeitures of contributions (or credits) made for other employees, as well as pension plan administrative costs, that are allocated to the employee's account.

Delinquent (Special) Assessments. Special assessments remaining unpaid on and after the date to which a penalty for nonpayment is attached.

Delinquent Abstract. See Redemption Roll.

Delinquent Roll. See Redemption Roll.

Delinquent Taxes. Taxes remaining unpaid on and after the date a penalty for nonpayment is attached. Even though the penalty may be subsequently waived and a portion of the taxes may be abated or canceled, the unpaid balances continue to be delinquent taxes until abated, canceled, paid, or converted into tax liens.

Delinquent Unsecured Roll. A list of unsecured property declared to be in default by the tax collector in a particular year.

Demand Bonds. Long-term debt issuances with demand ("put") provisions that require the issuer to repurchase the bonds upon notice from the bondholder at a price equal to the principal plus accrued interest. To ensure the ability to redeem the bonds, issuers of demand bonds frequently enter into short-term standby liquidity agreements and long-term "takeout" agreements.

Dependent Special District. A special district that has a legislative body that consists, in whole or part, of ex officio members who are officers of a county or city or who are appointees of those officers and not appointed to a fixed term.

Depletion. The allocation of the cost of wasting assets (e.g., timber, oil, coal) to the periods benefited by their use.

Deposit. Money placed with a banking or other institution or with a person, sometimes for a specific purpose.

Depository Insurance. Depository insurance includes (1) Federal depository insurance funds, such as those maintained by the Federal Deposit Insurance Corporation (FDIC or FDICIA), (2) State depository insurance funds, and (3) multiple financial institutions collateral pools that insure public deposits. In such a pool, a group of financial institutions holding public funds pledges collateral to a common pool.

Deposit Warrant. A financial document prepared by an appointed accounting or finance officer authorizing the treasurer of a government to accept for deposit sums of money collected by various departments and agencies of the government. See Warrant.

Depreciation. (1) Expiration in the service life of capital assets, other than wasting assets, attributable to wear and tear, deterioration, the action of the physical elements, inadequacy, and obsolescence. (2) The portion of the cost of a capital asset, other than a wasting asset, charged as an expense during a particular period. In accounting for depreciation, the cost of a capital asset, less any salvage value, is prorated over the estimated service life of such an asset, and each period is charged with a portion of such cost. Through this process, the entire cost of the asset is ultimately charged off as an expense.

Depreciation schedule. A schedule listing the annual allocation of the cost of capital assets to future periods, using one of the depreciation methods acceptable under GAAP.

Derivative. A contract whose value depends on, or derives from, the value of an underlying asset, reference rate, or index. The term also is applied to similar transactions, such as structured financial instruments (for example, mortgage-backed securities).

Derivative Instrument. A financial instrument or arrangement, often complex in nature, whereby two parties agree to make payments to each other under different obligation scenarios (e.g., an interest rate swap).

Derived Tax Revenues. Assessments imposed on exchange transactions (for example, income taxes, sales taxes, and other assessments on earnings or consumption).

Developer fees. Fees charged to developers to cover, in whole or in part, the anticipated cost of improvements that will be necessary as a result of the development (e.g., parks, sidewalks).

Direct Charges. See Direct Expenses.

Direct Costs. See Direct Expenses.

Direct Costing. Use of actual source data (invoices) to establish the historical cost of a capital asset.

Direct Debt. The outstanding long-term debt instruments, including bonds, notes, certificates of participation, loans, and capital leases, of the government preparing the statistical section. See Overlapping Debt.

Direct Expenses. An expense that is specifically associated with a service, program, or department and, thus, is clearly identifiable with a particular function.

Direct Labor. The cost of labor directly expended in the production of specific goods or rendition of specific services.

Direct Materials. The cost of materials that become an integral part of a specific manufactured product or which are consumed in the performance of a specific service.

Director of Finance. In the context of government, an office, created by the voters, with the power and duties of the auditor-controller, treasurer, and tax collector, and such other duties as prescribed by the board of supervisors.

Disallowed Costs. Claims for grantor resources that have been rejected by the grantor.

Disclaimer. In the context of an independent auditors report, a report stating that the auditor does not express an opinion on the financial statements. The disclaimer of opinion is appropriate when the auditor has not performed an examination sufficient in scope to enable him or her to form an opinion on the financial statements. A disclaimer of opinion should not be expressed because the auditor believes, on the basis of the examination, that there are material departures from GAAP. In such circumstances, an adverse opinion would be appropriate. See Adverse Opinion and Qualified Opinion.

Disclaimer of Opinion. A report stating that the auditor does not express an opinion on the financial statements. The disclaimer of opinion is appropriate when the auditor has not performed an examination sufficient in scope to enable him to form an opinion on the financial statements. A disclaimer of opinion should not be expressed because the auditor believes, on the basis of the examination, that there are material departures from GAAP. In such circumstances, an adverse opinion would be appropriate. See Adverse Opinion and Qualified Opinion.

Discount. In the context of bonds payable and investments, the amount by which par value exceeds the price paid for security. The discount generally represents the difference between the nominal interest rate and the actual or effective rate of return to the investor.

Discount Rate. The rate used to adjust a series of future payments to reflect the time value of money. For the purpose of calculating the pension benefit obligation defined by GASB, this rate is equal to the estimated long-term rate of return on current and future investments of the pension plan. For capitalized leases, the discount rate used by the lessee is the lessee's incremental borrowing rate unless the lessee is aware of the lessor's implicit rate and that rate is less than the lessee's incremental borrowing rate.

Discount Rate (as used in GASB 73). A yield or index rate for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale).

Discounting. A method used to determine the present value of a future cash payment or series of payments that takes into consideration the time value of money.

Discounted Present Value. See Present Value.

Discrete Presentation (Component Units). Method of reporting financial data of component units separately from financial data of the primary government.

Discrete Presentation. Method of reporting financial data of component units separately from financial data of the primary government.

Discrete Presentation (Discretely Presented). The method of reporting financial data of component units in a column(s) separate from the financial data of the primary government. An integral part of this method of presentation is that individual component unit supporting information is required to be provided within condensed financial statements within the notes to the reporting entity's basic financial statements or in combining statements in basic financial statements.

Discussion Memorandum (DM). Due-process document issued by the GASB that solicits comments from interested parties on various aspects of a technical issue that is the subject of research by the board.

Documented Vessel. Any vessel required to have a valid marine document issued by the Bureau of Customs of the United States, subject to special valuation procedures.

Dollar Purchase/Reverse Repurchase Agreement. A repurchase/reverse repurchase agreement that involves the transfer of securities in which the parties agree that the securities returned usually will be of the same issuer but will not be the same certificates. Fixed coupon and yield maintenance agreements are the most common types of dollar agreements.

Double Entry. A system of bookkeeping requiring that, for every entry made on the debit side of an account or accounts, entry or entries be made in an equal amount to the credit side of another account or accounts.

Dry Period Financing. The cash required to covering those times when cash receipts are insufficient to meet the cash demands.

Due from ______ Fund. An asset account used to indicate amounts owed to a particular fund by another fund for goods sold or services rendered. This account includes only short-term obligations on open account, not interfund loans. See Advance from ______ Fund and Interfund Receivable/Payable.

Due from ______ Government. An asset account reflecting amounts due to the reporting government from another government. These amounts may represent grants-in-aid, shared taxes, taxes collected by another unit, loans, and charges for services rendered by a reporting unit for another government.

Due Process. Procedures followed by the GASB to ensure that the views of all interested parties are solicited and considered prior to issuing an authoritative pronouncement. At a minimum, due process requires that all statements and interpretations be preceded by an exposure draft.

Due to Fiscal Agent. A liability account reflecting amounts due to fiscal agents, such as commercial banks, for servicing a government's maturing interest and principal payments on indebtedness.

Due to ______ Fund. A liability account reflecting amounts owed by a particular fund to another fund for goods sold or service rendered. These amounts include only short-term obligations on open account and not interfund loans. See Advance to ______ Fund and Interfund Receivable/Payable.

Duration. A measure of a debt investment's exposure to fair value changes arising from changes interest rates. Duration uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

E

Early Recognition Option. A term used in connection with debt service funds. The option to recognize an expenditure in the current period in a debt service fund for principal and interest payments due early in the subsequent period. This option is available only in situations involving the nondiscretionary transfer of resources to a debt service fund in the current period for payments due shortly after the end of the fiscal year (i.e., usually within one to several days, and never more than one month later).

Earnings. See Income and Revenues.

Economic Gain/Loss. In the context of an advance refunding, the difference between the present value of the old debt service requirements and the present value of the new debt service requirements discounted at the effective interest rate and adjusted for additional cash paid.

Economic Resources Measurement Focus. A measurement focus under which the aim of a set of financial statements is to report all inflows, outflows, and balances affecting or reflecting an entity's net assets. The economic resources measurement focus is used for proprietary and fiduciary funds, as well as for government-wide financial reporting. It also is used by business enterprises and not-for-profit organizations in the private sector.

Educational Revenue Augmentation Fund (ERAF). The fund established for the deposit of money (property tax dollars) deducted and transferred from the county, cities, and special districts for subsequent distribution to non-basic aid schools.

Effective Interest Rate (Yield). The rate of earnings on a bond investment, based on the actual price paid for the bond, the coupon rate, the maturity date, and the length of time between interest dates, in contrast with the nominal interest rate.

Effectiveness. A term used in connection with the evaluation of internal controls and performance measurement. The degree to which an entity, program, or procedure is successful at achieving its goals and objectives.

Efficiency. A term used in connection with the evaluation of internal controls and performance measurement. The degree to which an entity, program, or procedure is successful at achieving its goals and objectives with the least use of scarce resources.

Electronic Data Processing (EDP). Data processing by means of high-speed electronic equipment. See Data Processing.

Eligibility Requirements. A term used in connection with government-mandated and voluntary nonexchange transactions. Conditions established by the provider of resources stipulating matters such as the qualifying characteristics of recipients, time requirements, allowable costs, and other contingencies.

Emerging Issues Task Force. A group established under the auspices of an authoritative standard-setting body and authorized to publish consensus positions on technical issues not specifically addressed by that body. GASB has not established an emerging issues task force, although it is empowered to do so.

Eminent Domain. The power of a government to acquire private property for public purposes. Eminent domain is frequently used to obtain real property that cannot be purchased from owners in a voluntary transaction. When the power of eminent domain is exercised, owners are compensated by the government in an amount determined by the courts.

Employer Entity. The entity that employs the individuals for whom a paying entity makes on-behalf payments for fringe benefits and salaries. The employer entity may be governmental or nongovernmental.

Employer's Contributions. In the context of defined benefit pensions and OPEB plans, contributions made in relation to the annual required contributions of the employer (ARC). An employer has made a contribution in relation to the ARC if the employer has (1) made payments on benefits directly to or on behalf of a retiree or beneficiary, (2) made premium payments to an insurer, or (3) an equivalent arrangement in which plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan and are legally protected from creditor of the employer(s) or plan administrator.

Enabling Legislation. Authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that a government can be compelled by an external party—such as citizens, public interest groups, or the judiciary—to use resources created by enabling legislation only for the purposes specified by the legislation.

Encumbrances. Commitments related to unperformed (executory) contracts for goods or services. Used in budgeting, encumbrances are not GAAP expenditures or liabilities but represent the estimated amount of expenditures ultimately to result if unperformed contracts in process are completed.

Any encumbrances remaining at fiscal year-end should be classified as restricted, committed or assigned fund balance in the governmental fund balance sheet.

Endowment. Funds or property donated with either a temporary or permanent restriction as to their use. Endowments with the stipulation that the principal balance not is disbursed are often accounted for in permanent funds. See Permanent Fund.

Enterprise District. A special district operated as a business enterprise, charging customers for services.

Enterprise Fund. Used to report any activity for which a fee is charged to external users for goods or services.

Enterprise Fund. Used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's principal revenue sources. (1) The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit, even if that government is not expected to make any payments, is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity). (2) Laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt services), be recovered with fees and charges, rather than with taxes or similar revenues. (3) The pricing policies of the activity established fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Entitlement. The amount of payment to which a state or local government is entitled, pursuant to an allocation formula contained in applicable statutes.

Entity. The basic unit upon which accounting and/or financial reporting activities focus. The basic governmental legal and accounting entity is prescribed by GAAP to be the reporting entity for financial statement reporting purposes and it alone may issue CAFRs and BFS.

Entity Differences. A difference between the budgetary basis of accounting and GAAP, arising because the appropriated budget either includes or excludes organizations, programs, activities, and functions which may or may not be compatible with the criteria defining the governmental reporting entity.

Entry. The record of a financial transaction in the appropriate book of account.

Entry Age Actuarial Cost Method. A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for a valuation date by the actuarial present value of future normal costs is called the actuarial accrued liability.

Equalized Roll. The combination, as of August 20, of the local valuations certified by the assessor, any changes made by the county board of supervisors in July, and the current state-assessed valuations reported by the State Board of Equalization.

Equipment. See Machinery and Equipment.

Equity Accounts. In those accounts presenting either fund balances or net position, this is the difference between assets and liabilities of the fund.

Equity Securities. Any security that represents an ownership interest in an entity, including common, preferred, or other capital stock; unit investment trusts; and closed-end mutual funds. However, the term equity security does not include convertible debt or preferred stock that either is required to be redeemed by the issuing entity or is redeemable at the option of the investor.

Equivalent Single Amortization Period. The weighted average of all amortization periods used when components of the total unfunded actuarial accrued liability are separately amortized and the average is calculated in accordance with the parameters.

Escheat (Abandoned Property). The reversion of property to a government entity in the absence of legal claimants or heirs. The laws of many governmental entities provide that a rightful owner or heir can reclaim escheated property into perpetuity, provided the claimant can establish his or her right to the property. This does not necessarily mean that governments hold all escheated property into perpetuity. Because large portions of escheated property are never reclaimed, most governments use some of the property to help finance with either their general or specific operations.

Estimated Life. The expected economic useful life of an asset, from the date placed in service to the projected retirement date.

Estimated Revenue. The amount of revenue estimated to accrue or to be collected during a fiscal period.

Estimated Uncollectible Accounts. See Allowance for Uncollectibles.

Estimated Uncollectible Receivables. See Allowance for Uncollectibles.

Ethics Rule 202. An ethics rule established by AICPA that places upon auditors the burden of proof for justifying any material departures from the guidance found on levels 2, 3, or 4 of the GAAP hierarchy.

Ethics Rule 203. An ethics rule established by AICPA that makes it an ethical violation for an auditor to state that financial statements are "fairly presented in conformity with GAAP" if those statements materially violate standards issued by FASB, GASB, or the Federal Accounting Standards Advisory Board. A special exception applies when unusual circumstances would make the application of an authoritative standard misleading.

Excess Insurance. The transfer of risk of loss from one party (the insured) to another (the excess insurer) in which the excess insurer provides insurances (as defined in this glossary) in excess of a certain, typically large amount. For example, an insurance to transfer risk of aggregate losses above $5 million by its pool participants.

Exchange (Exchange Transaction). A reciprocal transfer between a government and another entity that results in the government acquiring assets or services or satisfying liabilities by surrendering other assets or services or incurring other obligations.

Exchange-Like Transaction. Transactions between a government and another party (or parties) where the values may not be quite equal or the direct benefits of the exchange may not be exclusive to the parties to the exchange. These tend to be licenses or permits and similar.

Exempt Property. Property acquired by a public entity, which becomes exempt from taxation under the laws of the state.

Exit Price. The price that would be received to sell an asset or paid to transfer a liability.

Expected Useful Life. See Estimated Life.

Expenditure-Driven Grants. Government-mandated or voluntary non-exchange transactions in which expenditure is the prime factor for determining eligibility. Also referred to as reimbursement grants.

Expenditures. Decreases in net financial resources. Expenditures include current operating expenses that require the present or future use of net current assets, debt service and capital outlays, and intergovernmental grants, entitlements, and shared revenues.

Expenses. Outflows or other using up of assets or incurrences of liabilities (or a combination of both) from delivering or producing goods, rendering services, or carrying out other activities that constitute the entity's ongoing major or central operations.

Explicit Measurable Equity Interest. A term used in connection with joint ventures. An asset resulting from a stipulation in the joint venture agreement that the participants have a present or future claim to the net resources of the joint venture and setting forth the method to determine the participants' shares of the joint venture's net resources.

Exposure Draft (ED). A proposed statement or interpretation issued for public comment by GASB or FASB.

External Auditor. Independent auditor(s) typically engaged to conduct the audit of a government's financial statements.

External Financing Sources. In governmental fund types, includes revenues, other financing sources, and transfers in. This is a conventional term and should not be used in the financial statement presentation.

External Investment Pool. An arrangement that commingles (pools) the money of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio; one or more of the participants is not part of the sponsor's reporting entity. An external investment pool can be sponsored by an individual government, jointly by more than one government, or by a nongovernmental entity. An investment pool that is sponsored by an individual state or local government is an external investment pool if it includes participation by a legally separate entity that is not part of the same reporting entity as the sponsoring government. If a government-sponsored pool includes only the primary government and its component units, it is an internal investment pool and not an external investment pool.

Extinguishment of Debt. Using financial resources that did not arise from debt proceeds; the debtor pays the creditor and is relieved of all its obligations with respect to the debt. This includes the debtor's reacquisition of its outstanding debt securities in the public securities markets, regardless of whether the securities are canceled or held as so-called treasury bonds. The debtor is legally released from being the primary obligor under the debt, either judicially or by the creditor, and it is probable that the debtor will not be required to make future payments with respect to that debt under any guarantees.

Extraordinary Items. Transactions or other events that are both unusual in nature and infrequent in occurrence. These items are reported separately in the Statement of Activities.

Extraordinary Items. Increases or decreases in fund balances that are both (1) unusual in nature and (2) infrequent in occurrence.

F

Face Value. As applied to securities, the amount of the issuer's liability stated in the security document. See Par Value.

Fair Value. The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date or described as an exit price (GASB Statement No. 72, as amended).

Federal Award. Federal financial assistance and federal cost-reimbursement contracts that nonfederal entities receive directly from federal awarding agencies or indirectly from pass-through entities.

Federal Financial Assistance. For purposes of applying the provisions of the Single Audit Act of 1997 and OMB Circular A-133, Audits of State and Local Governments, assistance provided by a federal agency in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations. Federal financial assistance does not include direct federal cash assistance to individuals.

Federal Program. All Federal awards to a nonfederal entity assigned a single number in the Catalog of Federal Domestic Assistance (CFDA).

Fidelity Bond. A written promise to indemnify against losses from theft, defalcation, and misappropriation of public monies by government officers and employees.

Fiduciary Fund. Funds consisting of pension and other employee benefit trust funds, investment trust funds, private-purpose trust funds, and agency funds. The funds are used to report assets held in a trustee or an agency capacity for others and, therefore, cannot be used to support the government's own programs.

Final Amended Budget. A term used in connection with budgetary reporting. The adopted budget adjusted by all fund balance classifications, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year, whenever signed into law or otherwise legally authorized.

Final Budget. The original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year, whenever signed into law or otherwise legally authorized.

Financial Accountability. The level of accountability that exists if a primary government appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. Accountability for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the primary government.

Financial Accounting Foundation (FAF). A not-for-profit organization responsible for overseeing the operations of both GASB and FASB.

Financial Accounting Standards Advisory Council (FASAC). An advisory group that assists FASB. FASAC includes representatives of all of FASB's major constituents.

Financial Accounting Standards Board (FASB). The authoritative accounting and financial reporting standard-setting body for business enterprises and not-for-profit organizations. FASB is the direct successor of the Committee on Accounting Procedure and the Accounting Principles Board. GASB and its predecessors have elected to apply a number of FASB's standards, as well as those of its predecessors, to state and local government.

Financial Audit. An audit made to determine whether the financial statements of a government are presented fairly, in conformity with GAAP/GASB and conducted in accordance with government auditing standards.

Financial Instrument. A financial instrument is cash, evidence of an ownership interest in an entity, or a contract that both: 1) imposes on one entity a contractual obligation to deliver cash or another financial instrument to a second entity or exchange other financial instruments on potentially unfavorable terms with the second entity (for example, an option), and 2) conveys to that second entity a contractual right to receive cash or another financial instrument from the first entity or to exchange other financial instruments on potentially favorable terms with the first entity (for example, an option).

Financial Reporting Entity. A primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. However, a governmental organization other than a primary government (such as a component unit, a joint venture, a jointly governed organization, or other stand-alone government) serves as the nucleus for its own reporting entity when it issues separate financial statements.

Financing Requirements. In governmental fund types, the total financing needs for the accounting period involved. This is a conventional term and should not be used in the financial presentation.

Financial Resources. Cash and other assets that, in the normal course of operations, will become cash.

Financial Resources Measurement Focus. A measurement focus according to which the aim of a set of financial statements is to report the near-term (current) inflows, outflows, and balances of expendable (spendable) financial resources. The current financial resources measurement focus is unique to accounting and financial reporting for state and local governments and is used solely for reporting the financial position and results of operations of governmental funds.

Financial Section. One of the three basic sections of a CAFR. The financial section is used to present the independent auditor's report on the financial statements, the basic financial statements (including the notes to the financial statements), required supplementary information, combining statements, individual fund statements and schedules, and supplementary information, as needed.

Financial Statements. A tabulation of amounts, derived from accounting records and expressed in words and dollars, that displays either 1) the financial position of the reporting unit at a moment in time or 2) inflows and outflows of resources from transactions or other events during a period of time.

Financial Uses. In governmental fund types, decreases, excluding expenditure refunds, in the net current assets of a fund. "Financing uses" includes expenditures, other financing uses, and transfers out.

Finding. In the context of financial statement audits, published communication of an internal control weakness or instance of noncompliance in connection with an audit.

Fiscal Accountability. Compliance with public decisions concerning the raising and spending of public funds within a reporting period.

Fiscal Agent. A fiduciary agent, usually a bank or a local government officer, who performs the function of paying debt principal and interest when due.

Fiscal Dependence. A term used in connection with the definition of the financial reporting entity. A situation requiring the inclusion of a legally separate entity as a component unit within the financial reporting entity because the governing board of the primary government may "arbitrarily" override the financial decisions of the legally separate entity regarding (1) its budget, (2) the levying of taxes or the setting of rates or charges, or (3) the issuance of bonded debt.

Fiscal Funding Clause. A provision in a lease that allows a cancellation if a governing body does not appropriate funds to pay for a lease in a given period.

Fiscal Period. Any period at the end of which a government determines its financial position and the results of its operations. Often referred to as an Accounting Period.

Fiscal Year. For financial reporting purposes, any 12-month period to which the annual operating budget applies and at the end of which a government determines its financial position and the results of its operations. For budgetary purposes, the current 12 month period to which the annual operating budget applies and at the end of which a government determines its position and the results of its operations.

Five Percent Criterion. The second of two tests used to determine whether a given governmental fund or enterprise fund should be reported as a major fund in the basic financial statements. This test is applied to the combined total assets, liabilities, revenues or expenses/expenditures of all governmental and enterprise funds for which the 10 percent criterion has been met. See Ten Percent Criterion.

Fixed Budget. A budget setting forth dollar amounts that are not subject to change based on the volume of goods or services to be provided. See Flexible Budget.

Fixed Charge (Fixed Charge Assessment). A charge in addition to any ad valorem taxes included on a tax bill. Fixed charges are not based on the assessed value of the property and are levied on a parcel basis (i.e., for sewer, library, and flood control assessments). See Special Benefit Assessment(s).

Fixed Costs. Costs of providing goods or services that do not vary proportionately with the volume of goods or services provided (e.g., insurance and contributions to retirement systems).

Fixed Coupon Repurchase/Reverse Repurchase Agreement. A dollar repurchase/reverse repurchase agreement in which the parties agree that the securities returned will have the same stated interest rate as, and maturities similar to, the securities transferred.

Fixed-Income Securities. Securities that offer a specified, measurable cash flow (e.g., most bonds).

Fixtures. Attachments to buildings that are not intended to be removed and cannot be removed without damage to the buildings. Those fixtures with a useful life presumed to be as long as that of the building itself are considered a part of the building; all others are classified as equipment.

Flexible Budget. A budget whose dollar amounts vary according to the volume of goods or services to be provided. See Fixed Budget.

Flow of Current Financial Resources. See Current Financial Resources Measurement Focus.

Flow of Economic Resources. See Economic Resources Measurement Focus.

Food Stamps. A federal award program that is intended to improve the diets of members of low-income households by increasing their ability to purchase food.

Force Account. A method employed in the construction and/or maintenance of capital assets whereby a government's own personnel are used instead of an outside contractor. This method also calls for the purchase of materials by the government and the possible use of its own equipment, but the distinguishing characteristic of the force account method is the use of the government's own personnel.

Foreclosure. The seizure of property as payment for delinquent tax or special assessment obligations. Ordinarily, property foreclosed upon is resold to liquidate delinquent tax or special assessment obligations, but on occasion governments retain possession for their own needs.

Foreign Currency Risk. The risk that changes in the exchange rate will adversely affect the cash flows or fair value of a transaction.

Foreign Currency Transactions. Transactions whose terms are denominated in a currency other than the U.S. dollar. Foreign currency transactions arise when a government 1) buys or sells on credit goods or services whose prices are denominated in a foreign currency; 2) borrows or lends resources, and the amounts payable or receivable are denominated in a foreign currency; or 3) for other reasons acquires or disposes of assets, or incurs or settles liabilities denominated in a foreign currency.

Forfeiture. The automatic loss of cash or other property as a punishment for not complying with legal provisions and as compensation for the resulting damages or losses. This term should not be confused with confiscation. The latter term designates the actual taking over of the forfeited property by the government. Even after the property has been forfeited, it cannot be said to be confiscated until the government claims it.

Formal Budgetary Integration. The management control technique through which the annual operating budget is recorded in the general ledger through the use of budgetary accounts. It is intended to facilitate control over revenues and expenditures during the year.

Formula Grants. Government-mandated or voluntary nonexchange transactions involving the provision of resources based on established criteria (e.g., number of full-time equivalent students) other than the incurrence of qualifying expenditures. Also commonly referred to as shared revenues.

Franchise. A special privilege granted by a government permitting the continued use of public property, such as city streets, and usually involving the elements of monopoly and regulation.

