



*Shared Knowledge
for Effective Government*

Chapter 29 & 30

Notes to the Financial Statements

Goal

- ▶ Familiarize you with note disclosure requirements and
- ▶ Recommend resources that will enable you to meet those disclosure requirements.

Basic rules in note preparation

- ▶ Include required disclosures
- ▶ Include only needed information
- ▶ Make sure that your disclosures are accurate (modify templates) and tie to financial statements
- ▶ Exclude both subjective assessments and predictions on future financial position
- ▶ Avoid “negative disclosure”
- ▶ Disclosure is never a substitute for display of face of financial statements
- ▶ Check for changes in authoritative guidance

Overview of note preparation

- ▶ Obtain a template (you need a starting point)
- ▶ Customize notes using your financial statements and information used to prepare statements
- ▶ GAAFR Chapter 29 & 30
- ▶ AOS Website – templates/other entities
- ▶ GASB Statements
- ▶ GASB Comprehensive Implementation Guides
- ▶ GFOA Certificate of Award or Other Checklists

Notes – Why?

- ▶ Management’s tool for clarifying amounts or circumstances
- ▶ Descriptions of policies (required)
- ▶ Additional detail to supplement the amount reported on the face of the statements
- ▶ Additional information on items or events that are not in the financial statements (legal; regulatory; subsequent events)
- ▶ “spirit of full disclosure”

Chapter 29 - Summary of Significant Accounting Policies (SSAP)


Required by GAAP **

- ▶ Specialized environment (governmental reporting)
- ▶ Selection among GAAP alternatives
- ▶ Application of professional judgment

SSAP Requirements

- ▶ Presented before or as 1st note to the statements
- ▶ Should disclose information consistent with requirements on previous slide:
 - Variations of GAAP unique to state and local governments
 - Selection of GAAP application where more than one alternative exists
 - Unusual or innovative application of GAAP has been applied

Required Disclosure in SSAP

- ▶ Description of Govt–Wide Statements
 - ▶ Reporting Entity – including component units
 - ▶ Basis of Presentation for Govt Wide and Fund financial statements
 - ▶ Basis of Accounting
 - ▶ Budgetary Information
 - ▶ Statement of Net Position/Balance Sheet Accounts
 - ▶ Change in Net Position/Fund Balance Accounts
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Description of the government-wide financial statements

- Mention that fiduciary funds and fiduciary-type component units are *NOT* included.
- Do not make this disclosure unless there are fiduciary funds or fiduciary-type component units.
- Practical Consideration: This is typically combined within other requirements such as basis of presentation.

Brief Description of Reporting Entity

- ▶ Typically includes services / programs provided
- ▶ Disclosure that the Reporting Govt is a component unit of another Govt, if necessary.
- ▶ Analysis of component unit(s), including:
 - Description of each unit and relationship
 - Whether unit is presented as discrete or blended component unit
 - How to obtain separately issued statements for unit

Basis of Presentation – government-wide financial statements (disclosures)

1. Governmental and business-type activities, major component units
2. Policy for eliminating internal activity
3. Effect of component units with differing fiscal year ends

Governmental and business-type activities, major component units

- ▶ Explain how data from the fund financial statements are incorporated into either governmental activities or business-type activities and
- ▶ Identify major discretely presented component units and indicate where information on individual units can be found within the basic financial statements
- ▶ The fact that fiduciary funds are not included in either of the activities columns is already explained in description

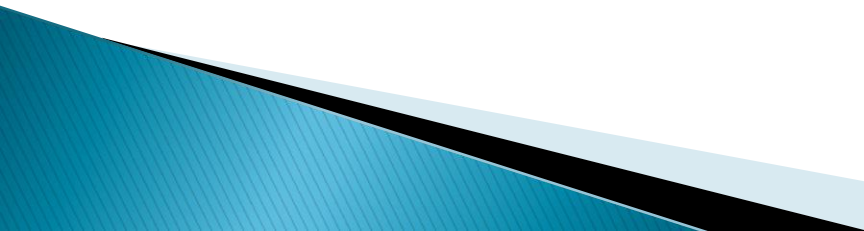
Policy for eliminating internal activity

- ▶ Explain which elements of internal activity have been eliminated from the GW statement of activities and which have been retained.
- ▶ The disclosure concerning the elimination of internal activity should be specific rather than generic
- ▶ *Interfund services provided and used* rather than reimbursements, transfers, or loans
 - Example: water billings to the parks department are reported as program revenues of the water department.

Effect of component units with differing fiscal year ends

- ▶ Identify any differences in fiscal years and
- ▶ Describe the effect of the difference on amounts reported for the period.
- ▶ The fact that different fiscal years are used should be disclosed even when there is no effect on the amounts reported for the period.

Which of the following must be described in the SSAP?