Frozen Entry Age Actuarial Cost Method. A method under which the excess of the Actuarial Present Value of Projected Benefits of the group included in an Actuarial Valuation, over the sum of the Actuarial Value of Assets plus the Unfunded Frozen Actuarial Accrued Liability, is allocated on a level basis over the earnings or service of the group between the valuation date and assumed exit. This allocation is performed for the group as a whole, not as a sum of individual allocations. The Frozen Actuarial Accrued Liability is determined using the Entry Age Actuarial Cost Method. The portion of this Actuarial Present Value allocated to a valuation year is called the Normal Cost.

Full Cash Value. The amount of cash or its equivalent that property would bring if exposed for sale in the open market.

Full Faith and Credit. A pledge of the general taxing power for the payment of debt obligations. Bonds carrying such pledges are referred to as general obligation bonds or full faith and credit bonds.

Full Scope Audit. An audit covering: (1) Financial and Compliance, to determine (a) whether the financial statements of an audited entity present fairly the financial position, results of operations, and (when applicable) cash flows in accordance with generally accepted accounting principles, and (b) whether the entity has complied with the various legal and contractual requirements that may have a material effect on the financial statements; (2) Economy and Efficiency, to determine (a) whether the entity is managing and utilizing its resources (such as personnel, property, space) economically and efficiently, (b) the causes of inefficiencies or uneconomical practices, and (c) whether the entity has complied with laws and regulations concerning matters of economy and efficiency; and (3) Program Results, to determine (a) whether the desired results or benefits established by the legislature or other authorizing body are being achieved, and (b) whether the agency has considered alternatives that might yield the desired results at a lower cost.

Function. A group of related activities aimed at accomplishing a major service or regulatory program for which a government is responsible. For example, public health is a function.

Functional-Basis Combining. The process of grouping or combining similar funds and/or component units on a functional basis (e.g., transportation, economic development) for financial reporting purposes.

Functional Classification. Expenditure classification according to the principal purpose for which expenditures are made. Examples are public safety, public health, and public welfare.

Fund. A fiscal and accounting entity with a self-balancing set of accounts in which cash and other financial resources, all related liabilities and equities or balances, and changes therein, are recorded and segregated to carry on specific activities or attain certain objectives in accordance with special regulations, restrictions or limitations.

Fundamental Analysis. A method of estimating the fair value of a security when it is thinly traded or when quoted market prices are not available. Fundamental analysis considers assets, liabilities, operating statement performance, management, and economic environment of the issuer in estimating a fair value.

Fund Balance. In a governmental fund, the residual of assets, less liabilities and deferred inflows of resources (if applicable). Fund balance has five components: non-spendable, restricted, committed, assigned, and unassigned.

Fund Balance Classifications. Financial statements for governmental funds may report up to five components of fund balance: non-spendable, restricted, committed, assigned and unassigned. The General Fund is the only governmental fund with a positive unassigned amount.

Fund Balance Sheet. A balance sheet for a single fund. See Fund and Balance sheet.

Fund Capital Assets. Capital assets that are associated with proprietary or trust funds.

Fund Classifications. One of the three categories (governmental, proprietary, and fiduciary) used to classify fund types.

Fund Financial Statements. Display of information about major funds individually and nonmajor funds in the aggregate for governmental and enterprise funds. Fiduciary statements should include financial information for fiduciary funds and similar component units. Each of the three fund categories should be reported using the measurement focus and basis of accounting required for that category.

Fund Type. Any one of 11 categories into which all funds are classified in governmental accounting. The governmental fund types are General, Special Revenue, Debt Service, Capital Projects, and Permanent. The proprietary fund types are Enterprise and Internal Service. The fiduciary fund types are Pension (and Other Employee Benefit) Trust, Investment Trust, Private-Purpose Trust, and Agency.

Funded Debt. The same as bonded debt, which is the preferred term.

Funded Mandate. Also known as a government-mandated nonexchange transaction. A situation where a government at one level provides resources to a government at another level and requires the recipient to use the resources for a specific purpose (for example, federal programs that state or local governments are mandated to perform).

Funded Ratio (OPEB Only). The actuarial value of assets expressed as a percentage of the actuarial accrued liability.

G

GAAFR. Acronym for *Governmental Accounting, Auditing, and Financial Reporting*, a publication of the GFOA. Also known as the "Blue Book."

GAAP Hierarchy. In the context of current governmental financial reporting environment, GAAP hierarchy is the hierarchy of general accepted accounting principles that are used to by governments when preparing their financial statements.

Generally Accepted Accounting Principles (GAAP). Uniform minimum standards and guidelines for financial accounting and reporting. They govern the form and content of the financial statements of an entity. GAAP encompasses the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. The principles include not only broad guidelines of general application, but also detailed practices and procedures. GAAP provides a standard by which to measure financial presentations. The primary authoritative body on the application of GAAP to state and local governments is GASB.

Generally Accepted Auditing Standards (GAAS). Standards established by AICPA for the conduct and reporting of financial audits. There are 10 basic standards classed into three broad categories: general standards, standards of fieldwork, and standards of reporting. The Auditing Standards Board of AICPA publishes *Statements on Auditing Standards* (SAS) to comment and expand upon these basic standards. SAS, together with the ten basic standards, constitute Generally Accepted Auditing Standards (GAAS). GAAS sets forth the objectives of the audit and establishes measures that can be applied to judge the quality of its performance.

Generally Accepted Government Auditing Standards (GAGAS). Standards established by the GAO in its publication, *Government Auditing Standards* (GAS), commonly known as the "Yellow Book" for the conduct and reporting of both financial and performance audits. GAGAS sets forth general standards applicable to both types of audits and separate standards of fieldwork and reporting for financial and performance audits. The GAGAS standards of fieldwork and reporting for financial audits incorporate and build upon GAAS.

General Capital Assets. Capital assets that are not assets of any fund, but of the government unit as a whole. Most often these assets arise from the expenditure of the financial resources of governmental funds.

General Fund. The primary operating fund of a government. The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

General Journal. A journal in which are recorded all entries not recorded in special journals. See Journal and Special Journal.

General Ledger. A record containing the accounts needed to reflect the financial position and the results of operations of a government. In double-entry bookkeeping, the debits and credits in the general ledger are equal (i.e., the debit balances equal the credit balances). See Subsidiary Ledger, Control Account, and Subsidiary Account.

General Long-Term Debt. Long-term debt expected to be repaid from governmental funds. See Long-Term Debt.

General Obligation Bonds Payable. Bonds backed by the full faith and credit of government. See Full Faith and Credit.

General Obligation Debt. Debt paid by and secured by general taxation, generally income or property taxation. The full faith and credit of the government secure the debt.

General Purpose Government. States, counties, cities, towns and villages, and special districts (and similar).

General Revenues. All revenues are general revenues unless they are required to be reported as program revenues. All taxes, even those that are levied for a specific purpose, are general revenues and should be reported by type of tax—for example, sales tax, property tax, franchise tax, and income tax. All other nontax revenues (including interest, grants, and contributions) that do not meet the criteria to be reported as program revenues should also be reported as general revenues. General revenues should be reported after total net expense of the government's functions.

Going Concern. Significant information that is available raising doubts as to whether a legally separate entity can continue to meet its obligations as they become due without a substantial disposal of assets outside the ordinary course of business, restructuring of operations and debts, oversight of a financial assistance, or oversight or review board or similar.

Government Accountability Office (GAO). The investigative arm of the U.S. Congress charged with improving the performance and accountability of the federal government. The GAO issues the publication Government Auditing Standards (GAS), commonly known as the "Yellow Book," which sets generally accepted government auditing standards (GAGAS).

Government Acquisitions. A government combination in which a government acquires another entity, or the operations of another entity, in exchange for significant consideration. The consideration provided should be significant in relation to the asset and liabilities acquired. The acquired entity or operation becomes part of the acquiring government's legally separate entity.

Government Combinations. A variety of arrangements, including mergers and acquisitions. Government combinations also include transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchange. Transfers of operations may be present in shared service arrangements, reorganization, redistricting, annexations, and arrangements in which an operation is transferred to a new government created to provide those services.

Government Finance Officers Association (GFOA). Formerly the Municipal Finance Officers Association. An organization comprised of accounting and finance professionals from throughout the United States and Canada. The GFOA has played a major role in the development and promotion of GAAP for state and local government and sponsored the Certificate of Achievement for Excellence in Financial Reporting Program. Publishes *Governmental Accounting, Auditing, and Financial Reporting* (GAAFR), commonly known as the "Blue Book."

Government Mergers. A government merger is a government combination of legally separate entities in which no significant consideration is exchanged and either 1) two or more governments (or one or more government and one or more nongovernmental entities) cease to exist as legally separate entities and are combined to form one or more new governments, or 2) one or more legally separate government or nongovernmental separate entities cease to exist and their operation is absorbed into, and provided by, one or more continuing governments.

Government National Mortgage Association (GNMA). GNMA is a U.S. governmental agency that guarantees certain types of securities (mortgage-backed securities), provides resources for, and administers certain types of low-income housing assistance programs.

Governmental Accounting. The composite activity of analyzing, recording, summarizing, reporting, and interpreting the financial transactions of governments.

Governmental Accounting Standards Advisory Council (GASAC). An advisory body established to assist GASB. The membership of GASAC represents all major groups with an interest in accounting and financial reporting for state and local governments.

Governmental Accounting Standards Board (GASB). The authoritative accounting and financial reporting standard-setting body for government entities.

Governmental Accounting, Auditing and Financial Reporting (GAAFR). Published by the GFOA and is also known as the "Blue Book." Provides detailed guidance to the application of principles to the accounting and financial reporting activities of state and local governments.

Governmental Activities. Those activities of a government that are carried out primarily to provide services to citizens and that are financed primarily through taxes and intergovernmental grants.

Governmental Capital Assets. Assets that directly or indirectly are used in providing services that are not directly associated with fees or other revenues. Examples include roads, bridges, schools, and equipment used for fire protection.

Governmental External Investment Pool. An arrangement that commingles (pools) the money of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio. In this arrangement, one or more of the participants is not part of the sponsor's reporting entity. In California, it is typical for external pools to be used; the participants that are not typically part of the report local government entity and may include school districts and local-board-governed special districts.

Governmental Entity. For accounting and financial reporting purposes, an entity subject to the hierarchy of GAAP applicable to state and local governmental units. The criteria used to distinguish governmental entities from nongovernmental entities are set forth in the AICPA's *Audits of State and Local Governmental Units* publication.

Governmental Funds. Funds (emphasizing major funds) consisting of the General Fund, Special Revenue Funds, Capital Projects Funds, Debit Service Funds, and Permanent Funds, as applicable. The funds focus primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation.

Governmental Financial Reporting Model. The minimum combination of financial statements, note disclosures, and required supplementary information prescribed for state and local governments by GASB.

Government-Mandated Nonexchange Transactions. When a government at one level provides resources to a government at another level and requires the recipient to use the resources for a specific purpose (for example, federal programs that state or local governments are mandated to perform.)

Government-Wide Financial Statements. Display of information about the reporting government as a whole, except for its fiduciary activities. The statement as a whole, except for its fiduciary activities. The statements should include separate columns for the governmental and business-type activities of the primary government as well as for its component units. Government-Wide financials statements should be prepared using the economic resources measurement focus and the full accrual basis of accounting. They consist of a statement of net position and a statement of activities.

Grant Anticipation Note (GAN). A short-term interest-bearing note issued by a government in anticipation of grants to be received at a later date. The notes are retired from proceeds of the grants to which they are related. See Interim Borrowing.

Grants. Contributions or gifts of cash or other assets from another government to be used or expended for a specified purpose, activity or facility. See Capital Grants and Operating Grants.

Grants-in-Aid. See Grants.

Gross. Gross amount of income, profit, or interest, without deduction of tax or other contributions; total.

Gross Bonded Debt. The total amount of direct debt of a government represented by outstanding bonds before deduction of any assets available and earmarked for their retirement.

Guaranteed Investment Contract (GIC). A group annuity contract designed to provide guarantees of principal and interest on funds deposited with an insurance company for a specified party.

H

Historical Cost. The price paid to acquire an asset or the amount received pursuant to the incurrence of a liability in an actual exchange transaction. See Cost.

Hold-Harmless Agreement. A contract under which the liability of one party for damages is assumed by another.

Homeowner Exemption. A value reduction provided to homeowners pursuant to Revenue and Taxation Code section 218.

I

Impact Fees. Fees charged to developers to cover, in whole or in part, the anticipated cost of improvements that will be necessary as a result of the development (e.g., parks, sidewalks).

Implementation Guides. Guidance on the proper implementation of authoritative accounting and financial reporting standards issued by the staff of GASB.

Imposed Nonexchange Revenues. Assessments imposed on nongovernmental entities, including individuals, other than assessments on exchange transactions (for example, property taxes and fines).

Imprest Account. An account into which a fixed amount of money is placed for the purpose of minor disbursements or disbursements for a specific purpose (e.g., payroll). When a disbursement is made, a voucher is completed to record its date, amount, nature, and purpose. From time to time, a report with substantiating vouchers is prepared; the account is replenished for the exact amount of the disbursements and appropriate general ledger accounts are charged.

The total of cash plus substantiating vouchers always should equal the total fixed amount of money set aside in the imprest account. See Petty Cash.

Improvements. Buildings, other structures, and other attachments or annexations to land that are intended to remain so attached or annexed, such as sidewalks, trees, drives, tunnels, drains, and sewers. Sidewalks, curbing, sewers, and highways are sometimes referred to as “betterments,” but the term “improvements” is preferred. See Buildings and Improvements.

Improvements other than Buildings. Attachments or annexations to land that are intended to remain so attached or annexed, such as sidewalks, trees, drives, tunnels, drains and sewers. Sidewalks, curbing, sewers and highways are sometimes referred to as betterments, but the term improvements is preferred.

Inactive Employees. Individuals no longer employed by an employer in the pension or OPEB plan or the beneficiaries of those individuals. Inactive employees include individuals who have accumulated benefits under the terms of a pension or OPEB plan but are not yet receiving benefits and individuals currently receiving benefits.

Inactive Plan Members. Employees no longer in active service (or their beneficiaries) who have accumulated benefits under the terms of an OPEB plan.

Inception of the Lease. The date of the lease agreement or commitment, if earlier. For purposes of this definition, a commitment should be in writing, signed by the parties in interest to the transaction, and should specifically set forth the principal provisions of the transaction. If negotiated, such a preliminary agreement or commitment does not qualify for purposes of this definition.

"In-Relation-To" Opinion. An indication in the independent auditor's report that the auditor does not render an opinion on the fair presentation on certain types of information contained in the financial report (e.g., combining and individual fund financial statements), but does assert that the information in question is fairly presented "in relation to" the audited financial statements).

Income. A term used in proprietary fund type accounting to represent 1) revenues or 2) the excess of revenues over expenses. See Operating Income, Income Before Transfers, and Net Income.

Income before Transfers. Proprietary fund operating income plus nonoperating revenues and minus nonoperating expenses.

Income Distributions. Interest, dividends, stock splits, and other distributions made by an issuer of securities. Income distributions on underlying securities are payable from the borrower to the lender, and income disruption on collateral securities are payable from the lender to the borrower.

Incurred but not Reported (IBNR) Claims. Claims relating to insured events that have occurred but have not yet been reported to the insurer or reinsurer as of the date of the financial statements. IBNR claims include (1) known loss events that are expected to be later presented as claims, (2) unknown loss events that are expected to become claims, and (3) expected future development on claims already reported.

Independent Auditor. An auditor(s) who is independent, both in fact and appearance, of the entities he or she audits. Both GAAS and GAGAS set specific criteria that should be met for an auditor to be considered independent.

Independent District. A special district that is governed by an independent board of directors elected by the districts' voters, or landowners within the district, or appointed to a fixed term of office by either the city council, board of trustees, or board of supervisors.

Indeterminate Appropriation. An appropriation that is not limited either to any definite period of time or to any definite amount. A distinction should be made between an indeterminate appropriation and a continuing appropriation. First, whereas a continuing appropriation is indefinite only as to time, an indeterminate appropriation is indefinite as to both time and amount. Second, even indeterminate appropriations that are indefinite only as to time are to be distinguished from continuing appropriations in that such indeterminate appropriations may eventually lapse (e.g., an appropriation to construct a building may be made to continue in effect until the building is constructed; once the building is completed, the unexpended balance of the appropriation lapses). On the other hand, a continuing appropriation may continue forever and can be abolished only by specific action of the legislative body.

Indirect Expenses. Expenses that are not program-specific and are usually allocated based on a systematic and rational formula. See Overhead.

Indirect Project Costs. Costs incurred after the acquisition of the property, such as construction administration (for example, the costs associated with a field office at a project site and the administrative personnel that staff the office), legal fees, and various office costs, that clearly relate to projects under development or construction. Examples of office costs that may be considered indirect project costs are cost accounting, design, and other departments providing services that are clearly related to real estate project.

Individual Investment (Accounts). An investment service provided by a governmental entity for other, legally separate entities that are not part of the same reporting entity. With individual investment accounts, specific investments are acquired for individual entities and the income from and changes in the value of those investments affect only the entity for which they were acquired.

Industrial Development Bonds. Bonds issued by governments, the proceeds of which are used to construct facilities for a private business enterprise.

Inflows of Resources. An acquisition of net position by the government that is applicable to the reporting period (revenues).

Information Systems. See Data Processing.

Infrastructure (or Infrastructure Assets). Long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructures assets include roads, bridges, tunnels, drainage system, water and sewer systems, dams, and lighting systems. Buildings, except those that are not ancillary part of a network or infrastructure assets, should not be considered infrastructure assets.

Initial Direct Costs. In the context of lease accounting, only those costs incurred by the lessor that are 1) costs to originate a lease incurred in transactions with independent third parties that (a) result directly from and are essential to acquire that lease and (b) would not have been incurred had that leasing transaction not occurred and 2) certain costs directly related to specified activities performed by the lessor for that lease. Those activities are evaluating the prospective lessee's financial condition, evaluating and recording guarantees, negotiating lease terms, preparing and processing lease documents, and closing the transaction. The costs directly related to those activities should include only that portion of the employees' total compensation and payroll-related fringe benefits directly related to time spent performing those activities for that lease and other costs related to those activities that would not have been incurred but for that lease. Initial direct costs should not include costs related to activities performed by lessees, servicing existing leases, and other ancillary activities related to establishing and monitoring credit policies, supervision, and administration. Initial direct costs should not include administrative costs, rent, depreciation, any other occupancy and equipment costs and employee's compensation and fringe benefits related to activities described in the previous sentence, unsuccessful origination efforts, and idle time.

Inputs. The assumptions that market participants would use when pricing an asset or liability, including assumptions about risk, such as the following: (1) the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model), and (2) the risk inherent in the inputs to the valuation technique.

In-Substance Assignment. An in-substance assignment occurs when all of the following criteria are met: (1) the original swap counterparty, or the swap counterparty's credit support provider, is replaced; (2) the original swap agreement is ended, and the replacement swap agreement is entered into on the same date, (3) the terms that affect changes in fair values and cash flows in the original and replacement swap agreement are identical. These terms include, but are not limited to, notional amounts; terms to maturity; variable payment terms; reference rates; time intervals; fixed-rate payments; frequencies of rate resets; payment dates; and options, such as floors and caps, and (4) any difference between the original swap agreement's exit price and the replacement swap's entry price is attributable to the original swap agreement's exit price being based on a computation specifically permitted under the original swap agreement. Exit price represents the payment made or received as a result of terminating the original swap. Entry price represents the payment made or received as a result of entering into a replacement swap.

In-Substance Defeasance. When debt is considered defeased for accounting and financial reporting purposes, even though a legal defeasance has not occurred.

In-Substance Defeasance of Debt. An advance refunding in which the government is not legally released from being the primary obligor on the refunded debt, but the possibility of the government having to make additional payments is considered remote under criteria provided by GAAP. See Advance Refunding.

Insurance. The transfer of risk of loss from one party (the insured) to another party (the insurer) in which the insurer promises (usually specified in a written contract) to pay the insured or others on the insured's behalf an amount of money or services, or both, for economic losses sustained from an unexpected (accidental) event during a period of time for which the insured makes a premium payment to the insurer.

Insured Defined Benefit Pension Plan. A pension financing arrangement whereby an employer accumulates funds with an insurance company, while employees are in active service, in return for which the insurance company unconditionally undertakes a legal obligation to pay the pension benefits of those employees or their beneficiaries, as defined in the employer's plan.

Intangible Assets. An asset that possesses all of the following characteristics. 1) Lack of physical substance. An asset may be contained in or on an item with physical substance, for example, a compact disc in the case of computer software. An asset also may be closely associated with another item that has physical substance, for example, the underlying land in the case of a right-of-way easement. These modes of containment and associated items should not be considered when determining whether or not an asset lacks physical substance. 2) Nonfinancial in nature. In the context of this manual, an asset with a nonfinancial nature is one that is not in a monetary form similar to cash and investments securities, and it represent neither a claim or right to assets in a monetary form similar to receivables, nor a prepayment for goods or services. 3) An initial useful life extending beyond a single reporting period. See Capital Assets.

Interest in Property. Includes any legal or equitable interest in property.

Interest Method. In the context of bonds, a method of periodic amortization of issuance costs and premium or discount over the term of the related debt. The objective of the interest method is to arrive at a periodic interest cost (including amortization) that will represent a level effective rate on the sum of the face amount of the debt and (plus or minus) the unamortized premium or discount and issuance costs at the beginning of each period. The difference between the periodic interest cost so calculated and the nominal interest on the outstanding amount of the debt is the amount of periodic amortization.

Interest Rate Risk. The risk that changes in interest rates will adversely affect the fair values of a government's financial instruments or a government's cash flows.

Interest Rate Swap. A swap that has a variable payment based on the price of an underlying interest rate or index.

Interest Receivable on Investments. An asset account reflecting the amount of interest receivable on investments.

Interfund Activity. Activity between funds of the primary government, including blended component units. Interfund activities are divided into two broad categories, reciprocal and nonreciprocal. Reciprocal interfund activity comprises interfund loans and interfund services provided and used. Nonreciprocal interfund activity comprises interfund transfers and interfund reimbursements.

Interfund Loans. Loans made by one fund to another, where both funds are included in the primary government's reporting unit. See Interfund Activity and Internal Balances.

Interfund Receivable/Payable. Short-term loans made by one fund to another, or the current position of an advance to or from another fund, where both funds are included in the primary government's reporting unit. See Interfund Activity.

Interfund Reimbursements. Repayments made by one fund to another, where both funds are included in the primary government's reporting unit. See Interfund Activity.

Interfund Services Provided and Used. Sales and purchases of goods and services by one fund to/from another at a price approximating their external exchange value, where both funds are included in the primary government's reporting unit. See Interfund Activity.

Interfund Transaction. Transactions between funds of the same government reporting entity. See Interfund Activity and Internal Activities.

Interfund Transfers. Transfer of assets (cash, goods) between funds of the primary government reporting entity. See Interfund activity.

Intergovernmental Payable. A liability account reflecting amounts owed by the reporting government to another government.

Intergovernmental Receivable. An asset account reflecting amounts due to the reporting government from another government. These amounts may represent grants-in-aid, shared taxes, taxes collected by another unit, loans, and charges for services rendered by the government for another government.

Intergovernmental Revenues. Revenues from other governments in the form of grants, entitlements, shared revenues, or payments in lieu of taxes.

Interim Borrowing. 1) Short-term loans to be repaid from general revenues during the course of a fiscal year. 2) Short-term loans in anticipation of tax collections, grants, or bond issuance. See Bond Anticipation Notes, Grant Anticipation Notes and Tax Anticipation Notes.

Interim Financial Statements. Financial statements prepared as of a date or for a period during the fiscal year and including only financial transactions during the current year to date.

Internal Activities (Interfund Transactions). Transfers between funds or activities of a government during a period.

Internal Auditing. An independent appraisal of the diverse operations and controls within a government entity to determine whether acceptable policies and procedures are followed, established standards are met, resources are used efficiently and economically, and the organization's objectives are being achieved. The term covers all forms of appraisal of activities undertaken by auditors working for and within an organization.

Internal Balances (Interfund Loans). Receivables or payables between funds or activities of a government that exist at the reporting date.

Internal Control Structure. Policies and procedures established to provide reasonable assurance that specific government objectives will be achieved.

Internal Financial Reporting. Financial reporting specifically designed to meet the needs of management.

Internal Investment Pools. An arrangement that commingles (pools) the money of more than one fund or component unit of a reporting entity. Investment pools that include participation by legally separate entities that are not part of the same reporting entity as the pool sponsor are not internal investment pools, but rather are external investment pools.

Internal Service Fund (ISF). Used to report any activity that provides goods or services to other funds, departments, or agencies of the primary governments, on a cost-reimbursement basis. Internal service funds should be used only if the reporting government is the predominant participant in the activity. Otherwise, the activity should be reported as an enterprise fund.

Internally Generated Intangible Asset. An intangible asset that is created or produced by the government or an entity contracted by the government, or if it is acquired from a third party but requires more than minimal incremental effort on the part of the government to begin to achieve its expected level of service capacity. Computer software is a common type of internally generated intangible asset.

Interperiod Equity. The measure of the extent to which current-year revenues are sufficient to pay for the services provided by the government entity during the year, and whether current-year citizens are receiving services by shifting part of the payment burden to future years' citizens or by using up previously accumulated resources.

Intra-Entity Activity. Resource flows between a primary government and blended component units during a period. Should be reclassified as internal activities and treated as interfund activity.

Intrafund Transfer. A transfer of central staff costs to the operating units in the same governmental type fund.

Introductory Section. The first of three essential components of any CAFR. The introductory section typically provides general information on a government's structure and personnel, as well as information useful in assessing the government's economic condition. The contents of the introductory section normally fall outside the scope of the independent audit of the financial statements. The key element of the introductory section is the letter of transmittal. It includes items such as table of contents, letter of transmittal, and other material deemed appropriate by management.

Inventory. The aggregate of those items of tangible personal property that 1) are held for sale in the ordinary course of operations, 2) are in process of production for such sale, or 3) are to be currently consumed in the production of goods or services to be available for sale. Operating materials and supplies (for example, property held for installation or use in the provision of services) or certain business-type activities usually are treated as inventory.

Investee. An entity that issued an equity instrument of which all or a portion is held by an investor.

Investing Activities. Making and collecting loans and acquiring and disposing of debt or equity instruments.

Investment. A security or other asset that 1) a government holds primarily for the purpose of income or profit and 2) has presented service capacity based solely on its ability to generate cash or to be sold to generate cash.

Investment in Capital Assets Net of Related Debt. One of three components of net assets that are required by GAAP to be reported in both government-wide and proprietary fund financial statements. Related debt, for this purpose, includes the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of capital assets of the government.

Investment Section. One of four sections of a CAFR for an investment pool and one of five sections of a CAFR of a public employee retirement system.

Investment Trust Fund. Used to report the external portion of investment pools reported by the sponsoring government.

Invitation to Comment (ITC). A due-process document that may be released by GASB to solicit the views of interested parties on a topic under study by the board prior to the release of an exposure draft.

Issuer. An issuer is the entity that has the authority to distribute a security or other investment. A bond issuer is the entity that is legally obligated to make principal and interest payments to bond holders. In the case of mutual funds, external investment pools, and other pooled investments, issuer refers to the entity invested in, not the investment company manager or pool sponsor.

J

Job Account. An account pertaining either to an operation that occurs regularly (a "standing order") or to a specific piece of work ("job order") showing all charges for material and labor used and other costs incurred, together with any allowances or other credits.

Joint Venture. A legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain 1) an ongoing financial interest or 2) an ongoing financial responsibility.

Jointly Governed Organization. A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that create the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility.

Journal. A book of original entry. See General Journal, Special Journal, and Register.

Journal Voucher. A standard form provided for the recording of certain transactions or information in place of, or supplementary to, the journals or registers. The journal voucher usually contains an entry or entries, explanations, references to documentary evidence supporting the entry or entries, and the signature or initials of one or more properly authorized officials.

Judgment. An amount to be paid or collected by a government as the result of a court decision, including a condemnation award in payment for private property taken for public use.

Judgment Bonds. Bonds issued to finance judgments.

Judgments Payable. A liability account reflecting amounts owed as the result of court decisions, including condemnation awards for private property taken for public use.

Jurisdiction. A particular geographic area containing a defined legal authority. Examples include counties, cities, special districts, school districts, community college districts, or county superintendents of schools.

Jurisdictional Change. Any changes to the boundaries of a jurisdiction, including formations, consolidations, and dissolutions.

K

NONE

L

Landfill Closure and Postclosure Costs. Costs incurred to provide for the protection of the environment that occur near or after the date that a municipal solid-waste landfill stops accepting solid waste and during the postclosure period. Closure and postclosure care costs include the cost of equipment and facilities (e.g., leachate collection systems and final cover) as well as the cost of services (e.g., postclosure maintenance and monitoring costs).

Lapse. As applied to appropriations, the automatic termination of an appropriation. Except for indeterminate appropriations and continuing appropriations, an appropriation is made for a certain period of time. At the end of this period, any unexpended or unencumbered balance thereof lapses, unless otherwise provided by law. Also referred to as the *lapse period*.

Lease Purchase Agreements. Contractual agreements that are termed "leases," but which in substance amount to purchase contracts. See Capital Lease.

Lease Rental Bond. A bond usually issued by a nonprofit authority and secured by lease payments to be made by the government leasing the project financed by bond proceeds.

Lease Term. The fixed noncancelable term of the lease.

Leasehold. The right to the use of real estate by virtue of a lease, usually for a specified term of years, for which consideration is paid.

Ledger. A group of accounts in which are recorded the financial transactions of an entry. See General Ledger and Subsidiary Ledger.

Legal Debt Limit. See Debt Limit.

Legal Debt Margin. The excess of the amount of debt legally authorized over the amount of debt outstanding. See Debt Limit.

Legal Defeasance (of Bonds). When debt is legally satisfied based on certain provisions in the debt instrument even though the debt is not actually paid.

Legal Enforceability. When a government can be compelled by an external party—such as citizens, public interest groups, or the judiciary—to use resources created by enabling legislation only for the purposes specified by the legislation.

Legal Investments. 1) Investments those savings banks, insurance companies, trustees and other fiduciaries (individual or corporate) are permitted to make by the laws of the state in which they are domiciled, or under the jurisdiction in which they operate or serve. The investments which meet the conditions imposed by law constitute the legal investment list. 2) Investments that governments are permitted to make by law.

Legal Level of Budgetary Control. The level at which spending in excess of budgeted amounts would be a violation of law.

Legal Opinion. 1) An opinion of an authorized official such as an attorney or county counsel regarding the legal issues applicable to a particular situation. 2) In the case of government bonds, the opinion of a specialized bond attorney as to the legality of a bond issue.

Lender. A governmental entity that transfers its securities to a broker-dealer or other entity in a securities-lending transaction.

Lent Securities. The securities lent by the lender to the borrower in a securities lending transaction. Also referred to as underlying securities.

Lessee's Incremental Borrowing Rate. The rate that, at the inception of the lease, the lessee would have incurred to borrow over a similar term the resources necessary to purchase the leased asset.

Letter of Credit. A financial institution's written guarantee of a customer's drafts, up to a specified amount, for a certain period of time.

Level (1-4) Guidance. In the context of the hierarchy of GAAP for state and local governments, a reference to the relative authority of a given source of GAAP guidance.

Level of Budgetary Control. One of the three possible levels of budgetary control and authority to which organizations, programs, activities and functions may be subject. These levels of budgetary control are (1) appropriated budget, (2) legally authorized nonappropriated budget review and approval process, which is outside the appropriated budget process, and (3) nonbudgeted financial activities, which are not subject to the appropriated budget and the appropriation process or to any legally authorized nonappropriated budget review and approval process, but still are relevant for sound financial management and oversight. See Legal Level of Budgetary Control.

Level of Effort Requirements. A requirement that a grant recipient does not use grant resources to reduce its own participation in a given program or activity.

Leverage. Using debt to control more assets. Generally, the asset obtained outweighs the cost of the borrowed money.

Levy. (1) To impose taxes, special assessments, or service charges for the support of government activities. (2) The total amount of taxes, special assessments, or service charges imposed by government.

Liabilities. Present obligations to sacrifice resources that the government has little to no discretion to avoid.

Lien. An enforceable legal claim by a government. The date of the lien may be known as a *lien date* or an *assessment date*.

Lien Date. For property (ad valorem) taxes, the date when an enforceable legal claim to taxable property arises. Generally, the lien date is specified in the relevant enabling legislation. Many governments use the term lien date even though a lien is not formally placed on the property at that date. Alternatively, the term assessment date is used to describe this same date.

Liquidity. The ability to convert assets to cash quickly without significant losses.

Loan Premium or Fee. Payments from the borrower to the lender as compensation for the use of the underlying securities when the borrower provides securities or letters of credit as collateral.

Loans Receivable. An asset account reflecting amounts loaned to individuals or organizations external to a government, including notes taken as security for such loans. Loans to other governments should be recorded and reported separately.

Local Agency. Any city, county, special district, or local government authority.

Local Agency Formation Commission (LAFCo). LAFCO's are formed under the California law (refer to Gov. Code §56300 et seq.) and typically oversee boundary changes of counties, cities and special districts, and formation of new agencies, which includes incorporation, consolidation, or reorganization of local government entities.

Local Improvement Tax. See Special Assessment.

Local Roll. Property on the secured and unsecured roll that is the county assessor's duty to assess.

Long-Term Budget. A budget prepared for a period longer than a fiscal year or, in some state governments, a budget prepared for a period longer than a biennium. Long-term budgets concerned with capital outlay plans and capital improvement programs are referred to as *capital budgets*.

Long-Term Debt. See General Long-Term Debt.

Long-Term Obligations. Obligations scheduled to mature beyond one year from the date of a government's financial statements.

Lump-Sum Appropriation. An appropriation made for a stated purpose, or for a named department, without specifying further the amounts that may be spent for specific activities or for particular objects of expenditure (e.g., a lump-sum appropriation for the police department would not specify the amounts to be spent on uniform patrol, traffic control, etc., or for salaries and wages, materials and supplies, travel).

M

Machinery and Equipment. Property that does not lose its identity when removed from its location and is not changed materially or consumed immediately—within one year—by use.

Maintenance. The act of keeping capital assets in a state of good repair. It includes preventive maintenance; normal periodic repairs; replacement of parts, structural components, and so forth; and other activities needed to maintain the asset so that it continues to provide normal services and achieves its optimum life.

Major Fund. The general fund or its equivalent and any other fund where: 1) total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total (assets, liabilities, and so forth) for all funds of that category or type (that is, total governmental or total enterprise funds, and 2) total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined. In addition, to funds that meet the major fund criteria, any other governmental or enterprise criteria, any other governmental or enterprise fund that the government's officials believe is particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a major fund.

Major Program. A term used in the context of single audits. As part of the single audit, the independent auditor must gain an understanding of internal controls over compliance for each major federal award program and then test those controls. In addition, the independent auditor must render an opinion on whether the government complied with laws, regulations, and provisions of contracts or grant agreements that could have a direct and material effect on each major federal award program.

Management. Persons who are responsible for achieving the objectives of the government and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management normally includes the chief executive officer (for example, city manager), directors or secretaries in charge of principal government departments or functions (such as service provision administration or finance), and other persons who perform similar policymaking functions. Persons without formal titles also may be members of management.

Management Letter. A term used in connection with the independent audit of the financial statements. A formal communication by the auditor to management that focuses on internal control weaknesses discovered in the course of the audit of the financial statements. The management letter should be distinguished from the management representation letter, which is a communication by management to the independent auditor in which management takes formal responsibility for the fair presentation of the financial statements and makes certain specific representations regarding their contents.

Management's Discussion and Analysis (MD&A). Management's discussion and analysis is an introduction to the financial statements that provide readers with a brief, objective, and easily readable analysis of the government's financial performance for the year and its financial position at year-end.

Management's Discussion and Analysis (MD&A). A component of required supplementary information, an introduction to the basic financial statements providing an analytical overview of the government's financial activities. The MD&A should provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions. MD&A should discuss the current-year. This fact-based analysis should discuss the positive and negative aspects of the comparison with the prior year. The use of charts, graphs, and tables is encouraged to enhance the understandability of the information. MD&A should focus on the primary government. Comments in MD&A should distinguish between information pertaining to the primary government and that of its component units. Determining whether to discuss matters related to a component unit is a matter of the individual component unit's significance to the total of all discretely presented component units and that component unit's relationship with the primary government. When appropriate, the reporting entity's MD&A should refer readers to the component unit's separately issued financial statements.

Margin. The excess of the market value including accrued interest of the securities underlying a repurchase/reverse repurchase or a fixed coupon repurchase/reverse repurchase agreement over the agreement amount including accrued interest. It is common practice for a margin to be built into an agreement to protect against declines in the market value of the underlying securities.

Market Approach. A valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets, liabilities, or groups of assets and liabilities.

Market Risk. The risk that changes in market prices will reduce the fair value of an asset, increase the fair value of a liability, or adversely affected the cash flows of an expected transaction. Market risk comprises of the following: (1) Interest Rate Risk, (2) Currency Risk, and (3) Other Price Risks.

Market Value. See Full Cash Value.

Master Agreement. A written contract covering all future transactions between the parties to repurchase/reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

Matched Position. A condition existing when reverse repurchase agreement proceeds are invested in securities that mature at or almost at the same time as the reverse repurchase agreement and the proceeds from those securities will be used to liquidate the agreement.

Matching Requirement. A requirement that a grant recipient contributes resources to a program that equal or exceed a predetermined percentage of amounts provided by the grantor.

Material Weakness. A deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Materiality. In the context of financial reporting, an error of omission or misstatement of significant accounting information that could impair the judgement of a reasonable person relying on the information presented in the financial statements.

Materiality. The magnitude of an omission or misstatement of accounting information that makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement the objective of accountability in governmental financial reporting adds another perspective to materiality. Specifically, accountability requires materiality to be judged not only in a quantitative manner, but also in a qualitative manner. That is, accountability involves such issues as legal and contractual compliance that may not have a material effect on the entity's reported operating results and financial position but that would influence or change the judgment of a reasonable person about how the government conducted its affairs during the period.

Matrix Pricing. A valuation technique used to value securities based on their relationship to benchmark quoted prices.

Matured Bonds Payable. A liability account reflecting unpaid principal on bonds that have reached or passed their maturity date.

Matured Interest Payable. A liability account reflecting unpaid interest on bonds that have reached or passed their maturity date.

Measurement Date. The date on which the fair value of an asset or liability is determined.

Measurement Focus. The accounting convention that determines 1) which assets and which liabilities are included on a government's balance sheet, and where they are reported there, and 2) whether an operating statement presents information on the flow of financial resources (revenues and expenditures) or information on the flow of economic resources (revenues and expenses).

Measurement Period. The period between the prior and the current measurement dates.

Mineral Rights. Provides the right to enter in or upon the land for the exploration, development, and production of minerals, including oil, gas, and other hydrocarbon.

Minimum Lease Payments (Lessee). From the standpoint of the lessee, the payments that the lessee is obligated to make or can be required to make in connection with the leased property. Refer to GASB Statement No. 62 for more information on minimum lease payments.

Minimum Lease Payments (Lessor). From the standpoint of the lessor, the payments described in Minimum Lease Payments (Lessee) plus any guarantee of the residual value or of rental payments beyond the lease term by a third party unrelated to either the lessee or the lessor, provided the third party is financially capable of discharging the obligations that may arise from the guarantee.

Mobile Home. A stationary, nonmotorized vehicle designed and equipped for human habitation. For property tax purposes, mobile home is defined as containing 320 or more square feet of area, having no more than two dwelling units, and not permanently affixed to land (no foundation).

Mobile Home Base Year Value. The full cash value on the date a mobile home is purchased or ownership changes. If the mobile home undergoes any new construction after it is purchased or changes ownership, the base year value of the new construction is its full cash value on the date on which the new construction is completed and, if uncompleted, on the lien date.

Modified Accrual Basis of Accounting. The modified accrual basis of accounting adapted to the current financial resources measurement focus. Under it, revenues and other financial resource increments (e.g., bond issue proceeds) are recognized when they become susceptible to accrual, which is when they become both "measurable" and "available to finance expenditures of the current period."

Modified Approach. The election not to depreciate infrastructure assets that are part of a network or subsystem of a network that meet two specific requirements. First, the government manages the eligible infrastructure assets using an asset management system that has certain specified characteristics; second, the government documents that the eligible infrastructure assets are being preserved approximately at (or above) a condition level established and disclosed by the government.

Money Market Investment. A short-term, liquid debt instrument, including commercial paper, banker's acceptances, and U.S. Treasury and agency obligations. Asset-backed securities, derivatives, and structured notes are not included in this term.

Mortgage Bonds. Bonds secured by a mortgage against specified properties of a government, usually its public utilities or other enterprises. If primarily payable from enterprise revenues, they are also classed as revenue bonds. See Revenue bonds.

Multi-Function District. A special district that provides two or more services.

Multi-Purpose Grants. A term used in connection with the identification of program revenues. Grants intended to finance activities reported in different functional categories in the government-wide statement of activities. Multipurpose grants that do not provide for specific identification of the programs and amounts should be reported as general revenues.

Multiple Employer Defined Benefit Pension or OPEB Plan. A defined benefit pension or OPEB plan that is used to provide pensions or OPEB to the employees of more than one employer.

Municipal. Denotes the state and all subordinate units of government. In a more restricted sense, it denotes a city or village, as opposed to other local governments.

Municipal Bond. A bond issued by a state or local government.

Municipal Corporation. A political and corporate body established pursuant to state statutes to provide government services and regulations for its inhabitants. A municipal corporation has defined boundaries and a population, and is usually organized with the consent of its residents. It usually has a seal and may sue and be sued. Cities and villages are examples of municipal corporations. See Quasi-Municipal Corporation.

Municipal Finance Officers Association. See Government Finance Officers Association.

Municipal Improvement Certificates. Certificates issued in lieu of bonds for the financing of special improvements. As a rule, these certificates are placed in the contractor's hands for collection from the special assessment payers.

Municipal Solid-Waste Landfill. A discrete area of land or an excavation that receives household waste, and that is not a land application unit, surface impoundment, injection well, or waste pile, as those terms are defined in regulations of the Environmental Protection Agency. It may also receive other types of Resource Conservation and Recovery Act Subtitle D wastes such as commercial solid waste, nonhazardous sludge, and industrial solid waste. The term municipal indicates the primary type of solid waste received by the landfill, not its ownership.

N

National Advisory Council on State and Local Budgeting (NACSLB). A working group created by eight public-sector organizations to establish a comprehensive framework for public-sector budgeting that could be used by state and local governments as an ideal against which to measure and improve the quality of their own budget practices. The Government Finance Officers Association (GFOA) has formally recommended NACSLB guidelines to its members.

National Committee on Governmental Accounting (NCGA). A committee of the Municipal Finance Officers Association that served as the authoritative accounting and financial reporting standard-setting body for local governments from 1946 until the establishment of the National Council on Governmental Accounting (NCGA) in the 1970s.

National Committee on Municipal Accounting (NCMA). A committee of the Municipal Finance Officers Association that served as the authoritative accounting and financial reporting standard-setting body for local governments prior to 1946. NCMA was one of the predecessors of GASB.

National Council on Governmental Accounting (NCGA). An organization established through the sponsorship of the Government Finance Officers Association to develop, promulgate, and interpret principals of accounting, financial reporting, and related financial management activities for the state and local governments in the United States and Canada. Immediate predecessor of the GASB.

Negotiable Certificates of Deposit. Transferable certificates of deposit. Because they are transferable, negotiable certificates of deposit are subject to custodial credit risk.

Net. The net amount is the final amount that remains after all the other amounts have been subtracted from gross. See Gross.

Net Bonded Debt. Gross bonded debt less any cash or other assets available and earmarked for its retirement and less all self-supporting debt (e.g., revenue bonds). Also referred to as net general obligation debt.

Net Book Value. See Book Value.

Net Carrying Amount. In an extinguishment of debt, the amount due at maturity, adjusted for unamortized premium, discount, and cost of issuance.

Net Cost. A term used in the context of the government-wide statement of activities. The difference between functional expenses and program revenues.

Net Income. The proprietary fund excess of operating revenues, nonoperating revenues, and transfers-in over operating expenses, nonoperating expenses, and transfers out.

Net Interest Cost. A method used to calculate a bond issuer's interest cost. The net interest cost (NIC) does not take into account the time value of money. The NIC is equal to the total interest payments plus discount (or minus premium) divided by the number of bond years.

Net Investment in Capital Assets. Capital assets, net of accumulated depreciations, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount should not be included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources should be included in the same net position component (restricted or unrestricted) as the unspent amount.

Net OPEB Liability. The liability of employers and nonemployer contributing entities to plan members for benefits provided through a defined benefit OPEB plan that is administered through an irrevocable trust.

Net Pension Liability. The liability of employers and nonemployer contributing entities to employees for benefits provided through a defined benefit pension plan.

Net Pension/OPEB Obligation. A term used in connection with defined benefit pension plans. The cumulative difference between annual pension cost and the employer's contributions to the plan, including the pension liability (asset) at transition, and excluding 1) short-term differences and 2) unpaid contributions that have been converted to pension-related debt.

Net Position. The residual of assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources. Fiduciary activities net to fiduciary net position. Net position is displayed in three components: net investment in capital assets, restricted (distinguishing between major categories or restrictions), and unrestricted.

Net Profit. See Net Income.

Net Revenues. See Net Income and Net Revenues Available for Debt Service.

Net Revenues Available for Debt Service. Proprietary fund gross operating revenues less operating and maintenance expenses (which normally does not include depreciation expense or interest expense on bonds). Net revenues available for debt service as thus defined is used to compute "coverage" on revenue bond issues. Under the laws of some states and the provisions of some revenue bond indentures, to compute revenue bond coverage, net revenues available for debt service should be computed on a cash basis rather than in conformity with GAAP. See Coverage Ratio.

New Construction. Any addition to real property, whether land or improvements (including fixtures) since the last lien date; and any alteration of land or of any improvement (including fixtures), since the last lien date that constitutes a major rehabilitation thereof or that converts the property to a different use.

No-Commitment Special Assessment Debt. Special assessment debt that is secured solely by liens on assessed properties and resources provided from bond proceeds and were not backed by either the full faith and credit of the government or by any other type of general government commitment.

Nominal Account. Those accounts whose balances are transferred to equity or net asset accounts at the close of each fiscal year. Examples are revenue and expense accounts.

Nominal Interest Rate. The contractual interest rate shown on the face and in the body of a bond and used to compute the amount of interest to be paid, in contrast to the effective interest rate. See Coupon rate.

Noncapital Financing Activities. The borrowing of money for purposes other than to acquire, construct, or improve capital assets and repaying those amounts borrowed, including interest. This category includes proceeds from all borrowings (such as revenue anticipation notes) not clearly attributable to capital assets, regardless of the form of the borrowing. Also included are certain other interfund and intergovernmental receipts and payments.

Nonemployer Contributing Entities. Entities (nonemployer) legally required make contributions to a pension or OPEB plan that is used to provide pensions or OPEB to the employees of other entities. Employees are not considered nonemployer-contributing entities. For arrangements in which pensions are provided through a pension plan that is not administered through a trust, entities that make defined benefit payments directly as pensions come due for employees of other entities, including using the entity's assets held by others for the purpose of providing benefits. Employees are not considered nonemployer-contributing entities.

Nonenterprise District. A special district that generally does not charge users for services provided, but rather relies on property tax revenues.

Nonexchange Financial Guarantee. A nonexchange financial guarantee is a guarantee of an obligation of a legally separate entity or individual, including a blended or discretely presented component unit, which requires the guarantor to indemnify a third-party obligation holder under specified conditions.

Nonexchange Transaction. When a government gives (or receives) value without directly receiving (or giving) equal value in return. Four classes of nonexchange transactions are used: 1) Derived Tax Revenues, 2) Imposed Nonexchange Revenues, 3) Government-Mandated Nonexchange Transactions, and 4) Voluntary Nonexchange Transactions.

Nonfinancial Assets. A term used in connection with the current financial resources measurement focus and the modified accrual basis of accounting. Assets that are expected to be used in the provision of goods or services rather than converted to cash. Financial statement preparers have the option of treating prepaid items and inventories of supplies as either a financial asset (consumption method) or as a nonfinancial asset (purchases method).

Nonoperating Expenses. Proprietary fund expenses that are not directly related to the fund's primary activities (e.g., interest).

Nonoperating Nonunitary. Properties that do not operate as a unit and are not part of the primary function of the assessee.

Nonoperating Properties. Properties owned by an enterprise fund but not used in the provision of the fund's primary service activities.

Nonoperating Revenues. Proprietary fund revenues incidental to or byproducts of the fund's primary activities.

Nonparticipating Interest-Earning Investment Contracts. Investment contracts whose value is not affected by market (interest rate) changes (e.g., nonnegotiable certificates of deposit with redemption terms that do not consider market rates). This definition excludes investment contracts that are negotiable or transferable, or whose redemption value considers market rates.

Nonreciprocal Interfund Activity. The internal counterpart to nonexchange transactions. This category includes both interfund transfers and interfund reimbursements.

Nonspendable Fund Balance. The nonspendable fund balance classification includes amounts that cannot be spent because they are either 1) not in spendable form or 2) legally or contractually required to be maintained intact.

Nonspendable Fund Balance. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact. The "not is spendable form" criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale. However, if the use of the proceeds from the collection of those receivables or the sale of those properties is restricted, committed, or assigned, then they should be included in the appropriate fund balance classification (restricted, committed, or assigned), rather than nonspendable fund balance. The corpus (or principal) of a permanent fund is an example of an amount that is legally or contractually required to be maintained intact.

Nonspendable Fund Balance—Advance to Other Funds. An account used to segregate a portion of the fund balance to indicate that noncurrent portions of long-term interfund receivables do not represent expendable available financial resources.

Nonspendable Fund Balance—Capital Assets Held for Resale. An account used to segregate a portion of the fund balance to indicate that capital assets held for resale do not represent expendable available financial resources.

Nonspendable Fund Balance—Inventories. An account used to segregate a portion of the fund balance to indicate that, under the purchases method, inventories of supplies do not represent expendable available financial resources, even though they are a component of net current assets.

Nonspendable Fund Balance—Noncurrent Loans Receivable. An account used to segregate a portion of the fund balance to indicate that noncurrent portions of long-term loans receivable do not represent expendable available financial resources.

Nonspendable Fund Balance—Prepaid Items. An account used to segregate a portion of the fund balance to indicate that prepaid items do not represent expendable available financial resources, even though they are a component of net current assets.

Nonunitary. See Operating Nonunitary.

Normal Cost (also known as Service Cost). That portion of the Actuarial Present Value of pension plan benefits and expenses that is allocated to a valuation year by the Actuarial Cost Method.

Normal Costing. The historical cost of an asset is estimated by taking the value of acquiring the asset new today and then discounting that amount by an appropriate inflation factor back to the date of acquisition.

Normally. A term used in connection with the application of the modified accrual basis of accounting to certain long-term liabilities. Specifically, certain accrued liabilities are recognized as expenditures in governmental funds only when they are "normally" expected to be liquidated with current available financial resources (e.g., compensated absences, claims and judgments, special termination benefits, landfill closure and postclosure care costs). For this purpose, the term "normally" should be interpreted from the perspective of the practice of state and local governments.

Note Payable. In general, an unconditional written promise signed by the maker to pay a certain sum of money on demand or at a fixed or determinable time, either to the bearer or to the order of a person designated therein. See Temporary Loans.

Note Receivable. A legal right to receive payment of a certain sum of money on demand or at a fixed or determinable time, based on an unconditional written promise signed by the maker.

Notes to the Financial Statements. Presentation of information integral to the financial statements and essential to a user's understanding of financial position and the inflows and outflows of resources.

Number of Funds Principle. The principle that only the minimum number of funds consistent with legal and operating requirements should be established, as unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.

O

Object. As used in expenditure classification, this term applies to the article purchased or the service obtained, rather than to the purpose for which the article or service was purchased or obtained (e.g., personal services, contractual services, materials, and supplies). See Activity, Account, Character, Classification, Function, and Object Classification.

Object Classification. Expenditure classification according to the types of items purchased or services obtained (e.g., personal services, materials, supplies and equipment).