- ▶ A. A selection among GAAP alternatives.
 - ▶ B. The application of professional judgement.
 - ▶ C. Specialized practices characteristics of the environment.
 - ▶ D. All of the above.
 - ▶ E. Both A and D.
- 

Basis of presentation – fund financial statements (3 disclosures)

1. Description of types of funds reported and identification of fund type for each major fund.
2. Descriptions of activities accounted for in the major funds, internal service funds, and fiduciary funds (specific to reporting government)
3. Interfund eliminations

Major and nonmajor governmental and enterprise funds, internal service funds, and fiduciary funds by fund type

- ▶ Identify each of the fund types used in the fund financial statements and
- ▶ Indicate the fund type of each of the major funds
- ▶ A description of the use of each of the fund types is appropriate

Descriptions of activities accounted for in the major funds, internal service funds, and fiduciary funds

- ▶ Provide at least a generic description of the activities of the general fund and
- ▶ Provide a specific description of the activities of
 - Each major fund, other than the general fund and
 - Major enterprise funds, internal service funds, and fiduciary funds
- ▶ A description is not necessary if the title of the column itself already provides the necessary information

Example of Governmental Fund Descriptions

- ▶ General Fund – The general fund is the County's primary operating account. This fund is used to account for all financial resources of the County, except those accounted for in another fund.
- ▶ Developmental Disabilities Fund – This fund is used to account for revenues derived from tax levies and Federal and State grants. Expenses would include operating the Starlight School, providing supported living for the developmentally disabled, and provide direct care workers, house modification, rent and food.

Proprietary and Internal Service Funds Examples

- ▶ Water Fund – To account for the operation of the County's water system.
- ▶ Internal Service Fund – is used to account for the financing of goods or services by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost reimbursement basis. The County's internal service fund accounts for self-insured employee medical, self-insured dental benefits, self-insured vision benefits, workers compensation, and risk management services.

Interfund eliminations

- ▶ Disclose the elimination of internal balances and transfers between governmental funds or between enterprise funds if a separate eliminations column is not presented
- ▶ This disclosure normally is necessary because relatively few governments present an eliminations column in the fund statements

Interfund Transfer Example

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 24,503,691
Children's Services Funds	284,881	-
Other Governmental Funds	14,220,410	1,600
Total Governmental Funds	<u>14,505,291</u>	<u>24,505,291</u>
Water	6,917,186	-
Sewer	3,082,814	-
Total Proprietary Funds	<u>10,000,000</u>	<u>-</u>
Total Funds	<u><u>\$ 24,505,291</u></u>	<u><u>\$ 24,505,291</u></u>

Basis of Accounting

- ▶ Accrual–government–wide financial statements
 - Indicate that the accrual basis of accounting is used
- ▶ Modified accrual–governmental fund financials statement
 - Explain how revenues and expenditures are recognized
 - Specific mention of the availability period
- ▶ Accrual–proprietary and fiduciary fund financial statements

Budgetary data

- ▶ Describe the budgetary basis of accounting if other than GAAP
- ▶ Explain how the budgetary basis of accounting differs from GAAP
- ▶ The purpose of the disclosure is to explain why the *actual* amounts in the budgetary comparison statement do not trace to the amounts reported in the statement of revenues, expenditures, and changes in fund balances.

Budgetary data (cont.)

	Net Change in Fund Balances		
	General Fund	TIF	Recreation & Parks
GAAP Basis:	\$ (4,050,825)	\$ (1,289,428)	\$ 100,680,062
Revenue Accruals	2,135,900	-	818,236
Expenditure Accruals	(271,836)	(982,652)	38,422
Other Financing Sources/Uses	(250)	982,652	-
Encumbrances	(2,753,605)	-	(1,893,067)
Funds Budgeted Elsewhere	(753,077)	-	-
Budget Basis	<u>\$ (5,693,693)</u>	<u>\$ (1,289,428)</u>	<u>\$ 99,643,653</u>

Statements of Net Position/Balance Sheet Accounts

- ▶ If the statement of cash flows focuses on both cash and cash equivalents, provide the definition used for cash equivalents
- ▶ Describe the methods used to value different types of assets (GASB 72)
- ▶ Describe the government's policy for capitalizing assets
 - Capitalization Threshold
 - Assumptions used in estimating historical cost
 - Donated assets
 - Extent of infrastructure capitalization

- ▶ Describe the government's policy for estimating the useful lives of capital assets for purposes of calculating depreciation expense
- ▶ Identify the method (i.e., straight line) used to calculate depreciation expense
- ▶ Explanation of deferred outflows of resources or deferred inflows of resources

- ▶ Describe the flow assumption used for net position–restricted v. net position–unrestricted
- ▶ Describe the flow assumption for restricted fund balance v. the unrestricted portion of fund balance

- ▶ Describe the flow assumption within the unrestricted portion of fund balance among committed fund balance, assigned fund balance, and unassigned fund balance.
- ▶ Fund balance disclosure:
 - Government's highest level of decision-making authority
 - Body or official authorized to assign amounts to a specific purpose
 - Formal action required to commit fund balance and
 - Policy used to authorized the assignment of resources

Change in Net Position/Fund Balance Accounts

- ▶ Property tax revenue
 - Indicate the lien dates, the levy dates, the due dates, and the collection dates
 - Indicate the length of the availability period used for property taxes if it is in excess of 60 days and the unusual circumstances that justify its use

- ▶ Vacation, sick leave, and other compensated absences
 - Mention if employees are reimbursed for unused sick leave upon retirement, or if unused sick leave is treated as additional service time in the calculation of postemployment benefits
- ▶ Provide the definition used to distinguish operating revenues and expenses from nonoperating revenues and expenses in the proprietary fund statement of revenues, expenses, and changes in net position