Object of Expenditure. See Object.

Obligated in Some Manner. A term used in connection with special assessment debt and the determination of the financial reporting entity. A government is obligated in some manner for debt if 1) it is legally obligated to assume all or part of the debt in the event of default, or 2) the government may take certain actions to assume secondary liability for all or part of the debt and the government takes, or has given indications that it will take, those actions.

Obligations. Amounts a government may be legally required to meet out of its resources. Obligations include not only actual liabilities but also unliquidated encumbrances.

Obsolescence. The decrease in the value of capital assets resulting from economic, social, technological or legal changes.

Office of Management and Budget (OMB). An agency of the federal government with regulatory oversight of Single Audits. In fulfillment of this responsibility, the OMB has issued *Circular A-133, Audits of States, Local Government, and Nonprofit Organizations*.

Official Statement. A document published by a government planning to issue long-term debt that provides information on the proposed long-term debt issue, the purpose of the issue, and the means of servicing the indebtedness, as well as other information about the issuer that may be helpful in evaluating credit-worthiness.

OMB. White House Office of Management and Budget. See Office of Management and Budget (OMB).

On-Behalf Payments of Fringe Benefits and Salaries. Direct payments made by one entity (the paying entity or paying government) to a third-party recipient for the employees of another, legally separate entity (the employer entity or employer government). They include payments made by governmental entities on behalf of nongovernmental entities and payments made by nongovernmental entities on behalf of governmental entities, and may be made for volunteers as well as for paid employees of the employer entity.

Ongoing Financial Responsibility. (1) A participating government is obligated in some manner for the debts of a joint venture. (2) The joint venture's existence depends on continued funding by the participating government.

OPEB Plans. Arrangements through which OPEB is determined, assets dedicated for OPEB (if any) are accumulated and managed, and benefits are paid as they come due.

Open Amortization Period. A term used in connection with defined benefit pension and OPEB plans. An open amortization period (open basis) is one that begins again or is recalculated at each actuarial valuation date. Within a maximum number of years specified by law or policy (for example, 30 years), the period may increase, decrease, or remain stable.

Open-End Mutual Funds. An open-end mutual fund is one that continuously offers its shares for sale to the public, compared with a closed-end company, which may issue only a limited number of shares. Mutual funds generally do not issue share certificates; instead, they send out periodic statements showing deposits, withdrawals, and dividends credited to the investor's account.

Open Space Land (Williamson Act). (1) Land within an agricultural preserve and subject to a contract or an agreement, (2) land subject to a scenic restriction, (3) land subject to an open-space easement.

Open Space Use. The use or maintenance of land in such a manner as to preserve its natural characteristics, beauty, or openness for the benefit and enjoyment of the public, to provide essential habitat for wildlife, or for the solar evaporation of sea water in the course of salt production for commercial purposes, if such land is within a scenic highway corridor; a wildlife habitat area; a salt pond; a managed wetland area; or a submerged area.

Operating Activities (Cash Flows). Cash flows resulting from providing services and producing and delivering goods, including all transactions and other events that are not defined as capital and related financing, noncapital financing, or investing activities. Cash flows from operating activities generally are the cash effects of transactions and other events that enter into the determination of operating income.

Operating Budget. Plans for current expenditures and the proposed means of financing them. The operating budget (for some state governments: the biennial operating budget) is the primary means by which most of the financing, acquisition, spending, and service delivery activities of a government are controlled. The use of operating budgets is usually required by law. Even where not required by law, however, operating budgets are essential to sound financial management and should be adopted by every government. See Budget.

Operating Expenses. Expenses related directly to a fund's primary activities.

Operating Grants. Grants that are restricted by the grantor to operating purposes or that may be used for either capital or operating purposes, at the discretion of the grantee. See Capital Grants.

Operating Income. The excess of a fund's operating revenues over operating expenses.

Operating Lease. A lease agreement that does not meet the criteria for capitalization (capital lease) set forth in GAAP pronouncements.

Operating Nonunitary. A group of properties that operate as a unit but is not part of the primary function of the assessee.

Operating Revenues. Revenues of a fund directly related to the fund's primary activities. Operating revenues consist primarily of user charges for goods and services.

Operational Accountability. Governments' responsibility to report the extent to which they have met their operating objectives efficiently and effectively, using all resources available for that purpose, and whether they can continue to meet their objectives for the foreseeable future.

Optional Bond. See Callable Bond.

Order. A formal legislative enactment by the governing board of certain local governments that has the full force and effect of law (e.g., county governing bodies in some states pass orders rather than laws, resolutions or ordinances).

Operation. An operation is an integrated set of activities conducted and managed for the purpose of providing identifiable services with associated assets or liabilities. For example, an operation may include the assets and liabilities specifically associated with the activities conducted and managed by the fire department in a general-purpose government. Conversely, fire engines donated to or acquired by a first department would constitute only a portion of that activity and, therefore, would not constitute an operation.

Ordinance (Order). A formal legislative enactment by the governing board of a municipality. If it is not in conflict with any higher form of law, such as a state statute or constitutional provision, it has the full force and effect of law within the boundaries of the municipality to which it applies. The difference between an ordinance and a resolution is that the latter requires less legal formality and has a lower legal status. Ordinarily, the statutes or charter will specify or imply those legislative actions that must be by ordinance and those that may be by resolution. Revenue raising measures, such as the imposition of taxes, special assessments and service charges, universally require ordinances. See Resolution.

Original Budget. The first complete adopted budget of a government. The original budget may be adjusted by reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes before the beginning of the fiscal year. The original budget should also include actual appropriation amounts automatically carried over from prior years by law. For example, a legal provision may require the automatic rolling forward of appropriations to cover prior-year encumbrances.

Other Financing Source. An increase in net position of a governmental fund that is reported separately from revenues to avoid distorting revenue trends. The use of the other financing sources category is limited to items so classified by GAAP.

Other Financing Use. A decrease in net position of a governmental fund that is reported separately from expenditures to avoid distorting expenditure trends. The use of the other financing uses category is limited to items so classified by GAAP.

Other Postemployment Benefits (OPEB). Benefits other than retirement income (such as death benefits, life insurance, disability, and long-term care) that are paid in the period after employment and that are provided separately from a pension plan, as well as the postemployment health care benefits paid in the period after employer (if any), regardless of the manner in which they are provided. Other postemployment benefits do not include termination benefits or termination payments for sick leave.

Other Sources of GAAP. Potential sources of accounting and financial reporting guidance that may be used in the absence of authoritative guidance on one of the four levels of the hierarchy of GAAP for state and local governments. Examples of other sources of GAAP for state and local governments include concept statements of GASB, pronouncements of FASB that are not authoritative for government, professional publications, textbooks, and position papers of professional organizations. GASB concept statements take precedence as another source of GAAP.

Outflows of Resources (or Outlays). A consumption of net position by the government that is applicable to the reporting period (expenses or expenditures). Synonymous with expenditures. See Capital Expenditures.

Outlays. Synonymous with expenditures. See Capital Expenditures

Outcome Measures. A term used in connection with service efforts and accomplishments reporting. Indicators that measure accomplishments or results that occur (at least partially) because of services provided. Results also include measures of public perceptions of outcomes.

Output Measures. A term used in connection with service efforts and accomplishments reporting. Indicators that measure the quantity of services provided. Output measures include both measures of the "quantity of service provided" and measures of the "quantity of a service provided that meets a certain quality requirement."

Overdraft. (1) The amount by which checks, drafts, or other demands for payment on the treasury or on a bank exceed the amount of the credit against which they are drawn. (2) The amount by which requisitions, purchase orders, or audited vouchers exceed the appropriation or other credit to which they are chargeable.

Overhead. Those elements of cost necessary in the production of a good or service that are not directly traceable to the product or service. Usually these costs relate to objects of expenditure that do not become an integral part of the finished product or service, such as rent, heat, light, supplies, management and supervision (indirect costs/charges/expenses).

Overlapping Debt. The outstanding long-term debt instruments, including bonds, notes, certificates of participation, loans, and capital leases, of governments that overlap geographically, at least in part, with the government preparing the statistical section information.

Overlapping Governments. All local governments located wholly or in part within the geographic boundaries of the reporting government.

Oversight (Responsibility). A basic criterion for including a government department, agency, institution, commission, public authority, or other organization in a government unit's reporting entity for basic financial reports. Oversight responsibility is derived from the government unit's power and includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Oversight Unit. In defining the reporting entity, the component unit that has the ability to exercise oversight responsibility. Typically, an oversight unit is the primary unit of government directly responsible to the chief executive and the elected legislative body.

P

Par Value. In the case of bonds, the amount of principal that should be paid at maturity. Par value is referred to as the face value of the security.

Parameters. In the context of defined benefit pension and OPEB plans, parameters are the set of requirements for calculating actuarially determined OPEB information included in financial reports.

Participation. The ability of an investment to capture market (interest rate) changes through the investment's negotiability or transferability, or redemption terms that consider market rates.

Participating Interest-Earning Investment Contracts. Interest-earning investment contracts whose value is affected by market changes in interest rate (e.g., contracts that are negotiable or transferable or whose redemption value considers market rates).

Passenger Facilities Charges (PFCs). A fixed fee authorized by the Federal Aviation Administration that airports might impose on each departing passenger for use in eligible construction projects or for related debt service. This charge is collected by whoever sells the ticket and then remitted to the airport.

Pass-Through Grants. Grants and other financial assistance received by a governmental entity to transfer to or spend on behalf of a secondary recipient.

Pay-As-You-Go Basis. A method of financing a pension plan under which the contributions to the plan are generally made at about the same time in approximately the same amount as benefit payments and expenses becoming due.

Paying Agent. An entity responsible for paying long-term debt principal and interest on behalf of the government.

Payment in Lieu of Taxes (PILOT). A payment that a property owner not subject to taxation makes to a government to compensate it for services that the property owner receives that normally are financed through property taxes.

Penalty (Leases). Any requirement that is imposed or can be imposed on the lessee by the lease agreement or by factors outside the lease agreement to disburse cash, incur or assume a liability, perform services, surrender or transfer an asset or rights to an asset or otherwise forego an economic benefit, or suffer an economic detriment.

Pension (and OPEB) Trust Fund. Used to report resources require to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, or other employee benefit plans.

Pension Cost. A measure of the periodic cost of an employer's participation in a defined benefit pension plan.

Pension Obligation Bonds. Bonds issued by employers to finance one or more elements of their pension obligation to employees. Pension obligation bonds may be used 1) to reduce or eliminate the employer's net pension obligation, 2) to pay the employer's annual required contribution for the year, or 3) to reduce or eliminate the plan's unfunded actuarial accrued liability.

Pension Plan. Arrangements through which pensions are determined, assets dedicated for pensions are accumulated and managed, and benefits are paid as they come due.

Pension Related Debt. All long-term liabilities of an employer to a pension plan, the payment of which is not included in the annual required contributions of a sole or agent employer or the actuarially determined required contributions of a cost-sharing employer. Payments generally are made in accordance with installment contracts that usually include interest. Examples include contractually deferred contributions and amounts assessed to an employer upon joining a multiple-employer plan.

Pension Trend Data. Actuarially based data over time concerning the funding progress of a defined benefit pension plan and employers' actual and annual required contributions to the plan.

Pensions. Retirement income and, if provided through a pension plan, postemployment benefits other than retirement income (such as death benefits, life insurance, and disability benefits). Pensions do not include postemployment healthcare benefits and termination benefits.

Performance Auditing. A systematic process of objectively obtaining and evaluating evidence regarding the performance of an organization, program, function or activity. Evaluation is made in terms of its economy and efficiency of operations and its effectiveness in achieving desired regulations, for the purpose of ascertaining the degree of correspondence between performance and established criteria and communicating the results to interested users. The performance audit function provides an independent, third-party review of management's performance and the degree to which the performance of the audited entity meets pre-stated expectations.

Performance Budget. A budget that basis expenditures primarily upon measurable performance of activities and work programs. A performance budget may also incorporate other basis of expenditure classification, such as character and object class, but these are secondary to activity performance.

Performance Measurement. A commonly used term for service efforts and accomplishments reporting.

Permanent Fund. Funds used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs—that is, for the benefit of the government or its citizenry. Permanent funds do not include private-purpose trust funds, which should be used to report situations in which the government is required to use the principal or earnings for the benefit of individuals, private organizations, or other governments.

Perpetual Inventory. A system whereby the inventory of units of property at any date may be obtained directly from the records, without resorting to an actual physical count for each item or group of items to be inventoried. This system provides an ongoing record of goods ordered, received, and withdrawn, and the balance on hand, in units and frequently also in value.

Personal Property. Includes all property that is not real property, either tangible or intangible.

Petty Cash. A sum of money set aside on an imprest basis to make change or to pay small obligations for which the issuance of a formal voucher and check would be too expensive and time-consuming. Petty cash accounts are sometimes referred to as petty cash “funds.” However, they are not “funds” in the sense of governmental accounting. Petty cash accounts should be reported as assets of the fund of ownership. See Imprest Account.

Petty Cash Voucher. A form used to record individual disbursements of petty cash.

Pledged Receivables. Taxes or other types of receivables either used to secure a collateralized borrowing or sold to a third party in exchange for cash.

Pledged Revenues. Revenues to be either collected in the future securing a collateralized borrowing or sold to a third party in exchange for cash.

Plan Net Position (Plan Net Position Held in Trust for OPEB). The difference between total plan assets and total plan liabilities at the reporting date.

Police Power. The authority for a government to regulate behavior to accomplish a public goal.

Policy. A formal written contract of insurance between an insurer and an insured describing among other things, the period and amount of risk coverage the insurer agrees to provide the insured.

Policyholder. The party to whom an insurance policy is issued and who pays a premium to an insurer for the insurer’s promise to provide insurance protection.

Policyholder Dividends. Payments made or credits extended to the insured by the insurer, usually at the end of a policy year, which result in reducing the net insurance cost to the policyholder. These dividends may be paid in cash to the insured or applied by the insured to reduce premiums due from the next policy year.

Policy Year Basis. For disclosure purposes, a method that assigns incurred losses and claim adjustment expenses in the year in which the event that triggered coverage under the pool insurance policy or participation contract occurred. For occurrence-based coverage for which all member has a common contract renewal date, the policy year basis is the same as the accident year basis. For claims made coverages, policy year basis is the same as the report year basis.

Popular Annual Financial Reporting. Supplementary financial reporting designed to meet the special needs of interested parties who are either unable or unwilling to use the more detailed financial information provided in traditional CAFR.

Popular Annual Financial Reporting Award. An awards program sponsored by the GFOA with the objective of encouraging and assisting governments to prepare and publish high-quality popular annual financial reports.

Population. The population of any entity of government other than a school district shall be determined by a method prescribed by the Legislature, provided that such determination shall be revised, as necessary, to reflect the periodic census conducted by the United States Department of Commerce, or successor agency of the United States Government. The population of any school district shall be such school district’s average daily attendance as determined by a method prescribed by the Legislature.

Possessory Interests. Possession of, claim to, or right to the possession of land or improvements, except when coupled with ownership of the land or improvements in the same person. Taxable improvements on tax-exempted land.

Postemployment. The period after employment.

Postemployment Benefit Changes. Adjustments to the pension of an inactive employee (or plan member).

Postemployment Healthcare Benefits. Medical, dental, vision, and other health-related benefits paid subsequent to the termination of employment.

Posting. The act of transferring to an account in a ledger the data, either detailed or summarized, contained in a book or document of original entry.

Potential Component Unit. A separate government unit, agency, or nonprofit corporation that needs to be evaluated to determine if it is to be included with other component units and the oversight unit to constitute the reporting entity.

Potentially Misleading to Exclude. A term used in connection with defining the financial reporting entity. The basis for including a legally separate entity within the financial reporting entity even though that separate entity does not meet either of the normal criteria for inclusion as a component unit (i.e., board appointment or fiscal dependency).

Preliminary Project Stage. A term used in connection with computer software developed or obtained for internal use. Costs incurred prior to the development stage of computer software (e.g., the conceptual formulation of alternatives, the evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives).

Preliminary Views (PV). A due-process document issued by GASB that solicits comments from interested parties on a proposed authoritative pronouncement prior to the issuance of an exposure draft.

Premium. 1) The excess of the price of a security over its face value, excluding any amount of accrued interest bought or sold. 2) The consideration paid for an insurance contract.

Premium (Insurance). The consideration paid for an insurance contract.

Premium Deficiency. The amount by which expected claims costs (including IBNR) and all expected claim adjustment expenses, expected dividends to policyholders or pool participants, unamortized acquisition costs, and incurred policy maintenance costs exceed related unearned premium revenue.

Prepaid Items. Payment in advance of the receipt of goods and services in an exchange transaction. Prepaid items differ from deferred outflows in that they are spread over a shorter period of time than deferred outflows and are regularly recurring costs of operations. Examples of prepaid items are prepaid rent, prepaid interest, and unexpired insurance premiums. See Deferred Charges.

Preparer. Those who are responsible for producing financial reports that recognize relevant events in the financial statements or that disclose or present messages about such events elsewhere in the financial report.

Prepayment of Taxes. The deposits of money with a government on condition that the amount deposited is to be applied against the tax liability of a designated taxpayer after the taxes have been levied and such liability has been established. See Taxes Collected in Advance.

Present Value. A valuation technique used to link future amounts (cash flows or values) to a present amount by employing a discount rate (an application of the income approach).

Primary Government. A state government or general-purpose local government. Also, a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments.

Primary Users of General-Purpose External Financial Reports. Those groups of financial statement users whose needs guide the development of GAAP. For state and local governments, the primary users of general-purpose external financial reports are (1) those to whom government is primarily accountable (the citizenry), (2) those who directly represent the citizens (legislative and oversight bodies), and (3) those who lead or participate in the lending process (investors and creditors).

Principal. In the context of bonds other than deep-discount debt, the face value or par value of a bond or issue of bonds payable on stated dates of maturity. See Face Value and Par Value.

Prior Secured Roll. See Redemption Roll.

Prior Unsecured Roll. Unsecured taxes unpaid as of February 28 of each fiscal year.

Prior Years' Tax Levies. Taxes levied for fiscal periods preceding the current one.

Principal Act. Generic statute that applies to local government agencies. All principal acts are state laws.

Private-Purpose Trust Fund. Used to report escheat property or all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

Probable. Classification of a loss contingency where the future event or events are likely to occur.

Pro Forma. Latin: "as a matter of form," "an example." Term is used in conjunction with a noun to denote merely a sample form (i.e., pro formal document, statement, certificate, or presentation) the contents of which may be either wholly or partially hypothetical.

Program. Group activities, operations, or organizational units directed to attaining specific purposes or objectives.

Program Budget. A budget wherein expenditures are based primarily on programs of work and secondarily on character and object classification, on the one hand, and performance on the other. See Performance Budget and Traditional Budget.

Program Compliance Audit. An examination leading to the expression of an opinion on the degree of the audited entity's compliance with requirements imposed by intergovernmental grantors and the audited entity's eligibility for grant monies.

Program Loan. A term used in connection with cash flows reporting. A loan made and collected as part of a governmental program that provides a "direct" benefit to "individual" constituents.

Program Revenue. Revenues derived directly from the program itself or from parties outside the reporting government's taxpayers or citizenry, as a whole; program revenues reduce the net cost of the function to be financed from the government's general revenues. The statement of activities should separately report three categories of program revenues: 1) charges for services, 2) program-specific operating grants and contributions, and 3) program specific capital grants and contributions.

Program Specific Grants and Contributions (Operating and Capital). Revenues arising from mandatory and voluntary nonexchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.

Project Costs. Costs clearly associated with the acquisition, development, and construction of a real estate project.

Projected Benefit Payments. All benefits estimated to be payable through the pension or OPEB plan to current active and inactive employees as a result of their past service and their expected future service.

Projected Unit Credit Actuarial Cost Method (PUC). A method under which the benefits (projected or unprojected) of each individual included in an Actuarial Valuation are allocated by a consistent formula to valuation years. The Actuarial Present Value of benefits allocated to a valuation year is called the Normal Cost. The Actuarial Present Value of benefits allocated to all period prior to a valuation year is called the Actuarial Accrued Liability.

Property. "Real property" (for e.g., land and real estate) or "Personal Property" (which is everything else and commonly referred to as *personal property*) that is capable of ownership.

Proprietary Funds. Funds consisting of enterprise funds (emphasizing major funds) and internal service funds. The funds focus on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows.

Provisions. In governmental fund types, budgeted amounts to provide for increases or decreases in fund balance classifications.

Public Authority. See Authority.

Public Corporation. See Municipal Corporation and Quasi-Municipal Corporation.

Public Employee Retirement System (PERS). A special-purpose government that administers one or more pension plans. A PERS may administer other types of employee benefit plans, including postemployment health care plans and deferred compensation plans.

Public Entity Risk Pool. A cooperative group of governmental entities joining together to finance an exposure, liability, or risk. Risk may include property and liability, workers' compensation, or employee health care. A pool may be a stand-alone entity or included as part of a larger governmental entity that acts as the pool's sponsor.

Purchase Order. A document authorizing the delivery of specified merchandise or the rendering of certain services and the making of a charge for them.

Purchases Method. The method under which inventories are recorded as expenditures when acquired. See Consumption Method.

Pure Cash Conduit. A term used in connection with pass-through grants. A grantor that merely transmits grantor-supplied money without having administrative or direct financial involvement in the program.

Purpose Restrictions. A term used in connection with government-mandated and voluntary nonexchange transactions. Legal limitations that specify the purpose or purposed for which resources are required to be used (as distinguished from eligibility requirements).

Purpose Restrictions (Eligibility). The purpose for which resources is required to be used. All other purposes other than those required are un-allowed (or disallowed).

Q

Qualified Opinion. An opinion stating that *except for* the effect of the matter to which the qualification relates, the financial statements present fairly the financial position, results of operations, and (when applicable) cash flows in conformity with GAAP. Such an opinion is expressed when a lack of sufficient, competent, evidential matter or restrictions on the scope of the auditor's examination have led the auditor to conclude that an unqualified opinion cannot be expressed, or when the auditor believes, on the basis of the examination, that 1) the financial statements contain a departure from GAAP, the effect of which is material; 2) there has been a material change between periods in accounting principles or in the method of their application; or 3) there are significant uncertainties affecting the financial statements, and the auditor has decided not to express an adverse opinion or to disclaim an opinion. See Adverse Opinion and Disclaimer of Opinion.

Quasi-Municipal Corporation. An agency (e.g., a county, special district, or school district) established by the state primarily to help the state to carry out its functions. Some counties and other agencies ordinarily classified as quasi-municipal corporations have been granted the powers of municipal corporations by their states. See Municipal Corporation.

Questioned Cost. A determination by an auditor that an expenditure under a grant does not meet all of the grantor's requirements and, therefore, may be subject to disallowance and subsequent refund to the grantor.

R

Rate Base. The value of utility property used in computing an authorized rate of return as authorized by law or a regulatory commission.

Rate of Return (ROR). The gain or loss on an investment over a specified period, expressed as a percentage increase over the initial investment cost.

Rating. In the context of bonds, normally an evaluation of credit-worthiness performed by an independent rating service.

Real Account. An account, the balance of which is carried forward into the next fiscal year (a balance sheet account). See Nominal Account.

Real Estate or Real Property. (1) The possession of, claim to, ownership of, or right to possession of land; 2) all mines, minerals, and quarries in the land, all standing timber whether or not belonging to the owner of the land, and all rights and privileges appertaining thereto; and/or 3) improvements.

Realized Gains and Losses. The cumulative effect of appreciation and depreciation in the value of investments reported at fair value at the time those investments are sold.

Reappropriation. The inclusion of a balance from the prior year's budget as part of the budget of the subsequent fiscal year. Reappropriation is common for encumbrances outstanding at the end of a fiscal year that a government intends to honor in the subsequent fiscal year.

Reasonable Assurance. A term used in connection with financial auditing. The principle that the goal of the independent audit of the financial statements is to ensure that financial statements are free from "material" misstatement. The principle of reasonable assurance rests on the assumption that it is not cost-beneficial to attempt to ensure that financial statements are free of immaterial misstatements.

Rebatable Arbitrage. A term used in connection with the reinvestment of the proceeds of tax-exempt debt. A requirement to remit to the federal government interest revenue in excess of interest costs when the proceeds from the sale of tax-exempt securities are reinvested in a taxable money market instrument with a materially higher yield.

Recommended Budget. The recommended budget is prepared from compiled budget requests by the administrative officer or the auditor, as designated by the board and is recommended to the board by the designated county official on or before June 30 each year, as the board directs. The recommended budget document is formally approved by the board of supervisors to serve as the basis for public hearings prior to the determination of the adopted budget. See Adopted Budget and Budget Request.

Recipient Government. In a pass-through grant, a governmental entity that receives grants and other financial assistance to transfer to or spend on behalf of a secondary recipient.

Reciprocal Interfund Activity. The interfund counterpart to exchange and exchange-like transactions. This category includes both interfund loans and interfund services provided and used.

Recoverable Expenditure. An expenditure that is made for or on behalf of another government, fund, or department or for a private individual, firm, or corporation and that will subsequently be recovered in cash or its equivalent.

Redemption. The realization of a right to have the title of property restored free and clear of the lien of any taxes, through payment of money.

Redemption Amount. The total amount that would be necessary to redeem tax-defaulted property at the time an election is made to pay delinquent taxes.

Redemption Roll. All secured taxes defaulted as of June 30 of each fiscal year.

Refund. 1) an amount paid back or credit allowed because of an over collection or because of the return of an object sold. 2) verb, to pay back or allow credit for an amount because of an over collection or because of the return of an object sold. 3) To provide for the payment of an obligation through cash or credit secured by a new obligation.

Refunding. Issuance of new debt when proceeds are used to repay previously outstanding debt. The proceeds may be used currently (*current refunding*) or placed in escrow unit a later date (*advance refunding*).

Register. A record for the consecutive entry of a certain class of events, documents, or transactions, with proper notation of all the required details. See Journal.

Registered Bond. A bond whose owner is registered with the issuing government. A registered bond cannot be sold or exchanged without a change of registration.

Registered Security. A security that has the name of the owner written on its face. A registered security cannot be negotiated except by the endorsement of the owner.

Registered Warrant. A warrant which is registered by the paying officer for future payment due to a present lack of monies and which is to be paid in the order of its registration. In some cases, such warrants are registered when issued; in others, when first presented to the paying officer by the holders. See Warrant.

Regular Serial Bonds. Serial bonds in which all periodic installments of principal repayment are equal.

Regulated Enterprises. Enterprises for which (1) rates for regulated services or products are either established by, or subject to approval by, an independent, third-party regulator (or the governing board itself if it is empowered by statute or contract to establish rates that bind customers), (2) the regulated rates are designed to recover the specific enterprise’s costs of providing regulated services or products, and (3) it is reasonable to assume that the regulated activity can set and collect charges sufficient to recover its costs. Regulated enterprises have the “option” of adopting certain specialized guidance issued by FASB. In practice, the term “regulated enterprise” normally is applied only to enterprises that elect this option.

Reimbursable Expenditures. See Recoverable expenditure.

Reimbursement Grant. A grant for which a potential recipient should first incur qualifying expenditures to be eligible. Reimbursement grants are also referred to as “expenditure-driven grants.”

Reimbursements. (1) Repayments of amounts remitted on behalf of another party. (2) Interfund transactions that constitute reimbursements of a fund for expenditures or expenses initially made from it that properly apply to another fund (e.g., an expenditure properly chargeable to a Special Revenue Fund is initially made from the General Fund and is subsequently reimbursed). These transactions are recorded as expenditures or expenses, as appropriate, in the reimbursing fund and as reductions of the expenditure or expense in the fund that is reimbursed.

Reinsurance. A transaction in which a reinsurer (assuming enterprise), for a consideration (premium), assumes all or part of a risk undertaken originally by another insurer (government). However, the legal rights of the insured are not affected by the reinsurance transaction and the insurance enterprise issuing the insurance contract remains liable to the insured for payment of policy benefits.

Related Organization. An organization for which a primary government is not financially accountable because it does not impose will or have a financial benefit or burden relationship, even though the primary government appoints a voting majority of the organization's governing board.

Related Parties. A government's related organizations, joint ventures, and jointly governed organizations, elected and appointed officials of the government; its management; members of the immediate families of elected or appointed officials of the government and is management; and other parties with which the government may deal if management or operate policies of the other might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the management or operate policies of the transacting parties (for example, through imposition of will) or if it has an ownership interest in one of the transacting parties and extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

Related Party Transaction. A transaction that an informed observer might reasonably believe reflects considerations other than economic self-interest based upon the relationship that exists between the parties to the transaction. The term often is used in contrast to an arm's length transaction.

Relative Liquidity. Organization of the assets and liabilities in a statement of net position with the elements 'closest to cash' placed at the top of each category, followed by elements by descending liquidity.

Relative Order of Liquidity. An order for presenting assets and liabilities on the statement of net assets, based upon how readily they may be converted to cash or will require the use of cash.

Relevance. The principle that there should be a close logical relationship between the financial information provided and the purpose for which it is needed. Information is relevant if it is capable of making a difference in a user's assessment of a problem, condition, or event.

Reliability. The principle that financial information should be verifiable and free from bias, and should faithfully represent what it purports to represent.

Religious Exemption. The tax exemption allowed on property used exclusively for religious purposes.

Replacement Cost. The price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the measurement date.

Remote. Classification of a loss contingency where the change of the future event or events occurring is slight.

Report. A statement or description and/or process of communicating information.

Reporting Entity. The oversight unit and all of its related component units, if any, that are combined in the CAFR/BFS.

Reporting Package. A term used in connection with single audits. A package that the auditor must communicate to the Federal Audit Clearing House that includes (1) the government's financial statements, (2) the government's supplementary schedule of expenditures of federal awards, (3) the auditor's reports, (4) a summary schedule of prior audit findings, and (5) a corrective action plan. The reporting package must be accompanied by a special data collection form that summarizes the information contained in the reporting package.

Reproduction Cost. The cost as of a certain date of reproducing an exactly similar new property in the same place. Sometimes this term is designated as reproduction cost new to distinguish it from depreciated reproduction cost, which is the reproduction cost of a given property less the estimated accumulated depreciation applicable to it. In the absence of any modifier, however, reproduction cost is understood to be synonymous with reproduction cost new. See Replacement cost.

Reporting Date. The date of the financial statements. Generally, the *reporting date* is the last day of the fiscal year.

Repurchase Agreement. A generic term for an agreement in which a government entity (buyer-lender) transfers cash to a broker-dealer or financial institution (seller-borrower); the broker-dealer or financial institution transfers securities to the entity and promises to repay the cash plus interest in exchange for the same securities or for different securities.

Request for Proposal (RFP). A formalized method used in the procurement of services by soliciting information concerning the qualifications, experience and proposed compensation arrangements of prospective firms. The RFP sets forth the services being sought and requests information from firms interested in procuring the engagement.

Required Supplementary Information (RSI). Schedules, statistical data, and other information that are an essential part of financial reporting and should be presented with, but are not part of, the basic financial statements of a governmental entity. RSI is required by GAAP.

Requisition. A written demand or request, usually from one department to the purchasing officer or to another department, for specified articles or services.

Resolution. A special or temporary order of a legislative body; an order requiring less legal formality than an ordinance of statute. See Ordinance.

Resource. An element of the means available to a government to carry out its functions and activities. This includes money, property, equipment, manpower and other assets both tangible and intangible.

Restricted Assets. Assets whose use is subject to constraints that are either 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation.

Restricted Fund Balance. Fund balance should be classified as restricted when constraints placed on the use of resources are either 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation.

Restricted Fund Balance—Debt Service. An account used to segregate a portion of the fund balance for resources legally restricted to the payment of general long-term debt principal and interest maturing in future years.

Restricted Net Assets. A component of net assets calculated by reducing the carrying value of restricted assets by the amount of any related debt outstanding.

Restricted Net Position. Restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability, or if the liability will be liquidated with the restricted assets reported.

Retained Earnings. An equity account reflecting the accumulated earnings of a commercial business in the private sector. The term is not used in governmental accounting, where a *net assets* concept is used instead.

Retention. A liability account reflecting amounts due on construction contracts not paid pending final inspection of the project or the lapse of a specified period, or both. The unpaid amount is usually a stated percentage of the contract price.

Retirement Allowances. Amounts paid to government employees who have retired from active service or to their survivors.

Retirement Fund. See Pension (and other employee benefits) Trust Fund.

Retrospectively (Experience) Rated Policy. A term used in connection with public entity risk pools. An insurance policy for which the final amount of the premium is determined by adjusting the initial premium based on actual experience during the period of coverage (sometimes subject to maximum and minimum limits). A retrospectively rated policy is designed to encourage safety by the insured and to compensate the insurer if larger-than-expected losses are incurred.

Revenue and Claims Development Trend Data. Required supplementary information mandated by GASB for public entity risk pools.

Revenue Anticipation Note (RAN). A short-term, interest-bearing note issued by a government in anticipation of revenues to be received at a later date. The note is retired from the revenues to which it is related.

Revenue Bonds. Bonds whose principal and interest are payable exclusively from earnings of an enterprise fund. In addition to a pledge of revenues, such bonds sometimes contain a mortgage on the enterprise fund's property.

Revenue Bonds Payable. A liability account, which reflects the face value of revenue bonds issued and outstanding.

Revenue District. Includes every city and district for which the county officers assess property and collect taxes or assessments.

Revenues. (1) Increases in the net current assets of a governmental fund type from other than expenditure refunds and transfers. General long-term debt proceeds and transfers in are classified as other financing sources rather than as revenues. (2) Increases in the net total assets of a proprietary fund type, net total assets from other than expense refunds, capital contributions, and transfers. Transfers-in are classified separately from revenues.

Reverse Repurchase Agreement. An agreement in which a broker-dealer or financial institution (buyer-lender) transfers cash to a government entity (seller-borrower); the entity transfers securities to the broker-dealer or financial institution and promises to repay the cash plus interest in exchange for the same securities or different securities.

Revolving Fund. An imprest account that is accounted for as an asset of a fund.

Risk. Defined variously as uncertainty of loss, change of loss, or the variance of actual from expected results. Also, the subject matter of an insurance contract.

Risk Management. The process of managing an organization's activities to minimize the adverse effects of certain types of losses. The main elements of risk management are *risk control* to minimize the losses that strike a local government entity, and *risk financing* to obtain finances to restore the economic damages of those losses.

Risk-Sharing Pools. One of four different types of public entity risk pools. An arrangement by which governments pool risks and funds and share in the cost of losses.

Roll Being Prepared. 1) Assessor's Roll: the roll being compiled by the assessor for the ensuing fiscal year prior to certification of valuations to the county auditor. 2) Supplemental Roll: the roll for the fiscal year following the fiscal year in which the change in ownership occurs or new construction is completed.

S

Salary-Related Payments. A term used in connection with compensated absences. Payments by an employer that are directly and incrementally associated with payments made for compensated absences on termination. Such salary-related payments include the employer's share of Social Security and Medicare taxes and also might include the employer's contributions to pension plans.

Salvage Value. The estimated value that will be realized upon sale of an asset at the end of its useful life.

Schedule of Employer Contributions. A term used in connection with defined benefit pension and OPEB plans. Trend data on employers' annual required contribution to a plan and actual contributions.

Schedule of Funding Progress. A term used in connection with defined benefit pension and OPEB plans. Trend data on the relationship between the actuarial value of pension plan assets and the related actuarial accrued liability.

Schedules. See Supporting Schedules.

School District or Entity. Any school district, community college district, or county superintendent of schools.

Scope of Public Service. One of the criteria used to determine whether the statements of a potential component unit should be included in the financial statements of a reporting entity. This criterion embraces two aspects: (1) is the activity for the benefit of the reporting entity and/or its residents, and (2) is the activity conducted within the geographic boundaries of the reporting entity and is it generally available to the citizens of that entity?

Scrap Value. The value that will be realized upon sale of an asset if sold for its materials.

Scrip. An evidence of indebtedness, usually in small denomination, secured or unsecured, interest bearing or noninterest bearing, stating that the government, under conditions set forth, will pay the face value of the certificate or accept it in payment of certain obligations.

Secured Roll. State-assessed property and property which, in the opinion of the assessor, has sufficient value to guarantee payment of taxes levied, which if unpaid can be satisfied by the sale of the property by the tax collector.

Security. A negotiable or nonnegotiable instrument that signifies an ownership interest, the right to an ownership interest, or creditor status.

Security. A transferrable financial instrument that evidences ownership or creditor-ship, whether in physical or book entry form.

Securities Lending Transactions. Transactions in which governmental entities transfer their securities to broker-dealers and other entities for collateral, such as cash, securities, or letters of credit, and simultaneously agree to return the collateral for the same securities in the future.

Segment. An identifiable activity (or grouping of activities) required to be accounted for separately which is reported as or within an enterprise fund or another stand-alone entity for which one or more revenue bonds or other revenue-backed debt instruments (such as certificates of participation) are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds or other revenue-backed debt and has related expenses, gains and losses, assets, and liabilities that can be identified.

Segment Information. In the context of governmental financial reporting, the presentation of selected information on certain individual enterprise funds. Such disclosures are required by GAAP for primary governments with activities meeting the definition of segments.

Segregation of Incompatible Duties. The principle of internal control that no single employee should be placed in a position that allows that employee both to commit and to conceal an irregularity in the ordinary course of the employee's duties.

Self-Supporting Debt or Self-Liquidating Debt. Debt obligations whose principal and interest are payable solely from the earnings of the enterprise for whose construction or improvement the bonds were originally issued. See Revenue Bonds.

Serial Bonds. Bonds whose principal is repaid in periodic installments over the life of the issue. See Regular Serial Bonds and Straight Serial Bonds.

Service Assessments. Special assessment projects for operating activities that do not result in the purchase or construction of capital assets. Often such service assessments are for services that are normally provided to the public as general government functions and that would otherwise be financed by the general fund or a special revenue fund. Those services include street lighting, street cleaning and snow plowing. Financing for these routine services typically comes from general revenues. However, when routine services are extended to property owners outside the normal service area of the government or are provided at a higher level or at more frequent intervals than that provided the general public, special assessments are sometimes levied. Only the affected property owners are charged for the additional services.

Service Concession Arrangement. An arrangement between a transferor (a *government*) and an operator (*governmental* or *nongovernment entity*) in which 1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a *facility*) in exchange for significant consideration, and 2) the operator collects and is compensated by fees from third parties.

Service Concession Arrangement (SCA). An arrangement whereby a government transfers the operation of one of its capital assets to a third-party operator in exchange for consideration, with the operator then being compensated from the fees and charges it collects in connection with the operation of that asset, and with the transferor retaining control over the service and a significant residual interest. It is common to describe such arrangements as public-private partnerships, or public-public partnerships (PPPs). SCAs do not include arrangements in which a government contracts with vendors to provide ancillary services using a public asset (e.g., vendor use of a stadium as a venue to sell food or souvenirs). These types of ancillary services that are operated in conjunction with the facility, as opposed to services that relate to the primary function of the facility itself, are excluded from the scope of this term. See Concession.

Service Cost(s). The portion(s) of the actuarial present value of projected benefit payments that are attributed to valuation years.

Service Efforts and Accomplishments Reporting. A term used by GASB to describe the presentation of performance measures in connection with general purpose external financial reporting.

Shared Revenues. Revenues levied by one government but shared on a predetermined basis—often in proportion to the amount collected at the local level—with another government or class of governments.

Shared Taxes. See Shared Revenues.

Short-Term Debt. Debt with a maturity of one year or less after the date of issuance. Short-term debt usually includes variable-rate debt, bond anticipation notes, tax anticipation notes, and revenue anticipation notes.

Short-Term Obligations. Obligations that are scheduled to mature within one year after the date of government's financial statements.

Significant Deficiency. A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Single Audit. An audit designed to meet the needs of all federal grantor agencies and performed in accordance with the Single Audit Act of 1984 (as amended) and OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. The Single Audit Act allows or requires governments (depending on the amount of federal assistance received) to have one audit performed.

Single Audit Act of 1984. Federal legislation that provides for state and local government recipients of federal financial awards to have one audit performed to meet the needs of all federal grantor agencies. The Single Audit Act was amended in 1996.

Single Employer. An employer whose employees are provided with pensions or OPEB through a single-employer defined benefit pension or OPEB plan.

Single Employer Defined Benefit Pension/OPEB Plan. A defined benefit pension or OPEB plan that is used to provide pensions or OPEB to employees of only one employer.

Single Function District. A special district that delivers one service such as water, sewage, or fire protection.

Single-Program Government. A term used in connection with financial reporting for special purpose governments. A government that budgets, manages, and accounts for its activities as a single program. Single-program governments that use only governmental funds have the option to combine their fund financial statements and their government-wide financial statements into a single, combining presentation.

Sinking Fund. See <u>Debt Service Fund</u>.

Sinking Fund Bonds. Bonds issued under an agreement which requires the government to set aside periodically out of its revenues a sum that, with compound earnings thereon, will be sufficient to redeem the bonds at their stated date of maturity. Sinking fund bonds are usually term bonds.

Solvency Test. A term used in connection with pension plan financial reporting. Comparison of a pension plan's present assets to its aggregate accrued liabilities classified into the following categories: (1) liability for active member contributions on deposit, (2) liability for future benefits to present retired lives, and (3) liability for service already rendered by active members. In preparing this schedule, valuation assets are arbitrarily allocated first to the liability for active member contributions on deposit, second to the liability for future benefits to present retired lives, and third to the liability for service already rendered by active members, regardless of the method used for asset allocation.

Special Act. Special district created by the Legislature tailored to the unique needs of a specific area. Special District Acts include districts that are regional in nature, have unusual governing board requirements, provide unique services, or need special financing.

Special Assessment. Capital improvements or services provided by local government entities that are intended primarily to benefit a particular property owner or group of property owners rather than the general citizenry. The benefitting owners pay a regular assessment to the local government through a lien-assessed properties to secure the debt which may or may not be also backed by the full faith and credit of the local government entity as additional security.

Special Assessment Bonds. Bonds payable from the proceeds of special assessments. If the bonds are payable only from the collections of special assessments, they are known as special assessment bonds. If, in addition to the assessments, the full faith and credit of the government are pledged, they are known as general-obligation special assessment bonds.

Special Assessment Receivable. Claims a government has upon properties until special assessments levied against them have been paid. The term normally applies to those delinquent special assessments the government has taken legal action to collect through the filing of claims.

Special Assessment Liens Receivable. Claims a government has upon properties until special assessments levied against them have been paid. The term normally applies to those delinquent special assessments the government has taken legal action to collect through the filing of claims.

Special Assessment Roll. The official list showing the amount of special assessments levied against each property presumed to be benefited by an improvement or service.

Special Assessments Receivable—Current. Account for uncollected special assessments that a government has levied and are due within one year and are not yet considered delinquent.

Special Assessments Receivable—Delinquent. Account for special assessments remaining unpaid on and after the date to which a penalty for nonpayment is attached.

Special Assessments Receivable—Noncurrent. Account for uncollected special assessments that a government has levied but that are not due within one year.

Special Benefit Assessment. See Special Assessment, Fixed Charge Assessment, and Service Assessment.

Special District. A dependent/independent unit of local government organized to perform a single government function or a restricted number of related functions. Special districts usually have the power to incur debt and levy taxes; however, certain types of special districts are entirely dependent upon enterprise earnings and cannot impose taxes. Examples of special districts are water districts, drainage districts, flood control districts, hospital districts, fire protection districts, transit authorities, port authorities, and electric power authorities. Dependent special districts are usually under the governance of either county or city.

Special Funding Situations. A term used in connection with pensions. A situation in which a governmental entity is legally responsible for contributions to pension or OPEB plans that cover the employees of another governmental entity or entities. For example, a state government may be legally responsible for the annual "employer" contributions to a pension plan that covers employees of school districts within the state.

Special Items. Significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.

Special Journal. Journals other than the general journal. A journal in which are entered all entries of a particular type (e.g., cash receipts journals, cash disbursement journals, and purchases journals). See Journal and General Journal.

Special Lien Bonds. Special assessment bonds that are liens against particular pieces of property.

Special Revenue Fund. A governmental fund used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. Special revenue funds should not be used to account for resources held in trust for individuals, private organizations, or other governments.

Special Termination Benefits. Benefits offered for a short period of time to employees in connection with their termination of employment. Special termination benefits serve as an inducement to take early retirement, and often are used to help alleviate near-term budgetary problems.

Stabilization Arrangements. These represent formal arrangements to maintain amounts for budget or revenue stabilization, working capital needs, contingencies or emergencies, and other similarly titled purposes. The authority to set aside these amounts generally comes from statute, ordinance, resolution, charter, or constitution. Stabilization amounts may be expended only when certain specific circumstances exist and those circumstances should be such that they would not be expected to occur routinely.

Stabilization funds can be classified as either restricted or committed fund balance if they meet the criteria. If the criteria is not met, then stabilization agreements should be reported as unassigned.

Standard Cost. The predetermined cost of performing an operation or producing a product when labor, materials, and equipment are used efficiently under reasonable and normal conditions. Normal conditions exist when there is an absence of special or extraordinary factors affecting the quality or quantity of the work performed or the time or method of performing it.

Standard Costing. Method of estimating the historical cost of a capital asset by establishing the average cost of obtaining the same or similar asset at the time of acquisition.

State and Local Government Series (SLGS, slugs). Direct obligations of the federal government that the U.S. Treasury issues specifically to provide state and local governments with required cash flows at yields that do not exceed Internal Revenue Service arbitrage limits.

State-Assessed Roll. Utility properties assessed by the State Board of Equalization that are comprised of both unitary and nonunitary value, which is considered part of the secured roll.

State Controller. The elected California State fiscal officer prescribed by the constitution with such additional powers, duties, and functions as the Legislature may confer or impose upon the office.

Statement of Cash Receipts and Disbursements. A financial presentation summarizing an entity's cash transactions in an accounting period. This statement is not currently required by GAAP.

Statement of Activities. Report of the results of operations of the reporting government presented in a format that reports the net (*expense*) revenue of its individual functions.

Statement of Cash Flows. Required statement for proprietary funds, nonexpendable trust funds, and governmental entities that use proprietary fund accounting, directly showing the cash inflows and outflows of a period and reconciling operating cash flows to operating income.

Statement of Net Position. Report of all financial and capital resources. Local government entities are encouraged to present the statement in a format that displays assets plus deferred outflows of resources less liabilities plus deferred inflows of resources equal net position, although the traditional balance sheet format (assets plus deferred outflows of resources equal liabilities plus deferred inflows of resources plus net position) may be used.

Statement of Revenues, Expenditures, and Changes in Fund Balance. A report of information about the inflows, outflows, and balances of current financial resources of each major governmental fund and for the nonmajor governmental funds in aggregate. A total column should be presented as of the period ended by the reporting date.

Statement of Revenues, Expenses, and Changes in Net Position. The operating statement for proprietary funds or fiduciary funds.

Statistical Section. The third of three essential components of any CAFR. The statistical section provides a broad range of trend data covering key financial indicators from the past 10 fiscal years (e.g., general government revenues and expenditures, property tax collections, debt burden). It also contains demographic and miscellaneous data useful in assessing a government's financial condition. The contents of the statistical section normally fall outside the scope of the independent audit of the financial statements.

Statistical Tables. Presentations included in the statistical section of the CAFR/CUFR providing detailed data on the physical, economic, social and political characteristics of the reporting government.

Statute. A written law enacted by a duly organized and constituted legislative body. See Ordinance, Resolution, and Order.

Straight Serial Bonds. Serial bonds in which the annual installments of bond principal are equal or nearly equal.

Structured Settlement. A term used in connection with risk financing. A means of satisfying a claim liability, consisting of an initial cash payment to meet specific present financial needs combined with a stream of future payments designed to meet future financial needs, generally funded by annuity contracts.

Subactivity. A special line of work performed in carrying out a governmental activity. (e.g., "cleaning luminaries" and "replacing defective street lamps" would be subactivities under the activity of "street light maintenance").

Subfunction. A grouping of related activities within a particular governmental function. (e.g., "police" is a subfunction of the function "public safety".)

Subobject. A subdivision within an expenditure object classification (e.g., "regular employees" is a possible subobject classification within the "personal services—salaries and wages" expenditure object classification). May be used in a similar context when revenues utilize object classifications.

Subsequent Event. Events or transactions that affect the financial statements after the reporting date. Recognized events require adjustments to the financial statements as they existed prior to the reporting date. Non-recognized events may require disclosure.

Subsidiary Account. One of a group of related accounts supporting in detail the debit and credit summaries recorded in a control account (e.g., the individual property taxpayers' accounts for the taxes receivable control account in the general ledger). See Control Account.

Subsidiary Ledger. A group of subsidiary accounts, the sum of the balances of which should equal the balance of the related control account (or general ledger account). See General Ledger.

Summary of Significant Accounting Policies (SSAP). A disclosure of accounting policies, required by GAAP, that should identify and describe the accounting principles followed by the reporting entity and the methods of applying those principles that materially affect the determination of financial position, cash flows, or results of operations. In general, the disclosure should encompass important judgments as to the appropriateness of principles relating to the recognition of revenue and the allocation of asset costs to current and future periods; in particular, it should encompass those accounting principles and methods that involve any of the following: 1) a selection from existing acceptable alternatives, 2) principles and methods peculiar to government, and 3) unusual or innovative applications of accounting principles, including those peculiar to government.

Supplemental Roll. The roll prepared or amended in accordance with the provisions of the Revenue and Taxation Code section 75 et seq., and containing properties that have changed ownership or had new construction completed.

Supplementary Information (SI). Supporting information that is useful for placing basic financial statements and notes to basic financial statements in an appropriate operational, economic, or historical context. SI is presented with the basic financial statements, notes to basic financial statements, and RSI in a government's general purpose external financial report.

Supporting Schedules. Financial presentations used: 1) to demonstrate compliance with finance-related legal and contractual provisions; 2) to aggregate and present in greater detail information spread throughout the financial statements (e.g., cash balances, investments, current and delinquent taxes); 3) to present in greater detail information reported in the financial statements (e.g., additional revenue sources detail, changes in general capital assets by function); and 4) to present information not disclosed in GAAP basic financial statements (e.g., cash receipts and disbursements, changes in Agency Fund assets and liabilities).

Surety Bond. A written promise to pay damages or to indemnify against losses caused by the party or parties named in the document, through nonperformance or through defalcation (e.g., a surety bond might be required of an independent contractor). Surety bonds also include fidelity bonds covering government officials and employees.

Susceptible to Accrual. Revenues of governmental funds that are collected or collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Suspense Account. An account that carries charges or credits temporarily, pending the determination of the proper account or accounts to which they are to be posted.

Swap. A type of derivative instrument in which there is an agreement to exchange future cash flows. These cash flows may be either fixed or variable and may be either received or paid. Variable cash flows depend on the reference rate.

System Development Fees. See Connection Fees.

T

Tap Fees. See Connection Fees.

Tax Anticipation Note (TAN). Notes or warrants issued in anticipation of collection of taxes, usually retired only from tax collections, and frequently only from the proceeds of the tax levy whose collection they anticipate.

Tax Anticipation Warrants. See Tax Anticipation Notes.

Tax Certificate. A certificate issued by a government as evidence of the conditional transfer of title to tax-delinquent property from the original owner to the holder of the certificate. If the owner does not pay the amount of the tax arrearage and other charges required by law during the specified period of redemption, the holder can foreclose to obtain title. Also called tax sale certificate and tax lien certificate in some jurisdictions. See Tax Deed.

Tax Deed. A written instrument by which title to property sold for taxes is transferred unconditionally to the purchaser. A tax deed is issued upon foreclosure of the tax lien and is obtained by the purchaser at the tax sale. The tax lien cannot be foreclosed until the expiration of the period during which the owner may redeem the property by paying the delinquent taxes and other charges. See Tax Certificate.

Tax-Defaulted Property. See Defaulted Taxes.

Tax-Exempt Bonds. State and local government securities whose interest is exempt from taxation by the federal government or within the jurisdiction issued.

Tax-Increment Financing. Financing secured by the anticipated incremental increase in tax revenues resulting from the redevelopment of an area.

Tax Levy Ordinance. An ordinance through which taxes are levied.

Tax Liens. Claims governments have upon properties until the taxes levied against them have been paid. This term is sometimes limited to those delinquent taxes the government has taken legal action to collect through the filing of liens.