Chapter 30 – Detailed Note Disclosures

- ▶ Details of reconciling items
 - Combine several similar balances or transactions
 - Involve netting
- ▶ Stewardship, compliance, and accountability
 - Violations of legal or contractual provisions
 - Deficit in individual funds
- ▶ Accounting changes
 - Prior period adjustments
 - Changes in accounting principles
 - Changes in estimate
 - Changes in entity
- ▶ Bankruptcies

Detailed notes on all activities and funds

- ▶ Assets
- ▶ Deferred outflows of resources
- ▶ Liabilities
- ▶ Deferred inflows of resources
- ▶ Net position/fund balance
- ▶ Interfund receivables and payables and interfund eliminations
- ▶ Revenues and expenditures/expenses
- ▶ Service concession arrangements
- ▶ Donor–restricted endowment disclosures
- ▶ Interfund transfers

Assets–Cash Deposits

- ▶ Legal and contractual provisions governing deposits
 - Statutory requirement to collateralize the uninsured balance of deposits
 - Material violations
- ▶ Policies governing deposits
 - Custodial credit risk
 - Foreign currency risk
 - Disclose if no policies exist (GASB 40 ¶6)
- ▶ Exposure to custodial credit risk as of the reporting date
 - Only when its actually present
 - Any losses of the current period
 - Any recovery of losses from a prior period
- ▶ Exposure to foreign currency risk

Assets–Investments

- ▶ Valuation basis – Fair Market Value (GASB 72)
- ▶ Participation in external investment pools
 - Briefly describe regulatory oversight if not SEC registered
 - State whether fair value is the same as the value of pool shares if not SEC registered
 - Indicate if participations is involuntary (GASB 62 ¶210)

Example – Investment Table

S&P Global Rating	Investment Type	Measurement Amount	Investment Maturities in Months			% Total
			0-12	13-36	Over 36	
	Net Asset Value (NAV):					
AAAm	STAR Ohio	\$ 15,375,790	\$ 15,375,790	\$ -	\$ -	34.48%
AAAm	First American Govt. Obligations Money Market	381,587	381,587	-	-	0.86%
	Fair Value:					
AAA	Municipal Bond	250,684	-	250,684	-	0.56%
N/A	Negotiable Certificates of Deposit	2,847,589	-	1,935,169	912,420	6.39%
N/A	Commercial Paper	3,911,343	3,911,343	-	-	8.77%
N/A	U.S. Treasury Notes	11,573,929	1,191,353	6,788,888	3,593,688	25.95%
N/A	Federal Agricultural Mortgage Corporation	237,000	-	237,000	-	0.53%
AA+	Federal Farm Credit Banks	2,642,820	-	1,614,826	1,027,994	5.93%
AA+	Federal Home Loan Banks	7,032,875	-	3,663,551	3,369,324	15.77%
AA+	Federal National Mortgage Association	337,219	-	337,219	-	0.76%
	Total Investments	\$ 44,590,836	\$ 20,860,073	\$ 14,827,337	\$ 8,903,426	100.00%

Assets–Investments

- ▶ Income associated with investments reported in another fund
 - IF all investment income goes to general fund (GASB31 ¶15f)
- ▶ Information on realized gains and losses (optional)
 - Indicate that the calculation of realized gains and losses is entirely separate from the calculation of the net change in the FV of investments
 - Indicate that realized gains and losses of the current period include changes in FV that actually occurred in prior periods and were thus included as part of the net change in the FV of investments reported in those periods. (GASB31 ¶15)

Assets–Investments

- ▶ Legal and contractual provisions governing investments
 - Material violations, along with the action taken to address those violations (GASB3 ¶65–66)
- ▶ Policies governing investments (if relevant)
 - Credit risk (including custodial credit risk)
 - Concentration risk
 - Interest rate risk
 - Foreign currency risk
 - If no policy and relevant – the fact should be disclosed

Assets–Investments

- ▶ Exposure to credit risk
 - Disclose least favorable credit rating for debt securities held directly and indirectly (GASB40 & 59)
 - Other than guaranteed by US government
 - If no rating available – disclose that fact
 - Aggregated by investment type or credit quality
- ▶ Exposure to custodial credit risk as of the reporting date (GASB 40)
 - Type of investment
 - Amount of investment, and
 - How the investment was held
 - Losses of the current period
 - Recovery of losses from prior period

Assets–Investments

- ▶ Concentration risk (GASB40)
 - Disclose if 5% or more with a single issuer
 - Affiliates and subsidiaries of a common parent company engaged in similar activities and having similar economic characteristics may need to be treated as a single issuer.
- ▶ Interest–rate–risk
 - Key factor – length of time debt will remain outstanding at lower–than–market interest rates
 - Focus on maturity date
 - Method used to disclose = method used to manage risk
 - Include any contractual terms that make debt especially sensitive to changes in interest rates
 - Applies solely to investments in debt mutual funds, external debt investment pools, or other pooled debt investments (GASB 59)