Tax Liens Receivable. Legal claims against property that have been exercised because of nonpayment of delinquent taxes, interest and penalties. Amounts accumulated in this account include delinquent taxes, interest and penalties receivable thereon, and costs of converting delinquent taxes into tax liens.

Tax Notes. See Tax Anticipation Notes.

Tax Rate. The amount of tax stated in terms of a unit of the tax base (e.g., 25 mills per dollar of assessed valuation of taxable property).

Tax Rate Area (TRA). A geographic area served by a unique combination of jurisdictions.

Tax-Rate Limit. The maximum rate at which a government may levy a tax. The limit may apply to taxes raised for a particular purpose or to taxes imposed for all purposes, and may apply to a single government or to a class of governments operating in a particular area. Overall tax-rate limits usually restrict levies for all purposes and of all governments, state and local, having jurisdiction in a given area.

Tax Roll. The official list showing the amount of taxes levied against each taxpayer or property. Frequently, the tax roll and the assessment roll are combined, but even in these cases the two can be distinguished.

Tax Supplement. A tax levied by a local government having the same base as a similar tax levied by a higher level of government, such as a state. The local tax supplement is frequently administered by the higher level of government along with its own tax (e.g., locally imposed, state-administered sales tax).

Tax Title Notes. Obligations secured by pledges of the government's interest in certain tax liens or tax titles.

Taxable Assessed Value. The total assessed value minus all exemptions other than the homeowner's exemption.

Taxable Value. Means and includes the base year full cash value, adjusted for any given lien date as required by law, or the full cash value for the same date, whichever is less.

Taxes. Compulsory charges levied by a government to finance services performed for the common benefit. This term does not include specific charges made against particular persons or property for current or permanent benefits, such as special assessments. Neither does the term include charges for services rendered only to those paying such charges (e.g., sewer service charges).

Taxes Collected in Advance. A liability account reflecting taxes collected before they are formally levied.

Taxes Levied An asset account reflecting taxes that are levied by the reporting government for other governments that, when collected, are to be paid over to those governments.

Tax Power. The authority for a local government entity to raise money to pay for projects and services.

Taxes Receivable—Current. Account for the uncollected portion of taxes that a government has levied, that are due within one year, and that are not considered delinquent.

Taxes Receivable—Delinquent. Account for taxes remaining unpaid on and after the date on which a penalty for nonpayment attaches. Delinquent taxes receivable is classified as such until paid, abated, canceled, or converted into tax liens.

Taxing Agency. Includes the state, county, city, and every district that assesses property for taxation purposes and levies taxes or assessments on the property so assessed.

Technical Agenda. A term used in connection with GASB's due process procedure. A list of research projects formally undertaken by GASB as part of its development of authoritative standards of accounting and financial reporting.

Technical Bulletin. In context of GASB pronouncements, a document issued by the staff of GASB to provide guidance for applying GASB statements and interpretations and resolving accounting issues not directly addressed by them. The Accounting Standards and Procedures Committee of the County Auditor's Association of California issues similar documents that relate to specific accounting issues and their related treatments that are unique to California counties.

Teeter Plan. See Alternate Method of Tax Apportionment.

Temporary Loans. Short-term obligations representing amounts borrowed for short periods of time and usually evidenced by notes payable or warrants payable. They may be unsecured or secured by specific revenues to be collected. See Tax Anticipation Notes.

Ten Percent Criterion. The first of two tests used to determine whether a given governmental fund or enterprise fund should be reported as a major fund in the basic financial statements. For governmental funds, this test is applied to the total assets, liabilities, revenues, and expenditures of all governmental funds. For enterprise funds, this test is applied to the total assets, liabilities, revenues, and expenses of all enterprise funds. The test need be met for only one of these four items. See Five Percent Criterion.

Term Bonds. Bonds that mature, in total, on one date.

Termination Benefits. Inducements offered by employers to active employees to hasten the termination of services, or payments made in consequence of the early termination of services. Termination benefits include early-retirement incentives, severance benefits, and other termination related benefits.

Termination Payments Method. A method of calculating the liability for earned sick leave for which it is probable that the benefits will result in termination payments. Under this method, the amount of the liability is estimated based on a governmental entity's past experience of making termination payments for sick leave, adjusted for the effect of changes in its termination policy and other factors.

Timber Advisory Committee. A standing committee appointed by the board and composed of one representative of the Board of Equalization, one representative of the Board of Forestry, five assessors from the rate adjustment counties, one member representing small-scale timber owners, and one member representing large-scale timber owners.

Timberland. (Timber Yield Tax). Privately owned land, or land acquired for state forest purposes, which is devoted to and used for growing and harvesting timber and compatible uses, and which is capable of growing an average annual volume of wood fiber of at least 15 cubic feet per acre.

Timeliness. The principle that financial statements should be issued soon enough after the reported events to affect decisions.

Time Requirements. Specification of 1) the period when resources are required to be used (sold, disbursed, or consumed) or when use may begin (for example, operating or capital grants for a specific period), or 2) that the resources are required to be maintained intact in perpetuity or unit a specified date or event has occurred (for example, permanent endowments, term endowments, and similar agreements). Time requirements affect the timing of recognition of nonexchange transactions.

Timing Differences. In the context of budgetary accounting, differences between the budgetary basis of accounting and GAAP that occur when the period used for budgeting differs from the period used for GAAP reporting (e.g., a special revenue fund that uses a grant-year budget rather than a fiscal-year budget).

Total OPEB Liability. The portion of the actuarial present value of projected benefit payments that is attributed to past periods of member service in conformity with the requirements of GAAP. The total OPEB liability is the liability of employers and nonemployer contributing entities to plan members for benefits provided through a defined benefit OPEB plan that is not administered through a trust.

Total Pension Liability. The portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service.

Trade Discount. An allowance, usually varying in percentage with the volume of transactions, made to those engaged in certain businesses and given without respect to when the account is paid. These discounts are commonly considered a reduction of the sales or purchase price, not earnings. The term is not to be confused with cash discount.

Traditional Budget. A term sometimes applied to the budget of a government wherein expenditures are based entirely or primarily on objects of expenditure. See Program Budget and Performance Budget.

Transaction Costs. The costs to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability that 1) are directly attributable to the disposal of the asset or the transfer of the liability, and 2) meet both of the following criteria: they result directly from and are essential to that transaction, and they would not have been incurred by the entity had the decision to sell the asset or transfer the liability not been made.

Transaction Date. The date on which a transaction is recorded in accounting records in conformity with GAAP. A long-term commitment may have more than one transaction date.

Transfers. See Interfund Transfers and Intra-Fund Transfers.

Transfers of Operations. A transfer of operations is a government combination involving the operations of a government or nongovernmental entity, rather than a combination of legally separate entities, in which no significant consideration is exchanged. Operations may be transferred to another existing entity or to a new entity.

Transportation Costs. The costs that would be incurred to transport an asset from its current location to its principal or most advantageous market.

Trial Balance. A list of the balances of the accounts in a ledger kept by double entry with the debit and credit balances shown in separate columns. If the totals of the debit and credit columns are equal or their net balance agrees with a control account, the ledger from which the figures are taken is said to be "in balance."

Trust Funds. See Fiduciary Fund.

Trustee. A fiduciary holding property on behalf of another.

Type A Program. A term used in connection with the determination of major programs for purposes of single audits. Type A programs are defined on the basis of the relationship between program expenditures and total federal awards expended.

Type B Program. A term used in connection with the determination of major programs for purposes of single audits. A Type B program is any program with insufficient program expenditures to qualify as a Type A program.

U

Unallocated Balance of Appropriation. An appropriation balance available for allotment.

Unallocated Claim Adjustment Expenses. A term used in connection with risk financing. Costs that cannot be associated with specific claims but are related to claims paid or in the process of settlement, such as salaries and other internal costs of the pool's claims department.

Unallocated Depreciation. A term used in connection with the government-wide statement of activities. Depreciation not properly reported as a direct expense of a functional category.

Unamortized Discounts on Bonds Sold. A contra-liability account used to reflect that portion of the face value of bonds exceeding the amount received from their sale (excluding amounts paid for accrued interest) which remains to be amortized over the remaining life of the bonds.

Unamortized Premiums on Bonds Sold. A liability account used to reflect that portion of the excess of bond proceeds over exceeding par value and which remains to be amortized over the remaining life of such bonds.

Unamortized Premiums on Investments. An asset account used to reflect that portion of the excess of the amount paid for investments (excluding amounts paid for accrued interest) over their face value, which remains to be amortized over the remaining life of such investments.

Unanticipated Available Financing. Material sums of available financing not included in the budget, which may legally be made available for the financing requirements of the local government entity.

Unassigned Fund Balance. The residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

Unavailable Fund Balance. That portion of the governmental-type fund balance that is unavailable for financing the budget requirements for the accounting period involved. This is a conventional term, which identifies the nonspendable, restricted, committed and assigned portion of the fund balance, and should not be used in a GAAP financial presentation.

Unbilled Accounts Receivable. An account designating the estimated amount of accounts receivable for service that have not yet been billed (e.g., if a utility bills its customers bimonthly but prepares monthly financial statements, the amount of goods sold or services rendered during the first month of the bimonthly period would be reflected in the balance sheet under this account title).

Uncommitted Balance of Appropriations. The portion of an appropriation remaining after the deduction of expenditures and encumbrances.

Underlying Securities. The securities lent by the lender to the borrower.

Understandability. The principle that information in financial reports should be expressed as simply as possible.

Underwriter. In the context of bonds, a dealer who purchases a new issue for resale.

Underwriting. The process of selecting, classifying, evaluating, rating, and assuming risks.

Undivided Interest. An arrangement (also known as a "joint operation") that resembles a joint venture but no entity or organization is created by the participants. An undivided interest is an ownership arrangement in which two or more parties own property in which title is held individually to the extent of each party's interest. Implied in that definition is that each participant is also liable for specific, identifiable obligations (if any) of the operation. Because an undivided interest is not a legal entity, borrowing to finance its operations often is done individually by each participant. An additional consequence of the absence of a formal organizational structure is that there is no entity with assets, liabilities, expenditures/expenses, or revenues, or the resulting equity, to allocate to participants.

Unearned Revenue. Unearned revenues arise when revenues are received in an exchange transaction prior to their normal time of receipt and should be recorded as liabilities. Revenues that are the result of imposed and other nonexchange transactions have separate recognition rules that apply and are generally recorded as deferred inflows of resources.

Unencumbered Allotment. That portion of an allotment not yet expended or encumbered.

Unencumbered Appropriation. That portion of an appropriation not yet expended or encumbered.

Unexpended Allotment. That portion of an allotment not yet expended.

Unexpended Appropriation. That portion of an appropriation not yet expended.

Unfunded Actuarial Accrued Liability. The excess of the actuarial accrued liability over the actuarial value of assets. This value may be negative, in which case it may be expressed as a negative unfunded actuarial accrued liability, the excess of the actuarial value of assets over the actuarial accrued liability, or the funding excess.

Unit Cost. In the context of cost accounting, the cost of producing a unit of product or rendering a unit of service (e.g., the cost of treating and purifying 1,000 gallons of sewage).

Unit of Account. The level at which an asset or a liability is aggregated or disaggregated for recognition or disclosure purposes.

Unitary Property. A group of properties that operate as a unit as part of the primary function of the assessee.

Unqualified Opinion. An opinion rendered without reservation by the independent auditor that financial statements are fairly presented.

Unliquidated Encumbrances. Encumbrances outstanding. See Encumbrances.

Unrealized Gains and Losses. A term used in connection with the valuation of investments. Cumulative change in the market value of investments prior to their disposition.

Unrealized Revenues. A term used in connection with budgeting. The difference between estimated revenues and actual revenues.

Unrestricted Net Assets. That portion of net assets that is neither restricted nor invested in capital assets (net of related debt).

Unrestricted Net Position. The net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Unsecured Roll. The county assessor's certified assessment listing of properties which, in his opinion, do not constitute sufficient "permanence." either through immovability or other intrinsic qualities, to guarantee payment of taxes levied against them.

V

Value. As used in governmental accounting, 1) the act of describing anything in terms of money, or 2) to measure in terms of money. The term should not be used without further qualification. See Book Value and Face Value.

Valuation Technique. A specific method or combination of methods used to determine the fair value of an asset or liability.

Variable Interest Rate. A rate of interest subject to adjustment (e.g., the rate of interest specified may be a percentage of the prime rate on certain set dates).

Vessel. See Documented Vessel.

Vesting Method. An estimate of accrued sick leave liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such payments. To calculate the liability, these accumulations should be reduced to the maximum amount allowed as a termination payment. Accruals for those employees who are expected to become eligible in the future should be based on assumptions concerning the probability that individual employees, classes, or groups of employees will become eligible to receive termination payments.

Voucher. A written document that evidences the propriety of transactions and usually indicates the accounts in which they are to be recorded.

Voucher System. A system that calls for the preparation of vouchers for transactions involving payments and for the recording of such vouchers in a special book of original entry, known as a *voucher register*, in the order in which payment is approved.

Vouchers Payable. Liabilities for goods and services, evidenced by vouchers that have been pre-audited and approved for payment but that have not been paid.

Voluntary Nonexchange Transactions. Transactions that result from legislative or contractual agreements, other than exchanges, entered into willingly by the parties to the agreement (for example, certain grants and private donations).

Voting Majority. When the number of a government's appointees to a component unit's board is sufficient to exhibit control.

Vulnerability Assessment. A term used in connection with evaluations of internal controls. The risk-based systematic prioritization of internal control evaluations.

W

Warrant. An order drawn by the legislative body or an officer of a government upon its treasurer, directing the latter to pay a specified amount to the person named or to the bearer. It may be payable upon demand, in which case it usually circulates the same as a bank check, or it may be payable only out of certain revenues when and if received, in which case it does not circulate as freely. See Registered Warrant and Deposit Warrant.

Warrants Payable. The amount of warrants outstanding and unpaid.

Wasting Assets. Mines, timberlands, quarries, oil fields and similar assets that diminish in value by the removal of their contents.

Welfare Exemption. A tax exemption on property used exclusively for religious, hospital, scientific, or charitable purposes, owned and operated by community chests, funds, foundations, or corporations organized and operated for religious, hospital, scientific, or charitable purposes.

Widely Recognized and Prevalent Practice. A term used in connections with the hierarchy of GAAP for state and local governments. The principal that accounting and financial reporting practice should itself serve as a source of GAAP in the absence of higher-level guidance.

Williamson Act. See Open Space Land.

Work in Process. The cost of partially completed products manufactured or processed, such as a partially completed printing job. Sometimes referred to as work in progress. See Construction in Progress.

Work in Progress. See Construction in Progress and Work in Process.

Work Order. A written order authorizing and directing the performance of a certain task and issued to the person who is to direct the work. Among the items of information included on the order are the nature and location of the job, specifications of the work to be performed, and a job number, which is referred to in reporting the amount of labor, materials and equipment used.

Work Program. A plan of work proposed to be done during a particular period by the administrative agency in carrying out its assigned activities.

Work Unit. A fixed quantity that will consistently measure work effort expended in the performance of an activity or the production of a good.

Working Capital Fund. See Internal Service Fund.

X

NONE

Y

Yellow Book. Term commonly used to describe the General Accounting Office's publication, *Government Auditing Standards*, the source of GAGAS.

Yield. See Effective Interest Rate.

Yield-Maintenance Repurchase/Reverse Repurchase Agreement. A type of dollar repurchase/reverse repurchase agreement in which the securities returned provide the seller-borrower with a yield specified in the agreement. See Repurchase Agreement and Reverse Repurchase Agreement.

Z

Zero-Coupon Debt. Deep discount debt issued with a stated interest rate of zero percent.

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Appendix C: Resources

Appendix Contents

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Appendix C: Resources

General Governance

- Bagley-Keene Open Meeting Act (Gov. Code, §11120 et seq.)
- Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (Gov. Code, §56000 et seq.)
- The Ralph M. Brown Act (Gov. Code, §54950.5 et seq.)
- California Public Records Act (Gov. Code, §6251 et seq.)
- County Budget Act (Gov. Code, §29000 et seq.)

Local Government Resources

Association of California Health Care Districts
www.achd.org

Association of California Water Agencies
www.acwa.com

California Association of Joint Powers Authorities
www.cajpa.org

California Association of Public Cemeteries
www.capc.info

California Association of Recreation and Park Districts
www.carpd.net

California Association of Resource Conservation Districts
www.carcd.org

California Association of Sanitation Agencies
www.casaweb.org

California Debt and Investment Advisory Commission
www.treasurer.ca.gov/cdiac

California Association of Local Agency Formation Commissions
www.calafco.org

California Local Government Finance Almanac
www.californiacityfinance.com

California Special Districts Association
www.csda.net

California Special Districts Finance Corporation
www.csdafinance.net

California State Association of Counties
www.csac.counties.org

Fire Districts Association of California
www.fdac.org

Government Finance Officers Association
www.gfoa.org

Institute for Local Government
www.ca-ilg.org

League of California Cities
www.cacities.org

Mosquito and Vector Control Association of California
www.mvcac.org

Special District Risk Management Authority
www.sdrma.org/

State Resources

Office of the Governor
www.gov.ca.gov

Governor's Office of Planning and Research
www.opr.ca.gov

Attorney General's Office (California Department of Justice)
www.oag.ca.gov

California Legislative Information (California Codes, Laws, Statutes, and Other Resources)
www.leginfo.legislature.ca.gov

California Code of Regulations
https://govt.westlaw.com

California Department of Transportation (Caltrans)
www.dot.ca.gov

California Public Employees' Retirement System (CalPERS)
www.calpers.ca.gov

California State Assembly
www.assembly.ca.gov

California State Board of Equalization
www.boe.ca.gov

California State Controller's Office
www.sco.ca.gov

California State Controller's Office—Local Government Financial Data
https://bythenumbers.sco.ca.gov/

California State Senate
www.senate.ca.gov

California State Treasurer
www.treasurer.ca.gov

California Uniform Cost Accounting Commission
www.sco.ca.gov/ard_cuccac.html

California Fair Political Practices Commission
www.fppc.ca.gov

Legislative Analyst's Office
www.lao.ca.gov

Little Hoover Commission (California's Independent State Oversight Agency)
www.lhc.ca.gov

Local Government Commission
www.lgc.org

California Secretary of State
www.sos.ca.gov

Other

Governmental Accounting Standards Board
www.gasb.org

Office of Management and Budget (OMB)
www.whitehouse.gov/omb

Questions regarding reporting requirements or submissions, including joint power agreements, should be directed to the Local Government Reporting Section of the State Controller's Office at:

Local Government Reporting (Counties or Cities)
LGRsupport@sco.ca.gov
(916) 322-9672

Local Government Reporting (Special Districts)
SDsupport@sco.ca.gov
(916) 327-1017

Questions regarding the *Accounting Standards and Procedures for Counties* (ASP) manual, the *Special Districts Uniform Accounting and Reporting Procedures* (SPD) manual, or accounting procedures for counties or special districts, should be directed to the Local Government Policy Section of the State Controller's Office at:

Local Government Policy (Counties or Special Districts)
LocalGovPolicy@sco.ca.gov

Appendix D: Road Fund Accounting

ROAD FUND ACCOUNTING

Excerpt from the Accounting Standards and Procedures for Counties, 2018 Edition

The guidance in the following appendix is an excerpt from the 2018 edition of the *Accounting Standards and Procedures for Counties* (ASP) manual. The "strike through" language used in this appendix addresses superseded references.

The GAAP guidance and language in this extract has not been updated to current GASB Codification as described in the Foreword. At the time of the 2018 ASP publication, the GAAP guidance had only been updated for GASB Standards through Statement No. 72.

The legal statutes referenced in this extract may not reflect the latest federal and state guidance. The legal guidance provided in this extract reflect the previous interpretation of the legal statutes as written in the 2018 ASP manual.

Introduction

App D.01 Public Ways and Facilities

Public ways and facilities are a major function of county government. The construction and maintenance of county roads and bridges is one of the major activities within this function that requires special accounting treatment.

App D.02 Legal Basis

Divisions 2 and 3 of the *Streets and Highways Code* prescribe the duties and powers of counties in the construction and maintenance of county roads.

App D.03 County Road System

Streets and Highways Code section 25*)* defines a county highway as any highway which is:

- Laid out or constructed as such by the county.
- Laid out or constructed by others and dedicated or abandoned to or acquired by the county.
- Made a county highway in any action for the partition of the real property.
- Made a county highway pursuant to law.

Although the code defines county highways, in order to distinguish among them, reference is usually made to state highways, county roads, and city streets. The total of the highways referred to in Streets and Highways Code section 25 is called the county road system.

App D.04 Organization

To perform this road function, all counties have a *Road Fund* which may also be a customer of a department of public works. Accounting methods subsequently described are applicable to a road department, whereas a department of public works is an *Internal Service Fund* and is accounted for on a proprietary fund basis ~~(*See Chapter 13, Proprietary Funds*)~~.

Financial Accounting

App D.05 Fund Type

Special Revenue Funds are used to account for and report the proceeds of specific revenue resources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. A *Special Revenue Fund* is established to account for the available financing and financing requirements associated with the *Road Fund*. ~~The *Road Fund* uses the same balance sheet accounts presented in *Chapter 9, General Fund and Special Revenue Funds*.~~

App D.06 Budgetary Control

Budgetary controls are exercised over *Salaries and Employee Benefits*, *Services and Supplies*, *Other Charges*, *Capital Assets*, *Other Financing Uses*, and *Residual Equity Transfers*. The projects adopted by the board as represented by cost centers are subject to budgetary control unless the board adopts other administrative controls (SHC Code, §2007).

App D.07 Revenues and Other Financing Sources

~~Road Fund revenues and other financing sources are accounted for in accordance with *Chapter 6: External Financing Sources (Revenues, Other Financing Sources, and Transfers).*~~ Additional accounts may be established as necessary for reporting requirements. For example, Streets and Highways Code section 2150 requires that *Highway Users Tax* revenue be kept in a separate account for snow removal, heavy rainfall, storm damage, etc. An alternative would be to establish and maintain a subsidiary revenue ledger for the desired level of detail.

Motor Vehicle Fuel Taxes are usually the major revenue source for the county road program. Other *Road Fund* revenues include traffic fines and forfeitures, federal forest reserve receipt apportionments, and federal flood control receipt apportionments. The cost of certain projects is shared by the state and federal governments. Counties may supplement these sources by operating transfers from the *General Fund* and by district assessments for expenditure in the area of benefit. Interest earned on investments of *Road Fund* money must be deposited in the *Road Fund* and used for road purposes, per Streets and Highways Code section 1622.

If remittances of *Highway Users Tax* are reduced by amounts for Federal Aid Secondary (FAS) deposits, the *Highway Users Tax* must be recorded at its gross amount and a *Deposits with Others* account should be debited until the expenditure is incurred.

App D.08 Expenditures and Other Financing Uses

~~Accounts for expenditures and other financing uses accounts are maintained in accordance with *Chapter 7, Financing Uses (Expenditures/Expenses, Other Financing Uses, Transfers, Contingency, Appropriations).*~~

App D.09 Transactions of Original Entry

Cost Accounting

The information presented in this section is an example of a model used to capture data required for completing the Annual Road Report.

App D.10 Cost Accounts

Cost accounts are established to account for the costs associated with an activity, project, or job. Generally, expenditures recorded in object accounts would be allocated to a cost account. They include both the direct and indirect costs that represent the costs of the road program.

App D.11 Cost Centers

Work type cost centers should be maintained for the following expenditure categories:

- Administration
- Construction
- Maintenance
- Aid to Other Governmental Agencies
- Acquisition of Equipment
- Plant Acquisition
- Reimbursable Work

App D.12 Clearing Accounts

Clearing accounts are those in which expenditures are paid and subsequently allocated or distributed to cost centers. Such accounts are maintained for:

- Labor
- Equipment Maintenance
- General Road Overhead
- Shop Overhead

App D.13 Projects

In support of the work type cost centers, job cost or project accounts are maintained in support of the construction, aid to other governmental agencies, plant acquisition, and reimbursable work cost centers. Job/Project costs are segregated into the following categories:

- Contracts
- Other Direct Charges, including Materials from Inventory
- Labor
- Equipment Usage
- General Road Overhead

App D.14 Labor — Clearing Account

The "Labor — Clearing" account is used to distribute all salaries and employee benefits paid by using a subobject account and is credited when labor is distributed by job/project and work type.
<u>Example</u>

a) The monthly payroll is $25,000. The county share of retirement is $1,750. The county also pays $175 toward employees' health insurance premiums:

Account	Debit	Credit
Expenditures	26,925	
Cash		26,925
Salaries and Employee Benefits	26,925	
*Labor - Clearing		26,925

b) The distribution to cost centers is obtained from daily time cards and other sources:

Account	Debit	Credit
*Administration	2,155	
*Construction	10,760	
*Maintenance	8,610	
*Aid to Other Governmental Agencies	2,180	
*Reimbursable Work	3,220	
*Labor — Clearing		26,925

NOTE: An asterisk "*" preceding an account title designates a cost account.

If labor rates were equal to actual costs, the clearing account would be zero after each posting cycle. In practice there will be a variance. Variances should be analyzed periodically to determine the cause and reset rates if necessary. Variances between standard rates and actual charges could be accounted for as an adjustment to the general work overhead account or distributed upon another acceptable basis, such as labor hours.

App D.15 Labor Rates

Procedures for distributing labor to cost accounts should provide for uniformity of charges should:

- produce current cost information;
- be standardized;
- facilitate ease in accounting operations; and
- be adaptable to manual or automated methods.

For these reasons, the use of a weighted average labor rate is recommended in the distribution of labor costs to the respective cost accounts. In applying this method, a charge is composed of the direct labor per hour, or other appropriate unit, plus a pro rata share of labor-related costs such as the county's share of employees' retirement, "old age, survivor, and disability insurance" (O.A.S.D.I.), group insurance premiums, vacation, sick leave and other employee benefits. A variance between accumulative allocations to cost accounts and the actual expenditures for payroll and the labor-related items for which the rate is weighted will be reflected in the difference between the debits and credits in the labor-clearing accounts.

These variances should be cleared at the end of the fiscal year on a pro rata basis to the appropriate cost centers or as a component of general road overhead. Care should be taken in establishing rates at the start of a fiscal year in order to minimize variance adjustments during or at the close of the period.