Assets–Investments

- ▶ Foreign currency risk
 - Amount denominated in each currency by type of investment in US dollars
- ▶ Commitments under yield–maintenance repurchase agreements
 - Considered to be a “true” purchase
 - Reported amount and FV to be sold back and
 - Description of the term of the agreement

Assets–Receivable Balances

- ▶ Present any significant components of receivables not separately visible on the face of the financial statements
- ▶ Disclose any significant balances not expected to be collected within one year of the reporting date

Assets–Capital Assets

- ▶ For each major asset class (GASB 34)
 - Beginning balances
 - accumulated depreciation shown separately
 - Capital acquisitions (additions)
 - Transfers from construction in progress
 - Sales and dispositions (deletions)
 - Ending balances
 - accumulated depreciation shown separately
- ▶ Governmental activities vs. Business–type activities
- ▶ Depreciating vs. Non–depreciating

Assets–Capital Assets

- ▶ Amount of depreciation expense report for each function or program

Assets–Collections

- ▶ Ex. Works of art and historical artifacts
- ▶ Do not have to be capitalized
- ▶ Provide a description and explain why its not been capitalized

Example

	Beginning Balance	Additions	Transfers/ Deductions	Ending Balance
Governmental Activities				
Nondepreciable Capital Assets				
Land	\$ 12,804,688	\$ 1,035,000	-	\$ 13,839,688
Construction in Progress	3,963,462	4,869,667	(3,732,295)	5,100,834
Total Nondepreciable Assets	<u>16,768,150</u>	<u>5,904,667</u>	<u>(3,732,295)</u>	<u>18,940,522</u>
Depreciable Capital Assets				
Buildings	14,882,516	-	550,000	15,432,516
Improvements other than Buildings	20,134,920	242,370	-	20,377,290
Machinery and Equipment	7,787,981	650,737	(295,304)	8,143,414
Furniture and Fixtures	1,568,551	128,082	-	1,696,633
Vehicles	4,600,335	589,337	(519,729)	4,669,943
Infrastructure	471,080,492	3,240,021	809,149	475,129,662
Total Depreciable Assets	<u>520,054,795</u>	<u>4,850,547</u>	<u>544,116</u>	<u>525,449,458</u>
Less Accumulated Depreciation				
Buildings	(6,844,319)	(423,041)	-	(7,267,360)
Improvements other than Buildings	(7,639,769)	(718,209)	-	(8,357,978)
Machinery and Equipment	(6,444,881)	(419,740)	273,500	(6,591,121)
Furniture and Fixtures	(633,471)	(70,038)	-	(703,509)
Vehicles	(3,158,824)	(455,881)	514,955	(3,099,750)
Infrastructure	(259,375,448)	(11,970,548)	2,490	(271,343,506)
Total Accumulated Depreciation	<u>(284,096,712)</u>	<u>(14,057,457)</u>	<u>790,945</u>	<u>(297,363,224)</u>
Depreciable Capital Assets, Net of Accumulated Depreciation	<u>235,958,083</u>	<u>(9,206,910)</u>	<u>1,335,061</u>	<u>228,086,234</u>
Total Capital Assets, Net	<u>\$ 252,726,233</u>	<u>\$ (3,302,243)</u>	<u>\$ (2,397,234)</u>	<u>\$ 247,026,756</u>

Example (Continued)

For the year ended December 31, 2022, the value of the assets donated to the City was \$1,752,915.

Depreciation expense was charged to the governmental functions as follows:


General government	\$ 225,613
Security of persons and property	568,296
Leisure time activities	868,591
Community environment	156,050
Basic utility services	6,315,449
Transportation	<u>5,923,458</u>
Total depreciation expense	<u>\$ 14,057,457</u>

Capital Asset Question

- ▶ The schedule of changes in capital assets must report
 - a) capital assets by major asset class, and accumulated depreciation in total
 - b) Capital assets and accumulated depreciation by major asset class
 - c) Capital assets and accumulated depreciation in total
 - d) Either a or b

Answer

- ▶ both capital assets and accumulated depreciation must be reported in total



Bb

Assets–Lease Receivables

- ▶ Group by Category
 - General description of agreement (term, rate, etc.)
 - Total inflows of resources for period (lease payments, interest received)
 - Existence, terms and conditions of options by other party to terminate
 - Schedule of future lease payments for 5 individual years and then in 5–year increments (principal and interest disclosed separately).
- ▶ Also Disclose, if Applicable:
 - Leases of assets considered investments
 - Leases of regulated assets
 - Sublease or sale–leaseback transactions

Assets–Valuation Allowances

- ▶ Disclose the amount of the valuation allowance if it is not otherwise visible in the financial statements (GASB 34 & 62)
 - Ex. Allowance for doubtful accounts

Deferred outflows of resources

- ▶ If in aggregate on financial statements, provide detail on the different types of deferred amounts
- ▶ Disclose any situation where a transaction resulted in a significant change in the amount reported for one of the three categories of net position
 - Net investment in capital assets
 - Restricted
 - Unrestricted

Liabilities–Payable Balances

- ▶ Present any significant components of payables not separately visible in the financial statements

Liabilities–Pension/OPEB Plans (GASB 68/75)

- ▶ Name of the plan
- ▶ Entity that administers the plan
- ▶ Description of plan
 - “defined contribution pension plan”
- ▶ Description of benefit terms
- ▶ Contribution rates in dollars or as a % of salary
 - For employees
 - For employer, and
 - Nonemployer contributing entities, if any

Liabilities–Pension/OPEB Plans (GASB 68/75)

- ▶ Authority to establish or amend benefits & rates
- ▶ Amount of pension/OPEB expense
- ▶ Amount of forfeitures reflected in pension expense
- ▶ Amount of the employer’s liability outstanding at the end of the period, if any
- ▶ Does plan issue a stand–along report?

Example

	OPERS	OP&F	Total
Proportion of the Net OPEB Liability (Asset):			
Current Measurement Period	0.057970%	0.2415556%	
Prior Measurement Period	0.049083%	0.2362764%	
Change in Proportion	0.008887%	0.0052792%	
Proportionate Share of the Net			
OPEB Liability (Asset)	\$ (1,815,709)	\$ 2,647,657	
OPEB Expense	\$ (1,646,895)	\$ 384,443	\$ (1,262,452)

	OPERS	OP&F	Total
Deferred Outflows of Resources			
Differences between Expected and Actual Experience	\$ -	\$ 120,445	\$ 120,445
Changes of Assumptions	-	1,171,933	1,171,933
Changes in Proportionate Share and Differences in Contributions	149,521	572,887	722,408
City Contributions Subsequent to the Measurement Date	-	33,463	33,463
Total Deferred Outflows of Resources	\$ 149,521	\$ 1,898,728	\$ 2,048,249
Deferred Inflows of Resources			
Differences between Expected and Actual Experience	\$ 275,416	\$ 349,924	\$ 625,340
Net Difference between Projected and Actual Earnings on OPEB Plan Investments	865,600	239,170	1,104,770
Changes of Assumptions	734,979	307,512	1,042,491
Changes in Proportionate Share and Differences in Contributions	157,638	9,075	166,713
Total Deferred Inflows of Resources	\$ 2,033,633	\$ 905,681	\$ 2,939,314

Liabilities–Termination Benefits

- ▶ Describe the arrangement
 - Types of benefits
 - Number of affected employees
 - Period over which benefits will be provided
- ▶ Indicate the cost of providing the benefits
- ▶ Describe the significant methods and assumptions used to calculate the liability

Liabilities–Construction & Other Significant Commitments

- ▶ List existing arrangements to enter into future transactions
 - Construction
 - Supplies
- ▶ Encumbrances meet this definition
 - If significant, disclose by major fund and by nonmajor funds in the aggregate

Example

Vendor	Contract Amount	Amount Expensed	Balance 12/31/2022
Core & Main	\$ 900,000	\$ 819,990	\$ 80,010
DLZ Ohio, Inc.	552,906	305,613	247,293
MS Consultants, Inc.	508,670	490,000	18,670
Prime AE Group, Inc.	1,825,880	934,044	891,836
Savko	1,447,694	1,128,518	319,176
Thayer Power & Communication	1,145,000	438,029	706,971
	\$ 6,380,150	\$ 202,062	\$ 2,263,956

	Governmental Funds
General Fund	\$ 4,182,289
Recreation and Parks Fund	1,893,066
Capital Improvement Municipal Tax Fund	6,112,265
Other Governmental Funds	2,937,386
Total	\$ 15,125,006

Liabilities–Claims & Judgments

- ▶ Various risks of loss to which the government is exposed
- ▶ How each risk of loss is handled
 - Purchase of insurance
 - Participation in a public–entity risk pool
 - Risk retention
- ▶ Significant reduction from the prior year in insurance coverage in any major risk category, and
- ▶ Past 3 fiscal years whether settlements exceeded insurance coverage

Liabilities–Claims & Judgments

- ▶ If a participate in a risk pool:
 - Describe the nature of the government’s participation in the pool, and
 - Describe the rights and responsibilities of both the government and of the pool
- ▶ Risk retention (internal service fund):
 - Basis for estimating the liability for unpaid claims
 - Are claim adjustments included in the liability
 - If claim liabilities are discounted
 - Disclose that amounts are at present value and
 - The range of discount rates used

Liabilities–Claims & Judgments

- Tabular reconciliation of changes in the aggregate liability for both the current and the previous year
 - Beginning balance
 - Plus incurred claims
 - Less paid claims
 - Other (change in estimation technique)
 - Ending balance

	<u>2021</u>	<u>2022</u>
Unpaid Claims Jan. 1	\$ 425,867	\$ 602,285
Incurred Claims	4,802,990	5,820,396
Payment of Claims	<u>(4,626,572)</u>	<u>(5,607,005)</u>
Unpaid Claims Dec. 31	<u>\$ 602,285</u>	<u>\$ 815,676</u>

Liabilities– Leases (GASB 87)

- ▶ Group by Category of Leases
 - General description of agreement (term, rate, etc.)
 - Total amount of leased assets and amortization (separate from other capital assets) by category. “Intangible right to use” asset.
 - Total outflows of resources for period (lease payments, interest paid)
 - Existence, terms and conditions of options to terminate
 - Any impairment recognized in lease liability
 - Schedule of future lease payments for 5 individual years and then in 5–year increments (principal and interest disclosed separately).
- ▶ Also Disclose, if Applicable:
 - Sublease, lease–leaseback, or sale–leaseback transactions