The actual computation of rates will depend on:

1) gross salary;
2) county share of fringe benefits;
3) employee absence experience; and
4) time reporting basis (hourly, weekly, monthly, etc.).

For employees whose labor costs are chargeable to only one cost center, such as administration, only a monthly rate is needed. For others, an hourly rate is required to distribute costs adequately and accurately.

Example: Computation of weighted average hourly labor rate

General

A labor rate should be computed for each pay range and each step within those pay ranges. The rate should include a weight for the pro rata share of all labor-related indirect costs for which expenditures are charged to the road function object accounts.

Assumptions		
Salary Pay Step/Range		$1,476 per month
Salary Ordinance Provisions	Vacation Allowance:	15 Working Days Per Year
	Sick Leave:	12 Working Days Per Year
	Work Week:	40 Hours
	Holidays:	10 (This Fiscal Year)
County Retirement Contribution		6.70
County Group Insurance Contribution		$20.50 per Month per Employee
Average Number of Vacation Days Taken		15
Average Number of Sick Leave Days Taken		6
Average Premium for Worker's Compensation Insurance for Field Employees		$2.83 per $100

Computation			
Total Annual Employee Cost:			
Payroll	$1,476 x 12		$17,712.00
Retirement	$17,712 x .067		1,186.70
Group Insurance	$20.50 x 12		246.00
Workman's Compensation	($17,712 x $2.83)/$100		501.25
Total Annual Employee Cost			$19,645.95
Net Productive Working Days:			
Total Work Week Days in Year	365 - 104		261
Less Non-Productive Days:			
Average Vacation		15	
Average Sick Leave		6	
Holidays		10	31
Net Productive Work Days			230
Net Productive Working Hours:			
Net Productive Working Days			230
Hours per Day			X 8
Net Productive Working Hours			1,840
Weighted Average Hourly Labor Rate:	$19,645.95/1,840		$10.68

App D.16 Equipment — Clearing Account

As with labor, this account is used to distribute the actual cost of equipment repair and operation. The postings are similar to those for labor.

Total debits to the "Equipment — Clearing Account" should equal debits to the subsidiary equipment account. A corresponding record should be kept in regard to each piece or class of equipment for which a rate is used and all charges to that equipment are accumulated. Applied credits may also be posted to each record. Additionally, if certain units of equipment are grouped together for purposes of rate computation, then credits on all pieces in the group may be posted to a single record.

App D.17 Equipment Rental Rates

Equipment rental rates should be fixed to cover as closely as possible the cost of making the equipment available for each unit of service. This includes not only the direct operating costs, such as fuel, oil, tires, and other operating supplies, but also maintenance and repairs, insurance, and overhead costs. Depreciation is included when equipment usage is purchased from outside the *Road Fund*, such as an *Internal Service Fund* for *Public Works*. Optionally, depreciation may be based on replacement cost when a fund balance classification is established for a Capital Asset replacement~~ in accordance with Chapter 13, *Proprietary Funds*~~. It is recommended that those indirect, but related equipment costs, such as upkeep of equipment yards, shops and/or garages, also be considered.

Rates should be established by selected homogeneous classes or types of equipment. This means that all pieces of equipment of relatively the same type, capacity, or other pertinent characteristics should bear the same rate. In some situations, particularly in large fleets, groupings may be advisable for equipment of the same make and/or same relative type of usage.

Equipment rental rates are based on the estimated costs of operating the equipment over a certain period, usually the fiscal year. The total estimated costs for the year are then reduced to a rate per unit of service, based on the estimated number of units of service that will be performed during the year. A sound basis for arriving at estimates of operating costs and operating data is the cost or experience data of the equipment accumulated in prior years. There may be somewhat wide variations in operational costs and in units of service among individual pieces. Therefore, the selection of a rental rate by selected classes or types is recommended as a leveling device and, incidentally, to ease the accounting processes.
Since the first rates established must be based on estimates, they should be subjected to close scrutiny and should be adjusted periodically in light of actual experience data and possible revised estimates. Rental rates should always be reviewed at least at the end of the year, again in light of the actual operational cost and usage data.

For this reason, among others, it is necessary that an accounting system for equipment operating costs and operating usage be maintained. A minimum charge may be set in order to encourage the productive use of equipment, such as a standby rate.

Rental rates are normally stated in dollar amounts per hour or per mile. The unit of measure of service for which the rates are computed should be given careful consideration. Many factors, such as type of usage, loading times, etc. will have an effect. Rental rates for heavy trucks, tractors, loaders, etc., where mileage is not indicative of use are stated in rates per hour, whereas rental rates for passenger cars and light trucks may be set in terms of mileage [this basis is consistent with the Federal Emergency Management Agency (FEMA) requirements].

Example

County X has a fleet of six motor graders for which a rate is desired. The experience data summary for the prior year is as follows:

Computation — Rental Rate

Equipment Number	Operating Supplies	Repair Labor	Repair Parts	Insurance	General Road Overhead	Total Costs	Hours Used
101	$ 1,030	$ 298	$ 1,080	$ 60	$ 338	$ 2,806	1,082
102	1,302	198	986	78	224	2,788	1,120
103	834	478	1,876	42	542	3,772	838
104	1,206	168	422	88	192	2,076	1,464
105	1,076	324	1,298	66	368	3,132	1,210
106	1,110	386	1,452	66	438	3,452	1,189
Totals	$ 6,558	$ 1,852	$ 7,114	$ 400	$ 2,102	$ 18,026	6,903

Itemized Costs		Total Costs:
Total Costs per Table		$18,026
Estimated 5% Increase in Cost of Labor and Parts	($1,852 + $7,114) x .05	448
Total Estimated Cost of Operation During Ensuing Year		$18,474
Estimated Hours of Use During Ensuing Year		7,400
Rental Rate for Motor Grader	$18,474/7,400	$2.50 per Hour

NOTE: No depreciation is considered within the example as it is not a component part of the operating expenditures of a *Special Revenue Fund*. In practice, most counties operate from a Department of Public Works *Internal Service Fund* where depreciation would be a component expense and the *Road Fund* would be a customer.

App D.18 Inventory

At the time materials are purchased, it may not be known which project or cost center will use them. They are stockpiled and withdrawn for use as needed. On the other hand, they may have been purchased for a particular project and delivered directly to the job site.

The ending balance of the *Services and Supplies* object account should reflect the materials actually used during the year. This may be accomplished in two ways:

1) Consumption Inventory Method — Charging purchases initially to the asset account, "Inventory". When materials are withdrawn for use, this account is credited and the "Services and Supplies" object account is charged.
2) Purchases Method — Charging purchases initially to the expenditure object account, "Services and Supplies". At the end of the year this account is adjusted to actual usage with an offsetting entry to the asset account.

Under the Purchases Method, an inventory clearing account must be used to receive balancing postings until the materials are withdrawn from stock for use. The clearing account reflects the net change in inventory during the current period. ~~(See Chapter 9A.19, *Materials Included in Inventory* for sample postings of each method.)~~

Job-site deliveries may be routed either through the inventory accounts ("Asset Account" for the Consumption Inventory Method or "Inventory Clearing Account" for the Purchases Method) or posted only to the "Services and Supplies" account and "Cost Centers" account.

Materials should be centrally stored in one or a few locations, and be under the physical control of a storekeeper. Receiving tickets should be written for all incoming materials and requisitions required for all withdrawals. This information is entered on an individual inventory card for each type of material subject to control, and the balances are periodically verified by a physical count.

App D.19 Materials Included in Inventory

It is not necessary to subject all purchases of materials and supplies to formal inventory accounting controls. Minor items such as nuts, bolts, nails, welding rods, small hand tools, etc., may be kept under physical, but not accounting control. This means that such purchases are charged to the *Services and Supplies* account and the usage is recorded through an overhead rate, rather than as an inventory withdrawal. Inventory accounting itself is a cost and must be balanced against expected benefits. The extent of this accounting is influenced by:

- Misappropriation of materials
- Facilities
- Manpower
- Controls
- Materiality

It is recommended that accounting controls be established over the following materials (if stocked):

- Aggregate
- Asphalt, asphalt products
- Automotive supplies
- Pipe, drainage products
- Lumber
- Paint
- Steel
- Gasoline, diesel, grease and oil

Example

a) The beginning inventory is $20,000. During the year, materials in the amount of $120,000 are purchased:

Consumption Inventory Method				Purchases Method			
Account	Sub	Debit	Credit	Account	Sub	Debit	Credit
Inventory		120,000		Expenditures		120,000	
Cash			120,000	Cash			120,000
				Services & Supplies	120,000		
				*Inventory Clearing	120,000		
***An asterisk preceding an account title designates a cost account**							

b) $80,000 in materials are purchased for direct delivery to job sites:

Consumption Inventory Method				Purchases Method			
Account	Sub	Debit	Credit	Account	Sub	Debit	Credit
Expenditures		80,000		Expenditures		80,000	
Cash			80,000	Cash			80,000
Services & Supplies	80,000			Services & Supplies	80,000		
*Cost Centers (*various*)	80,000			*Cost Centers (*various*)	80,000		
***An asterisk preceding an account title designates a cost account**							

c) $110,000 in materials are withdrawn from inventory for use on projects and maintenance work:

Consumption Inventory Method				Purchases Method			
Account	Sub	Debit	Credit	Account	Sub	Debit	Credit
Expenditures		110,000		*Cost Centers (*various*)	110,000		
Inventory			110,000	*Inventory Clearing	110,000		
Services & Supplies	110,000						
*Cost Centers (*various*)	110,000						
***An asterisk preceding an account title designates a cost account**							

d) A physical inventory at the close of the year shows the book inventory to be overstated by $500:

Consumption Inventory Method				Purchases Method			
Account	Sub	Debit	Credit	Account	Sub	Debit	Credit
Expenditures		500		General Overhead Clearing	500		
Inventory			500	*Inventory Clearing	500		
Services & Supplies	500						
General Overhead Clearing	500						
***An asterisk preceding an account title designates a cost account**							

e) Year-end adjusting entry:

Consumption Inventory Method				Purchases Method			
Account	Sub	Debit	Credit	Account	Sub	Debit	Credit
N/A				Inventory		9,500	
				Reserved for Inventory			9,500
				Services & Supplies	9,500		
				*Inventory Clearing	9,500		
***An asterisk preceding an account title designates a cost account**							

App D.20 Pricing

For consistent results, a uniform method of pricing requisitions must be adopted. The three most common methods are:

Date of Purchase	Number	Total Cost	Unit Cost
June 3	25	$550.00	$22.00
August 17	10	210.00	21.00
September 16	50	1,087.50	21.75
	85	$1,847.50	

1. First In-First Out: This method assumes that withdrawals are from the oldest stock on hand. If 30 tires are requisitioned, they would be valued at $655.00 (25 @ $22.00 and 5 @ $21.00)

2. Last In-First Out: This method assumes that withdrawals are from the most recently purchased stock. The 30 tires withdrawn would be valued at $652.50 (30 @ $21.75)

3. Average Cost*:* This method requires the computation of an average unit cost after each purchase. The average cost per tire is $21.735 ($1,847.50/85). The 30 tires withdrawn would be valued at $652.05 (30 @ $21.735)

The choice made among the above or other methods is not of great significance in governmental accounting. The important point is that the method selected be followed consistently.

App D.21 General Road Overhead

This overhead account consists of costs which generally apply to all road activity, but which cannot be charged directly to specific cost centers. The following types of costs are included:

- Cost of overall supervision of field operations (those levels of employees between administrative and the working crew foremen, such as road superintendent, general foreman, etc.);
- Costs of moving equipment that cannot be allocated (moving costs should be allocated to specific cost centers wherever possible);
- Cost of expendable small tools (shovels, picks, axes, etc.);
- Cost of non-permanent reusable barricades, warning signs, and other devices;
- Road operations liability insurance premiums;
- Labor, storage, supplies, materials, handling charges, and other costs attributable to the inventory operation which are not chargeable to shop overhead. (Counties requiring a more precise cost of materials could use an inventory overhead clearing account.); and
- Clearing account variances.

Such costs are usually charged to the *General Road Overhead Clearing* account.
Overhead is best allocated to cost centers as a percentage of the labor allocated to those cost centers. If the overhead rate is set at 10% of applied labor, which for the accounting period amounted to $6,750, then $675 in general road overhead would be applied.

Account	Debit	Credit
*Cost centers (*various*)	675	
*General Road Overhead - Clearing		675
***An asterisk preceding an account title designates a cost account**		

At the end of the year the clearing account will have a debit or credit balance, representing the under- or over-application of overhead. Size and causes of the variances indicate whether the application rate should be changed for the following year.

App D.22 Shop Cost

Shops are operated where certain repairs and maintenance are performed on road equipment. Labor, equipment usage, materials and overhead are applied to equipment maintenance, the expense of which will be charged to cost centers through equipment usage rates. These costs are accumulated through the regular cost media: time cards, requisitions and overhead rates.

For the example below, assume the following in regard to the cost source documents:

- $300 in labor applied to pickup truck repair;
- $150 in automotive supplies requisitioned for the above repairs; and
- shop overhead rate is 15% of applied labor.

The entries in the accounts are:

Account	Debit	Credit
Expenditures	150	
Inventory		150
Services and Supplies	150	
*Equipment — Clearing		150
*Equipment — Clearing	345	
*Shop overhead — Clearing		45
*Labor — Clearing		300
(The $495 is charged in the subsidiary equipment ledger to the pickup trucks repaired)		
NOTE: An asterisk (*) preceding an account title designates a cost account		

App D.23 Shop Overhead

Shop overhead is limited to those shop expenses that cannot be charged to the repair job or for which such a charge is impractical.

Examples of such charges are:

- occupancy expense, such as rent, utilities, and cleaning expense;
- supervision and wage expense of supporting personnel, not chargeable to specific repair jobs;
- repairs and maintenance of shop structures and grounds, cost of alterations, and minor additions;
- premiums on fire, theft and liability insurance, if shop portion is segregated;
- shop supplies, such as expendable tools, oxygen, welding rod, nails, bolts, etc.; or
- repairs to shop equipment not subject to a usage rate.

Certain equipment may be used partly in the shop and partly for other road purposes. Such equipment should carry a usage rate to ensure that costs are correctly allocated.

Shop overhead is accounted for as general road overhead, except that its immediate destination is equipment maintenance, rather than cost centers. It is subsequently reflected in the cost centers through equipment rental rates as a component of the rate development~~, as shown in *Chapter 9A.17, Equipment Rental Rates*~~.
Shop overhead is best distributed to repair jobs as a percentage of applied labor.

Example

If the overhead rate is 15% of labor, which for repairing a grader amounted to $100, $15 in shop overhead would be applied as shown below:

Account	Debit	Credit
Expenditures	50	
Inventory		50
Services and Supplies	50	
*Equipment — Clearing		50
*Equipment — Clearing	115	
*Shop overhead — Clearing		15
*Labor — Clearing		100
(In the subsidiary equipment ledger, the grader is charged with $165)		
NOTE: An asterisk (*) preceding an account title designates a cost account		

App D.24 Year-End Disposition of Variance

At the end of the year each clearing account will have a debit or credit balance, representing the difference between actual and applied costs. These balances should be cleared to cost centers, as follows:

- If a variance is 10% (5% for labor clearing accounts) or more of total debits to the clearing account, it is allocated to each project within each cost center in proportion to the total prior allocations from that clearing account.

- If the variance is less than 10% (5% for labor clearing accounts), it need only be allocated to each cost center as part of the general road overhead.

Allocations of variances should be made to reimbursable work projects, even if the county does not intend to collect or refund the amount of variance applicable to the project.

App D.25 Administration

This cost center receives charges for the cost of administration and management of the road activity. Examples of these types of expenses include:

- salaries and expenses of road commissioners;
- salaries and expenses of deputies or assistants;
- salaries of clerical employees;
- office expense;
- convention and travel expense;
- supervisor's travel allowance; and
- general and undistributed engineering.

In some counties, supervisory personnel may divide time between administrative and road operations. In other counties, administrative personnel may have other duties, such as that of county surveyor or engineer. In these situations, a monthly distribution of time must be made.
General and undistributed engineering is all work of the engineering staff of the road department. Or it is the work of outside engineering services that cannot be allocated to a specific cost center because the work is not specific, or because division by cost center is impractical, such as:

- safety engineering;
- traffic engineering;
- planning studies and investigations;
- appraisals; or
- unallocable engineering.

Unallocable engineering refers to the situation where two or more minor, and perhaps adjacent, projects were without any time segregation. Whenever practicable, such costs should be allocated to the project.

All costs of preliminary engineering for reconnaissance, preliminary and location survey, traffic and speed studies, materials and soils investigations and tests, and preparation of plans relative to a specific project should be charged to that project. Costs of construction engineering, advertising for bids, setting of progress, final reports, and estimates relative to a specific project should be charged to that project.

As a practical matter, administration usually allocated to job/projection costs on the basis of direct expenditures (excluding general undistributed engineering) when an *Internal Service Fund* such as Public Works is estimated and the *Road Fund* is a customer.

App D.26 Construction

A single construction account controls all construction projects. Project costs are further segregated by category of expenditure.

Betterments that are minor in nature, including right-of-way acquisitions, may be grouped and regarded as a single project, unless it is necessary to subgroup them according to different restricted sources of financing.

App D.27 Rights-of-Way

Rights-of-way are land acquired for use as a road, either as an easement or by grant deed conveying title in fee. Rights-of-way costs include ~~(See Chapter 15.16, *Intangible Costs*)~~:

- Payments for the land or interests therein.
- Costs of removing, demolishing, moving, resetting or altering obstruction buildings, structures or other improvements.
- Payment for damages to property arising by reason of the project.
- Court costs in condemnation proceedings.
- Cost of title searches and reports.
- Salaries, transportation expenses of rights-of-way agents in connection with acquisition of rights-of-way boundaries whenever the right of way is conveyed to the county, and the sole consideration for the conveyance is an agreement by the county to construct such fences.
- All other expenses incurred for the purpose of acquiring rights-of-way free and clear of all physical obstructions and legal encumbrances.

Costs for rights-of-way are charged to the *Other Charges* object account and to the *Construction Cost Center*, if they do not meet the county's Capitalization threshold.

App D.28 Maintenance

A single maintenance account controls all maintenance work. Subsidiary maintenance, job, or project accounts need to be kept to accumulate for:

- snow removal;
- heavy rainfall and storm damage; and
- other (additional records are kept as deemed necessary).

App D.29 Aid to Other Governmental Agencies

This cost center is charged with:

- Cash grants to another governmental agency to be expended on the streets or highways of that agency.
- Amounts expended for work performed on the streets or highways of another agency.

An example within this category would be costs incurred on city streets taken over as an extension of a county road through cities pursuant to Streets and Highways Code section 1700 et al.

Costs of work on city streets which have been deeded to the county under the provisions of Streets and Highways Code section 1723, are not charged to this cost center, but to *Construction* or *Maintenance* accounts.

App D.30 Acquisition of Equipment

~~Definitions of equipment are set forth in Chapter 15, *Capital Assets*.~~ Equipment is charged to this cost center, as are costs of labor, materials, and overhead applied to the manufacture of equipment. In the latter case, job orders should be used to accumulate costs.

App D.31 Plant Acquisition

~~Definitions of land, structures, and improvements are also found in *Chapter 15: Capital Assets*.~~ Since centralized budgeting and accounting for all county real property acquisition is recommended, structures and improvements acquired by purchase or construction contract may be charged directly to the *County Plant Acquisition Budget Unit*. Cost of structures and improvements constructed by force are accumulated in the *Road Budget Unit* account and, upon completion, billed and charged to the *General Fund Unit* account.

Road Budget Unit
Revenue……………………………………………………$5,000
Plant Acquisition Budget Unit
Structures and Improvements……………………..$5,000

App D.32 Reimbursable Work

This cost center is charged with the cost of performing work for, rendering services to, or furnishing materials to others on a reimbursable basis. Normally these services are performed on other than the county road system and are not considered to further road purposes. The following are included:

- Services for private parties and business firms, such as snow removal, oiling driveways, etc.
- Work performed or materials furnished for other county departments and other governmental agencies, such as leveling and oiling grounds, maintenance and repair of non-road department equipment, furnishing gas and oil, building inspection services, and street work for cities when not authorized by the board of supervisors as a contribution (SHC Code, §1680 et al.).

Equipment depreciation must be included in billings for reimbursable work, in order to comply with the anti-diversion principle.

Billings to outside parties should include charges for certain costs, such as administrative overhead, which may not have been distributed to the *Reimbursable Work Cost Center*.

<u>Example</u>

a) The cost of paving the Hospital District Parking Lot is performed with road fund resources and charged to the *Reimbursable Work Cost Center*:

Account	Debit	Credit
Expenditures	700	
Inventory		700
Services and Supplies	700	
*Reimbursable Work		700
*Reimbursable Work	3,530	
*Labor — Clearing		2,300
*Equipment — Clearing		1,000
General Road Overhead — Clearing		230
NOTE: An asterisk (*) preceding an account title designates a cost account		

b) The Hospital District pays in full the cost of paving the parking lot:

Account	Sub	Debit	Credit
Road Fund Cash		4,230	
Road Fund Revenues			4,230
Charges for Services	4,230		

App D.33 Encumbrances

An encumbrance system may be used at either the object or project level depending upon the budgetary control exerted locally. ~~Encumbrance accounting is presented in Chapters 8, *Specific Accounting Procedures* and *Chapter 16, Budgetary*.~~

App D.34 Internal Service Funds

~~Internal service funds are the subject of Chapter 13, *Proprietary Funds*.~~ If financing is available, it is advantageous to assign equipment ownership, maintenance, and rental to an internal service fund. Accounting in the road department is simplified and depreciation may be included in the rental rates. (Depreciation rates based on replacement costs and moneys set aside for asset replacement are allowable ~~as presented with Chapter 13, *Proprietary Funds*~~.)

Definitions

App D.35 General Definitions

The following definitions are those which are associated with the *County Road Fund*. The two general classifications of road working activities are:

<u>Construction</u> - The building or rebuilding of a road or its component parts to a degree that improved traffic service is provided and geometric or structural improvements are effected.

<u>Maintenance</u> - The preservation and upkeep of a road's constructed condition, and the operation of a road facility and its integral services to provide safe, convenient and economical highway transportation.

In addition to these general classifications of road activities, definitions for bridging are required because of their traditional separation from roads.

<u>Bridge</u> - A single-span structure of more than 20 feet, measured under the copings along the center line of the road, and multiple-span structures where the individual spans are in excess of 10 feet, measured from center to center of supports along the center line of the road. (The width of a bridge is the distance between the inside faces of curbs, or railings where no curbs exist, measured perpendicularly to the center line of the road.)

Ferries are classified as bridges.

Culverts - Single-span structures of less than 20 feet center to center of supports, all pipe culverts, and all closed waterway structures not defined as bridges. Culverts are to be recognized as an integral part of the road not as a bridge.

Because of their unusual nature and infrequent occurrence, disaster operations should be separately identified in the road accounts. The most frequent of this type of item, “storm damage”, is defined as follows:

Storm Damage - Extensive repair or replacement due to damage resulting from storm or flood.

The two general classifications, construction and maintenance, are further elaborated by the following discussion and examples of types of work to be included in each.

App D.36 Construction: Categories and Examples

Construction work includes three categories:

1) New Location - A construction which substantially deviates from the existing alignment and provides for an entirely new roadbed for the greater part of its length.
2) General Reconstruction - A construction involving realignment or the use of standards well above those of the existing element, whereby the type or the geometric and structural features are significantly changed.
3) Betterments - Minor construction which enhances traffic operation or increases the value or life of the facility or its components.

App D.37 Maintenance: Categories and Examples

9A.37 Maintenance: Categories and Examples Types of Work Included in Road Construction:
The removal of old roadbeds and structures and detour expense when connected with a construction project
Changes of alignment, profile, and cross-sections
Addition of a frontage road
Original surfacing of shoulders with material higher in quality than the adjacent roadside
The installation of an original set of traffic signs and markers on routes
Drainage and earth work protective structures within or adjacent to the right-of-way area
A complete reconstruction of or an addition to a culvert
Widening of a bridge
Installations or extensions of curb, gutter or under drain
Extensions and new installations of walls
Reconstruction of an intersection and its approaches to a substantially higher type, involving a change in its character and layout, including changes from a plain intersection to a major channelized intersection, or to a grade separation and ramps
Placing sufficient new material on soil surface or gravel road to substantially improve the quality of the original surface
Improvement of a surface to a higher type
Resurfacing of concrete or brick pavement with bituminous material
Bituminous material of 1” or more placed on bituminous. Remix of existing bituminous surfacing with added materials to provide a total thickness of 1” or more
Stabilization of road base by the addition of cement, lime, or asphaltic material
Replacement of existing pavement with one of a higher standard
Widening of existing roadbed or pavement, with or without resurfacing
Addition of auxiliary lanes such as speed change, storage, or climbing lanes
Resurfacing, stabilizing, or widening of shoulders (including side road approaches)
Substantial addition to landscape treatment, such as top soil, sod, shrubs, trees, etc.
Extension of old culverts and replacement of headwalls
Replacement of culvert with a facility of greater capacity
Replacement of walls to a higher standard
Replacement of all major signs or traffic control devices on a route with a substantially improved set of signs
Installation of a new sign or replacement of an old sign with one of superior design, such as increased size, illumination, or overhead installation
Installation or improvement of traffic signal controls at intersections and protective devices at railroad grade crossings
Installation or expansion of lighting system
Replacement of structures and utilities that have been related
Extension or new installation of guard rail
Installation of a new facility for roadside rest areas or a complete replacement with major modifications

NOTE: Where an improvement as a whole is classed as construction, incidental operations of the normal maintenance type should be considered as part of the construction.

Maintenance work includes two general categories: physical maintenance, and the operation of traffic services, the latter being ~~(as defined Chapter 9A.35, *General Definitions*)~~ the operations of safety facilities.