Example (Lease Asset)

	Restated Balance 1/1/2022	Additions	Disposals	Balance 12/31/2022
Governmental Activities:				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 8,971,512	\$ 829,286	\$ -	\$ 9,800,798
Construction in Progress	3,623,043	4,231,781	(647,041)	7,207,783
<i>Total Capital Assets, Not Being Depreciated</i>	<u>12,594,555</u>	<u>5,061,067</u>	<u>(647,041)</u>	<u>17,008,581</u>
<i>Capital Assets, Being Depreciated/Amortized:</i>				
Buildings	17,893,289	-	-	17,893,289
Intangible right to use Buildings	2,982,018	313,123	-	3,295,141
Improvements Other Than Buildings	27,418,561	182,727	-	27,601,288
Streets	57,110,104	1,375,065	-	58,485,169
Bridges	229,802	-	-	229,802
Equipment	14,799,968	879,870	(247,336)	15,432,502
Intangible right to use Equipment	11,652	50,407	-	62,059
<i>Total Capital Assets, Being Depreciated/Amortized</i>	<u>120,445,394</u>	<u>2,801,192</u>	<u>(247,336)</u>	<u>122,999,250</u>
<i>Less Accumulated Depreciation/Amortization:</i>				
Buildings	(13,852,728)	(280,590)	-	(14,133,318)
Intangible right to use Buildings	-	(155,406)	-	(155,406)
Improvements Other Than Buildings	(15,370,216)	(1,000,261)	-	(16,370,477)
Streets	(45,727,832)	(1,018,158)	-	(46,745,990)
Bridges	(133,284)	(4,596)	-	(137,880)
Equipment	(10,556,556)	(754,859)	247,336	(11,064,079)
Intangible right to use Equipment	-	(11,781)	-	(11,781)
<i>Total Accumulated Depreciation/Amortization</i>	<u>(85,640,616)</u>	<u>(3,225,651) *</u>	<u>247,336</u>	<u>(88,618,931)</u>
<i>Total Capital Assets Being Depreciated, Net</i>	<u>34,804,778</u>	<u>(424,459)</u>	<u>-</u>	<u>34,380,319</u>
<i>Total Governmental Activities Capital Assets, Net</i>				
	<u>\$ 47,399,333</u>	<u>\$ 4,636,608</u>	<u>\$ (647,041)</u>	<u>\$ 51,388,900</u>

Example (Lease Liability)

Governmental Activities:	Interest Rate	Restated Balance 1/1/2022	Additions	Reductions	Balance 12/31/2022	Due Within One Year
General Obligation Bonds						
2011 Library Improvement Refunding	2.00-4.25	\$ 805,000	\$ -	\$ 395,000	\$ 410,000	\$ 410,000
Bond Premium		23,684	-	11,622	12,062	-
2015 Various Purpose Refunding	1.35-3.00	1,500,000	-	285,000	1,215,000	290,000
General Obligation Bonds from Direct Placements		-				
2014 Various Purpose Refunding	3.05	60,000	-	15,000	45,000	15,000
Total General Obligation Bonds		<u>2,388,684</u>	<u>-</u>	<u>706,622</u>	<u>1,682,062</u>	<u>715,000</u>
Revenue Bonds from Direct Placements						
2020 Urban Renewal	2.50	7,390,000	-	410,000	6,980,000	425,000
2020 Economic Development	3.10	2,109,645	-	206,613	1,903,032	213,068
Total Revenue Bonds		<u>9,499,645</u>	<u>-</u>	<u>616,613</u>	<u>8,883,032</u>	<u>638,068</u>
Special Assessment Bonds with Government Commitment						
2008 Cold Creek	3.00-6.00	1,145,000	-	135,000	1,010,000	145,000
Bond Premium		52,664	-	6,209	46,455	-
2015 Various Purpose Refunding	1.35-3.00	70,000	-	10,000	60,000	15,000
Total Special Assessment Bonds		<u>1,267,664</u>	<u>-</u>	<u>151,209</u>	<u>1,116,455</u>	<u>160,000</u>
Direct Borrowings						
OPWC Loans	0.00	122,514	-	8,811	113,703	8,812
Other Long Term Obligations						
Net Pension Liability		23,528,043	-	4,351,856	19,176,187	-
Net OPEB Liability		2,969,643	-	59,177	2,910,466	-
Compensated Absences		2,230,692	78,873	209,848	2,099,717	441,614
Leases		2,993,670	363,281	96,981	3,259,970	109,678
Total Other Long Term Obligations		<u>31,722,048</u>	<u>442,154</u>	<u>4,717,862</u>	<u>27,446,340</u>	<u>551,292</u>
Total Governmental Activities		<u>\$ 45,000,555</u>	<u>\$ 442,154</u>	<u>\$ 6,201,117</u>	<u>\$ 39,241,592</u>	<u>\$ 2,073,172</u>

Liabilities– Short–Term Debt and Liquidity (GASB 38 & 62)