Examples of Maintenance Work
Scarifying, reshaping, and restoring material losses
Applying dust palliatives
Patching, repairing, surface treating, and joint filling on bituminous or concrete surfaces
Mud jacking concrete pavements
Repairing traveled ways and shoulders
Adding bituminous material of less than 1” to bituminous, including dealing costs
Remixing existing bituminous surfacing with added materials to provide a total thickness of less than 1”
Patching operations, including base restoration
Resealing road shoulders and side road approaches
Reseeding and re-sodding shoulders and approaches
Reshaping of drainage channels and side slopes
Restoring erosion controls
Cleaning culverts
Removing slides and restoring facility damages by slides (additional new facilities shall be constructed)
Mowing, tree trimming and watering
Replacing top soil, sod, shrubs etc. on roadside
Repairing curbs, gutters, rip rap, under drains, and culverts
Cleaning, painting and repairing bridges and structures
Repairing of drawbridges and ferries
All snow control operations, such as erection of snow fences and the actual removal of snow from the traveled way
Repainting pavements, striping’s and markings
Repainting and repairing signs, guard rails, traffic signals, lighting standards, etc.;
Maintaining roadside rest areas
Adding small numbers of conventional traffic control devices, including signs
Servicing highway lighting and traffic control devices
Furnishing power for highway lighting and traffic control devices
Operating costs of draw bridges and ferries

Examples

App D.38 Background

The "County of X" operates as follows:

Organization - The Road Department is a separate county department with a full-time road commissioner.

Plant - There is an administration building with adjoining facilities for storage of materials and for repair of equipment.

Budgeted Positions - There are 55 Road Department employees:

Administrative:	
Road Commission	1
Clerical	3
Engineers	2
Shop	2
Construction and Maintenance	47
Total	55

The engineering, shop, construction, and maintenance employees have weighted-average hourly labor rates and prepare daily job-cost time cards.

Equipment - The department owns and operates its own equipment. Composite rental rates are used for each group, with the exception of the miscellaneous group, each unit of which has its individual rates:

Group	No. of Units	Description
1	5	Passenger Cars
2	12	Pickup Trucks
3	12	Trucks
4	3	Motor Graders
5	3	Rollers (Self-Propelled)
6	5	Tractors, Loaders (Small)
7	2	Tractors, Loaders (Large)
8	1	Cranes, Including Boom Tractors
9	25	Miscellaneous

Usage rates are not used for shop equipment. Any repairs and maintenance are charged to the *Shop Overhead - Clearing* account and are distributed as a percentage of direct shop labor.

Stores — Control and detail inventory records are kept for the following classes of materials:

10	Aggregate
20	Asphalt
30	Automotive Supplies
40	Pipe, Drainage Products
50	Lumber
60	Paint
70	Steel
80	Gas, Oil, Diesel

All other materials and supplies are charged to one of the overhead accounts and are issued on "memo" requisitions.

General Ledger Accounts - The general ledger accounts and their post-closing balances at June 30, 20X1, are as follows:

General Ledger			
Assets			
101	Cash		$ 50,000
107	Accounts Receivable		7,000
110	Deposits with Others		15,000
123	Inventory of Materials and Supplies		30,000
	Total		$ 102,000
Liabilities and Fund Equity			
203	Accounts Payable	$ 23,800	
220	Deposits from Others	1,500	$ 25,300
241	Non-Spendable Fund Balance — Inventories	$ 30,000	
*243	Committed Fund Balance — Encumbrances	18,00	
244	Assigned Fund Balance	28,700	76,700
	Total		$ $102,000

*The actual *Reserved for Encumbrances* account has been reclassified to *Committed Fund Balance* in this post-closing illustration to comply with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.*

Operating Accounts	
301	Revenues and Other Financing Sources
305	Expenditures and Other Financing Uses

Budgetary Accounts	
401	Estimated Revenues and Estimated Other Financing Sources
403	Unanticipated Revenues and Other Financing Sources
404	Unrealized Estimated Revenues and Estimated Other Financing Sources
405	Appropriations and Estimated Other Financing Uses
406	Budgetary Nonspendable Fund Balance
407	Budgetary Restricted Fund Balance
408	Budgetary Committed Fund Balance
409	Budgetary Assigned Fund Balance
411	Encumbrances
412	Budgetary Find Balance — Reserved for Encumbrances

Subsidiary Revenue Accounts	
20	Vehicle Code Fines
30	Interest
41	State Highway Users Tax:
	.1 Administration & Engineering (*SHC Code, §2104a*)
	.2 Snow Removal (*SHC Code, §2104b*)
	.3 Heavy Rainfall and Storm Damage (*SHC Code, §2104c*)
	.4 Rights-of-Way and Construction (*SHC Code, §2106*)
	.5 Any Road Purpose (*All Other*)
96	Road and Street Services
106	Other
121	Sale of Capital Assets
If these codes are prefixed by a 4, they refer to estimated revenues—If prefixed by a 5, they refer to actual revenues	

Subsidiary ledger Expenditure Accounts			
Objects		***Cost Centers***	
1	Salaries and Employee Benefits	31	Administration
2	Services and Supplies	32	Construction
3	Other Charges	34	Aid to Other Governmental Agencies
4	Capital Assets	35	Acquisition of Equipment
5	Other Financing Uses	36	Plant Acquisition
Clearing Accounts		37	Reimbursable Work
21	Labor — Clearing	50	Operating Transfers:
22	Equipment — Clearing		1. Plant
24	Shop Overhead — Clearing		2. Interfund Reimbursable Work

Codes prefixed by a 6, refer to appropriations; by a 7, to encumbrances (applicable to objects only); and by an 8, to expenditures.

A three-digit number identifies each project. The block within which a number falls identifies the cost center. Projects are numbered in sequence within each block. A fourth digit is used to designate the type of expenditure.

Work Type Code (First Three Digits)			
101-179	Road Construction	*350-399	Other Maintenance
181-199	Rights of Way	401-499	Aid to Other Governmental Agencies
201-299	Bridge Construction	501-599	Acquisition of Equipment
*300-324	Snow Removal	601-699	Plant Acquisition
*325-349	Heavy Rainfall & Storm Damage	701-799	Reimbursable Work

Source of Cost (Fourth Digit)			
Direct Charges		***Applied Charges***	
1	Contracts	3	Labor
2	Other	4	Equipment
		5	General Road Overhead

* In this example, maintenance is segregated only by snow removal, heavy rainfall and storm damage, and all other maintenance. If additional detail were desired, project numbers could be assigned within the indicated blocks.

App D.39 Budget

The 20X1 budget is adopted as follows:

Budget Summary					
Budgetary Assigned Fund Balance	$	28,000	Appropriations	$	800,000
Estimated Revenues		648,000			
Other Financing Sources		123,700			
Total	$	800,000			
				$	800,000

Detail of Estimated Revenues			
Fines, Forfeits, and Penalties			
420	Vehicle Code Fines	$	11,000
Revenue Form Other Governmental Agencies			
441	State Highway Users Tax		611,800
Charges For Current Service			
495	Road and Street Services		7,000
Other Revenues			
121	Sale of Capital Assets		8,500
	Other		10,000
Total		$	648,300

Detail of Requirements	
Function:	Public Ways and Facilities
Activity:	Public Ways
Budget Unit:	Road Construction and Maintenance

Road Department			
Objects			
601	Salaries and Employee Benefits	$	300,000
602	Services and Supplies		335,000
603	Other Charges		100,000
604	Capital Assets		45,000
605	Appropriation for Contingencies		20,000
Total		$	800,000

Proposed Work Program			
Administration			$40,000
Construction			
Roads			
101	$ 25,000		
102	21,500		
103	40,000		
104	18,500		
105	17,000		
106	28,500		
107	37,000		
108	9,500		
109	3,000		
110	3,500		
111	2,500		
112	16,000		
113	3,000		
114	3,500		
115	5,000		
116	6,500		
117	7,000		
118	7,500		
119	9,000		
120	5,000		
121	5,500		
122	8,500		
123	4,000		
124	4,500		
125	6,500		
126	4,000	$ 301,500	
Rights of Way			
181	$ 28,500		
182	8,000		
183	6,000		
184	4,500		
185	7,000	54,000	
Bridges			
201	$ 3,500		
202	9,500		
203	5,500		
204	10,000		
205	27, 500		
206	4,000		
207	5,000		
208	14,500	79,500	435,000
Maintenance			
HR—SD		7,500	7,500
Other		212,500	212,500
Aid to Other Governmental Agencies		10,000	
Equipment Acquisition		35,000	
Plant Acquisition		10,000	
Reimbursable Work		30,000	85,000
Total Work Program			780,000
Appropriation for Contingencies			20,000
Total Requirements			$ 800,000

App D.40 Books and Records

The tables on the following pages are sample transactions entries.

Roads County of X General Journal (J)					
	Accounts	Subsidiary Ledger		General Ledger	
Folio #	Title	Debit	Credit	Debit	Credit
	July 1				
409	Budgetary Assigned Fund Balance	28,000		28,000	
401	Estimated Revenues and Other Financial sources	772,000		772,000	
600	Appropriations		800,000		800,000
	(To record Appropriation Budget for Road Fund)				
	July 2				
301	Revenues			7,000	
107	Accounts Receivable				7,000
96	Road and Street Services	5,000			
121	Sale of Capital Assets	2,000			
	(To reverse revenue accruals at June 30)				
	July 3				
203	Accounts Payable			23,800	
	Inventory				21,700
	Expenditures				2,100
	Aggregate		14,740		
	Asphalt		3,600		
	Auto Supplies		960		
	Pipe		630		
	Lumber		420		
	Paint		190		
	Steel		640		
	Gas, Oil, Diesel		520		
	Services and Supplies		2,100		
	*Equipment Clearing		1,000		
	*General Road Overhead — Clearing		200		
	*Shop Overhead — Clearing		200		
	*Administration		700		
	(To reverse inventory and expenditure accruals at June 30)				
	*An asterisk preceding an account title designates a cost account				
	July 4				
Budgetary Fund Balance — Reserved for Encumbrances				18,000	
Budgetary Assigned Fund Balance					18,000
Budgetary Committed Fund Balance		18,000			
Encumbrances		18,000			
Appropriations			18,000		
Budgetary Fund Balance — Reserved for Encumbrances			18,000		
Services and Supplies		13,500	13,500		
Equipment		4,500	4,500		
	(To re-appropriate and encumber items encumbered at June 30)				
	July 5				
Expenditures				26,000	
Cash					26,000
Salaries and Employee Benefits		26,000			
*Labor — Clearing		26,000			
	(To record payroll and transfer cash to Payroll Revolving Fund)				

Roads County of X General Journal (J)						
Accounts		Subsidiary Ledger		General Ledger		
Folio #	Title	Debit	Credit	Debit	Credit
	July 6				
Expenditures				2,100	
Cash					2,100
Salaries and Employee Benefits		2,100			
*Labor — Clearing		2,100			
	(To record county share of retirement and transfer cash to trust fund)				
	August 7				
Expenditures (continued)				11,000	
Deposits With Others					11,000
Services and Supplies			11,000		
*Construction			11,000		
	[To record expenditure by State of Federal Aid Secondary (FAS) deposit]				
	August 8				
Budgetary Fund Balance — Reserved for Encumbrances				11,000	
Encumbrances					11,000
Services and Supplies			11,000		
	(To record…)				
	*An Asterisk preceding an account title designates a cost account				
	August 9				
Expenditures				25,500	
Cash					25,500
Salaries and Employee Benefits		25,500			
*Labor - Clearing		25,500			
	(To record payroll and transfer cash to Payroll Revolving Fund)				
	August 10				
Expenditures				2,050	
Cash					2,050
Salaries and Employee Benefits		2,050			
*Labor - Clearing		2,050			
	(To record county share of retirement and transfer cash to trust fund)				
	August 11				
Cash				25,000	
Revenue and Other Financing Sources					25,000
Operating Transfers-In			25,000		
	(To charge $25,000 of expenditures to General Fund)				
	*An Asterisk preceding an account title designates a cost account				

Because of space limitations, the detail of encumbrances and appropriations is not posted to the subsidiary records. This comment applies to journal entries 1 and 4.

App D.41 Subsidiary Ledgers

Following are sample subsidiary ledgers:

ROADS County of X Daily Labor and Applied Overhead Summary (L)	Code	Total	Labor	Gen. Road Overhead (5% of Labor)	Shop Overhead (15% of Labor)
		July			
Equipment Repair	102		$ 65.00		$ 9.75
	202		160.00		24.00
	305		275.00		41.25
	308		120.00		18.00
	312		95.00		14.25
		$ 822.25	$ 715.00		$ 107.25
Administration		$ 3,070.00	$ 3,070.00		
Construction:					
Road	101		$ 2,450.00	$ 122.50	
	102		2,140.00	107.00	
	104		960.00	48.00	
	105		1,610.00	80.50	
	106		3,690.00	184.50	
	107		920.00	46.00	
Bridge	201		1,200.00	60.00	
	202		2,350.00	117.50	
	203		130.00	6.50	
		$ 16,222.50	$ 15,450.00	$ 772.50	
Maintenance	350	$ 6,373.50	$ 6,070.00	$ 303.50	
Equipment Acquisition	501	$ 293.25	$ 255.00		$ 38.25
Totals		$ 26,781.50	$ 25,560.00	$ 1,076.00	$ 145.50

ROADS County of X Material Requisition Summary (M)	Code	July	August
Administration		$ 150.00	$ 180.00
Construction:			
Road	101	$ 570.00	$ 210.00
	102		125.00
	103		355.00
	104	90.00	
	105	340.00	55.00
	106	190.00	75.00
	107		25.00
	108		35.00
	109	160.00	200.00
	110	70.00	40.00
	111		85.00
Bridge	201	85.00	80.00
	202	240.00	210.00
	203		30.00
	204	10.00	
		$ 1,755.00	$ 1,525.00
Maintenance	350	$ 725.00	$ 840.00
Reimbursable Work	701		$ 45.00
Totals		$ 2,630.00	$ 2,590.00
Summary by Equipment Group	100	$ 395.00	$ 425.00
	200	320.00	325.00
	300	375.00	440.00
	400	380.00	310.00
	500	280.00	290.00
	600	305.00	300.00
	700	330.00	265.00
	800	130.00	90.00
	900	115.00	145.00
		$ 2,630.00	$ 2,590.00

ROADS County of X Material Requisition Summary (M) Summary by Cost Center	Code	July	August
Equipment Repair	102	$ 32.00	
	104		$ 22.00
	105		87.00
	202	94.00	
	203		15.00
	206		26.00
	207		51.50
	305	110.00	
	308	65.00	
	312	36.80	
	315		69.50
		$ 337.80	$ 271.00
Equipment Maintenance — Gas, Oil, Diesel		$ 534.20	$ 554.00
Construction:			
Bridge	201	$ 3,430.00	$ 420.00
	202	2,020.00	600.00
	203		230.00
	204	68.00	
Road	101	1,770.00	510.00
	102		1,400.00
	103		4,093.00
	104	1,927.00	
	105	926.00	
	106	2,442.00	405.00
	107		480.00
	108		750.00
	109	1,165.00	2,150.00
	110	1,040.00	1,870.00
		$ 14,788.00	$ 12,908.00
Maintenance	350	$ 2,730.00	$ 3,060.00
Equipment Acquisition	501	$ 134.00	$ 19.00
	502		163.00
		$ 134.00	$ 182.00
Reimbursable Work	706		$ 385.00
Totals		$ 18,524.00	$ 17,360.00

ROADS Material Requisition Summary (M) Summary by Gas, Diesel, Oil Usage by Equipment	Equipment #	July	August
Passenger Cars	101	$ 17.00	$ 22.30
Group 1	102	13.20	26.80
	103	1.10	6.15
	104	7.00	1.50
	105	18.00	16.75
		$ 56.30	$ 73.50
Pickups	201	$ 1.80	$ 4.90
Group 2	202	8.05	9.30
	203	1.40	2.10
	204	4.80	1.00
	205	2.40	6.00
	206	7.20	2.55
	207	2.60	1.10
	208	1.90	1.40
	209	5.90	1.60
	210	2.40	7.55
	211	1.75	2.75
	212	2.20	4.30
		$ 42.40	$ 44.55
Trucks	301	$ 7.60	$ 5.95
Group 3	302	2.90	11.05
	303	10.50	6.55
	304	7.40	8.65
	305	2.25	4.65
	306	8.30	2.60
	307	5.60	13.15
	308	4.20	2.75
	309	3.05	6.25
	310	6.30	7.20
	311	4.40	10.10
	312	6.10	6.75
		$ 68.60	$ 85.65
Motor and Graders	401	$ 29.90	$ 18.40
Group 4	402	35.10	37.30
	403	31.60	32.10
		$ 96.60	$ 87.80
Rollers	501	$ 24.00	$ 41.80
Group 5	502	38.50	19.90
	503	5.20	9.80
		$ 67.70	$ 71.50
Tractor and Loaders, Small	601	$ 11.00	$ 8.55
Group 6	602	22.50	16.75
	603	9.10	15.85
	604	10.80	22.05
	605	19.70	11.10
		$ 73.10	$ 74.30
Tractor and Loaders, Large	701	$ 34.25	$ 30.05
Group 7	702	61.05	57.90
		$ 95.30	$ 87.95
Cranes	801	$ 34.20	$ 28.85
Group 8			
TOTAL		$ 534.20	$ 554.10

ROADS Material Requisition Summary (M) Summary by Class of Material		
104-10	$ 9,138.00	$ 7,960.00
104-20	6,815.00	5,305.00
104-30	402.00	395.00
104-40	392.00	1,421.00
104-50	460.00	397.00
104-60	172.00	186.00
104-70	610.80	1,142.00
104-80	534.20	554.10
	$ 18,524.00	$ 17,360.10

ROADS
County of X
Subsidiary Cost Center Ledger
(July Only)

ADMINISTRATION

			Services & Supplies					
Date	Ref.	Salaries & Employee Benefits	Direct	Equipment	Other	Other Charges	Fixed Assets	Total
7-31	L	3,070.00						
31	E			150.00				
31	W		761.00					
31	J-3		(700.00)					
		3,070.00	61.00	150.00				3,281.00

Number in parenthesis next to cost centers indicates financing source

ROADS
County of X
Subsidiary Cost Center Ledger

CONSTRUCTION

			Direct		Applied			
Project	Date	Ref.	Contracts	Other	Labor	Equipment	Overhead	Total
101	7-31	L			2,450.00		122.50	
	31	E				570.00		
	31	M		1,770.00				
				1,770.00	2,450.00	570.00	122.50	4,912.50
104	7-31	L			960.00		48.00	
	31	E				90.00		
	31	M		1,927.00				
				1,927.00	960.00	90.00	48.00	3,025.00
106	7-31	L			3,690.00		184.50	
	31	E				340.00		
	31	M		2,442.00				
				2,442.00	3,690.00	340.00	184.50	6,656.50

ROADS County of X Subsidiary Cost Center Ledger (July Only)						
Group	Equipment Number	Date	Ref.	Debit	Credit	Variance
1	101	7-31	M	17.00		
	101	31	W	58.00		
	101	31	J-3		55.00	
	102	31	L	78.00		
	102	31	M	32.00		
	102	31	M	13.20		
	103	31	M	1.10		
	104	31	M	7.00		
	105	31	M	18.00		
			E		395.00	(255.70)
2	201	7-31	M	1.80		
	202	31	L	192.00		
	202	31	M	94.00		
	202	31	M	8.05		
	203	31	M	1.40		
	204	31	M	4.80		
	205	31	M	2.40		
	206	31	M	7.20		
	207	31	M	2.60		
	208	31	M	1.90		
	209	31	M	5.90		
	210	31	M	2.40		
	211	31	J-3	1.75		
	211	31	M		47.00	
	212	31	W	2.20		
			E	47.00		
					320.00	8.40
3	301	7-31	M	7.60		
	302	31	M	2.90		
	303	31	M	19.50		
	304	31	M	7.40		
	305	31	L	330.00		
	305	31	M	110.00		
	305	31	M	2.55		
	306	31	M	8.30		
	307	31	M	5.60		
	307	31	M	95.00		
	307	31	J-3		105.00	
	308	31	L	144.00		
	308	31	M	65.00		
	308	31	M	4.20		
	309	31	M	3.05		
	310	31	M	6.00		
	310	31	M	140.00		
	310	31	J-3		164.00	
	311	31	M	4.40		
	312	31	L	114.00		
	312	31	M	36.80		
	312	31		6.10		
		31			375.00	468.40
4	401	7-31	M	29.90		

ROADS County of X Subsidiary Cost Center Ledger (July Only)						
Group	Equipment Number	Date	Ref.	Debit	Credit	Variance
	401	31	M	127.00		
	401	31	J-3		119.00	
	402	31	M	35.10		
	403	31	M	31.60		
		31	E		380.00	(305.30)
5	501	7-31	M	24.00		
	502	31	M	38.50		
	502	31	W	218.00		
	502	31	J-3		234.00	
	503	31	M	5.20		
		31			280.00	(228.30)
6	601	7-31	M	11.00		
	602	31	M	22.50		
	603	31	M	9.10		
	604	31	M	10.80		
	605	31	M	19.70		
	605	31	M	307.00		
	605	31	J-3		279.00	
		31	E		305.00	(203.90)
7	701	7-31	M	34.25		
	701	31	M	61.05		
		31	E		33.00	62.30
8	801	7-31	M	34.25		
	801	31	M	61.05		
		31	E		191.05	(95.75)
9	901	7-31	E		115.00	(115.00)
Net Variance						(885.95)

At the end of the year, the net variance is cleared to the cost centers in proportion to total prior allocations.

ROADS County of X Subsidiary Inventory Ledger ACCOUNT 104										
			Transactions							
			July			August				
#	Subaccount Title	Balance 7-1-XX	Ref.	Debit	Credit	Ref.	Debit	Credit	Balance 8-31-XX
10	Aggregate	14,268.00	W	14,748.00		W	8,210.00		
			J-3		14,740.00	M		7,960.00	
			M		9,138.00				
			D		35.00				5,353.00
20	Asphalt	9,799.00	W	3,601.00		W	460.00		
			J-3		3,600.00	M		395.00	
			M		6,815.00				3,050.00
30	Auto Supplies	1,339.00	W	968.00		W	6,980.00		
			J-3		960.00	M		5,305.00	
			M		402.00				2,620.00
40	Pipe	1,148.00	W	624.00		W	1,471.00		
			J-3		630.00	M		1,421.00	
			M		392.00				800.00
50	Lumber	743.00	W	420.00		W	504.00		
			J-3		420.00	M		397.00	
			M	460.00					390.00
60	Paint	159.00	W	186.00		W	252.00		
			J-3		190.00	M		186.00	
			M		1,172.00				49.00
70	Steel	1,676.80	W	628.00		W	738.00		
			J-3		640.00	M		1,142.00	
			M		610.80				650.00
80	Gas, Oil, Diesel	867.20	W	522.00		W	597.00		
			J-3		522.00	M		554.00	
			M		534.20				378.00
	Totals	30,000.00		21,697.00	40,259.00		19,212.00	17,360.00	13,290.00

ROADS County of X Road Department Expenditure Reconciliation (Object Accounts and Cost Accounts)								
Note: The sample worksheets illustrate how the objects, expenditures, and cost account charges should be reconciled. It is suggested that this reconciliation be done on a monthly basis.								
		OBJECT ACCOUNTS						Balance
		July			August			8/31/XX
#	Title	Ref.	Debit	Credit	Ref.	Debit	Credit	Debit
811	Salaries and Employee Benefits	J-5	$26,000.00		J-9	$25,500.00		
		J-6	2,100.00		J-10	2,050.00		$55,650.00
812	Services and Supplies	M	18,524.00		J-7	11,000.00		
		W	2,195.00		M	17,360.00		
		J-3		2,100.00	W	4,398.00		51,377.00
813	Other Charges				W	12,000.00		12,000.00
814	Capital Assets				W	4,500.00		4,500.00
	Total							$123,527.00

LEGEND	
J	Journal
M	Material
W	Warrant
L	Labor
E	Equipment
ROH	Road Overhead
SOH	Shop Overhead

ROADS County of X Road Department Expenditure Reconciliation (Object Accounts and Cost Accounts)									
		COST ACCOUNTS							Balance
		July			August				8/31/XX
#	Title	Ref.	Debit	Credit	Ref.	Debit	Credit		Debit
821	Labor Clearing	J-5	$26,000.00		J-9	$25,500.00			
		J-6	2,100.00		J-10	2,050.00			
		L		25,560.00	L		26,270.00		$3,820.00
822	Equipment Clearing	SOH	107.25		SOH	97.50			
		L	715.00		L	650.00			
		M	337.80		M	271.00			
		M	534.20		M	554.00			
		W	1,001.00		W	1,413.00			
		J-3		1,000.00	E		2,590		
		E		2,630.00					(539.25)
823	General Road Overhead Clearing	W	210.00		W	1,754.000			
		J-3		200.00	ROH		1,108.75		
		ROH		1,076.00					(420.75)
825	Shop Overhead Clearing	W	223.00		L	251.00			
		J-3		200.00	L		150.00		
		SOH		145.00					(21.50)
831	Administration	L	3,070.00		L	3,095.00			
		W	761.00		W	380.00			
		E	150.00		E	180.00			
		J-3		700.00					6,936.00
832	Construction	ROH	772.50		J-7	11,000.00			
		L	15,450.00		L	14,931.00			
		E	1,755.00		E	1,525.00			
		M	14,783.00		M	12,908.00			
					W	2,600.00			75,729.50
833	Maintenance	L	6,373.50		L	7,875.00			
		E	725.00		E	840.00			
		M	2,730.00		M	3,060.00			21,603.50
834	Aid to Other Governmental Agencies				W	10,000.00			10,000.00
835	Acquisition of Equipment	SOH	38.25		SOH	52.52			
		L	255.00		L	350.00			
		M	135.00		M	182.00			
					W	4,500.00			5,511.75
837	Reimbursement				L	477.75			
					E	45.00			
					M	385.00			907.75
	Total								$123,527.00

Acknowledgements

State of California
Office of the State Controller

Local Government Programs and Services Division

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Publication Team

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The Local Government Programs and Services Division values and appreciates the support and ongoing contributions of the following organizations:

Advisory Committee on County Accounting Procedures
State Association of County Auditors Accounting Standards Committee
Retirement Advisory Committee

The Local Government Programs and Services Division would also like to acknowledge the extreme efforts of the working group(s) that collaborated and produced the foundations for the current guidance:

County Auditor-Controllers
State Controller's Office Publication Project Team Members
State Association of County Auditors Policy and Interpretation Committee

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