- ▶ Provide a schedule:
 - Beginning balances
 - Increases
 - Decreases
 - Ending balances
- ▶ Describe the terms of any replacement financing (short to long)
- ▶ Disclose circumstances of any defaults

Liabilities–

Long–Term Debt (GASB 34, 38 & 88)

- ▶ Describe each bond issue and lease outstanding
- ▶ Schedule of long–term liabilities by major classification which separates direct borrowings and private placements from other debt:
 - Beginning balances
 - Increases
 - Decreases
 - Ending balances, and
 - Portion due within 1 year
- ▶ Governmental activities vs. business–type activities
- ▶ Disclose which funds have been used to liquidate governmental comp abs or other non–debt liability

Liabilities–

Long–Term Debt (GASB 34, 38 & 88)

- ▶ Debt service requirement to maturity
 - Principal and interest, presented separately, due in each of the next 5 years individually and then in 5–year increments.
- ▶ Terms of interest rate changes for variable–rate debt
- ▶ Disclosure of legal debt margin
- ▶ Amount of bonds authorized but unissued and unused lines of credit
- ▶ Assets pledged as collateral for debt
- ▶ Default terms of debt and financial consequences.

Liabilities– Long–Term Debt (GASB 48)

- ▶ Debt supported by pledged revenues
 - Identify the specific revenue pledged and the approximate amount (remaining P&I)
 - Identify the debt and its purpose
 - Period the revenue will not be available for other uses
 - Proportion of revenue stream pledged
 - Compare pledged revenues net of operating expense to P&I

Liabilities– Long–Term Debt (GASB 6)

- ▶ Special assessment debt and related activities
 - Government obligated:
 - Nature of the obligation
 - Include guarantee, reserve, or sinking fund to cover defaults
 - Amount of delinquent receivables, in not on statements
 - Government NOT obligated:
 - Amount of the debt
 - The fact that government is agent not liable

Liabilities– Long–Term Debt (GASB 7)

- ▶ Current refundings and advance refundings
 - General description of the transaction
 - Difference in cash flows (refunding v no refunding)
 - Economic gain or loss
- ▶ In–substance defeasance (still liable)
 - Disclose for as long as the debt remains outstanding
- ▶ Refunded using variable rate debt
 - Disclose min & max rate
 - Disclose min & max savings

Liabilities– Long–Term Debt (GASB Interpretation 1)

- ▶ Demand bonds
 - Describe the arrangement
 - Terms of any standby liquidity agreement (letter of credit)
 - Related commitment fees
 - Amount drawn down as of the financial reporting date
 - Describe the take–out agreement
 - Present debt service requirements should take–out occur

Liabilities– Long–Term Debt (GASB 62)

- ▶ Bond anticipation notes
 - Replacement debt issued prior to the issuance of the financials statements
 - Or
 - Qualifying financing agreement that extends at least 12 months beyond the reporting date

Liabilities– Long–Term Debt (GASB 62)

- ▶ Troubled debt restructuring
 - Describe principal changes in terms
 - Aggregate gain on restructuring of payables, and
 - Aggregate net gain/loss on transfers of assets

- In subsequent periods:
 - Portion of restructured payables that represents contingent payment
 - Total amount contingently payable and
 - Conditions that trigger debt restructurings

Liabilities–Landfill Closure and Postclosure Care (GASB 18)

- ▶ Describe the nature and source of landfill closure and postclosure care requirements
- ▶ Liability is based on landfill capacity used to date
- ▶ Amount of liability, if not visible on statements
- ▶ Estimated total current cost of care
- ▶ Percentage of capacity used to date
- ▶ Estimated remaining years to be used
- ▶ How are financial assurance requirements being met

Liabilities–Landfill Closure and Postclosure Care (GASB 18)

- ▶ Assets restricted for payment of closure and postclosure care, if not shown on statements
- ▶ Nature of the estimates and the potential for changes
 - Result of inflation/deflation
 - Changes in technology
 - Changes in laws or regulations

Liabilities–Pollution Remediation Obligations (GASB 49)

- ▶ Nature and source of the remediation obligation
- ▶ Amount of the remediation liability
 - –if not shown on statements
- ▶ Methods and assumptions used to estimate the liability
- ▶ Potential for changes in estimate
 - Price changes
 - Changes in technology
 - Changes in laws and regulations
- ▶ Amount liability has been reduced due to unrealizable anticipated recoveries

Liabilities–Asset Retirement Obligations (ARO) (GASB 83)

- ▶ General description of ARO, associated capital asset, and source of obligation
- ▶ Methods and assumptions used to measure ARO liability
- ▶ Estimated remaining useful life of associated capital asset
- ▶ Legally required funding and assurance provisions (surety bond, letter of credit, etc.)
- ▶ Assets restricted for payment of ARO
- ▶ If ARO cannot be reasonably estimated, disclosure of and reason for that fact.

Deferred Inflows of Resources (GASB 63)

- ▶ If in aggregate on financial statements, provide detail on the different types of deferred amounts
- ▶ Disclose any situation where a transaction resulted in a significant change in the amount reported for one of the three categories of net position
 - Net investment in capital assets
 - Restricted
 - Unrestricted

Net Position/Fund Balance (GASB 46)

- ▶ Amount of restricted net position due to enabling legislation
- ▶ Nonspendable fund balance
 - Not in spendable form v. amounts legally required to be maintained, if not shown on statements
- ▶ Committed fund balance
 - Highest level of decision-making authority
 - Formal action needed to establish, modify or rescind
- ▶ Assigned fund balance
 - Who is authorized
 - Policy to authorize

Net Position/Fund Balance

(GASB 46 & 54)

- ▶ Flow assumption for restricted v. unrestricted resources
- ▶ Flow assumption for unrestricted resources
 - Committed v Assigned v unassigned
- ▶ Specific details of restricted, committed, and assigned fund balance, if not shown on statements
- ▶ Stabilization arrangement
 - Authority for establishing
 - Requirements for additions
 - Conditions for spending, and
 - Balance, if not shown on statements
- ▶ Minimum fund balance policy

Example

	General Fund	TIF	Capital Improvement Municipal Tax	Recreation and Parks	Other Governmental Funds	Total
Restricted for:						
Infrastructure Improvements	\$ -	\$ 1,656,308	\$ -	\$ -	\$ 4,304,695	\$ 5,961,003
Public Safety Programs	-	-	-	-	234,599	234,599
Parks and Recreation	-	-	-	101,584,091	-	101,584,091
Capital Outlay	-	-	17,467,316	-	-	17,467,316
Other	-	-	-	-	16,955	16,955
Public Health	-	-	-	-	2,786	2,786
Total Restricted	-	1,656,308	17,467,316	101,584,091	4,559,035	125,266,750
Committed for:						
Utility Operations	-	-	-	-	2,359,087	2,359,087
Park Maintenance	-	-	-	-	348,224	348,224
Infrastructure Improvements	-	-	-	-	5,019,947	5,019,947
Total Committed	-	-	-	-	7,727,258	7,727,258
Assigned:						
Public Safety	734,172	-	-	-	-	734,172
Public Health	64,988	-	-	-	-	64,988
Leisure Time Activities	84,929	-	-	-	-	84,929
Community Environment	1,455,874	-	-	-	-	1,455,874
General Government	1,899,480	-	-	-	-	1,899,480
Transportation	76,780	-	-	-	-	76,780
Basic Utility Services	164,156	-	-	-	-	164,156
Total Assigned	4,480,379	-	-	-	-	4,480,379
Unassigned	19,591,624	-	-	-	-	19,591,624
Total Fund Balance	\$ 24,072,003	\$ 1,656,308	\$ 17,467,316	\$ 101,584,091	\$ 12,286,293	\$ 157,066,011

Interfund Receivables and Payables / Interfund Eliminations (GASB 38 & NCGA 1)

- ▶ Summary of interfund balances based on the columns reported on statements
- ▶ Purpose of interfund balances
 - Operating receivables/payables v. advances
- ▶ Amounts not expected to be repaid within 1 year
- ▶ Eliminate for Government-wide statement
 - Governmental to governmental
 - Business-type to business-type

Revenues and Expenditures/Expenses (GASB 34)

- ▶ Transactions that would be reported as special items had they been within the control of management
 - Either unusual in nature OR
 - Infrequent in occurrence

Revenues and Expenditures/Expenses

- ▶ Transactions not reported because not measurable
 - Ex. Nonexchange revenues (GASB 33)
 - Ex. Termination benefits (GASB 47)
 - Ex. Pollution remediation (GASB 49)
- ▶ Nonmonetary transactions
 - Nature of the transaction
 - Basis of accounting for the transferred asset, and
 - Any gain or loss

Donor–Restricted Endowment (GASB 34)

- ▶ Amount of net appreciation on investments that can be authorized for expenditure
- ▶ How amounts that can be authorized for expenditure are classified within net position
- ▶ State law regarding ability to spend net appreciation on investments, and
- ▶ Policy for authorizing and spending investment income
 - Spending–rate or total–return policy

Interfund Transfers (GASB 38)

- ▶ Summary based on columns reported in statements
- ▶ Describe
 - Principal purposes
 - Purpose and amount of any significant transfer
 - that is not routine
 - Inconsistent with activities of the fund making the transfer
 - Ex. From a capital projects fund to the general fund

Other Disclosures

- ▶ Tax Abatements (GASB 77)
 - Must disclose reduction in taxes due to agreement with another party
 - Distinguish tax abatements originated by reporting government and those by other governments
 - Lost revenue by tax abatement type for the year
 - Authority to abate taxes for each type of abatement
 - Additional commitment made as part of the agreement.
 - Identify omitted disclosures if legally prohibited to do so.

Individual Major Discretely Presented Component Unit Disclosures (GASB 34)

- ▶ If not separate column on statements
- ▶ If no combining statement
- ▶ Include in notes:
 - Condensed statement of net position
 - Condensed statement of activities
 - Condensed statement of cash flows is not required

Related Organizations (GASB 14)

- ▶ Describe the nature of the primary government's accountability, and
- ▶ Provide disclosures for related-party transaction, if applicable

Joint Ventures & Jointly Governed Organizations (GASB 14)

- ▶ Describe the joint venture
 - Ongoing financial interest or responsibility
 - How to obtain the JV's financial statements
- ▶ Provide disclosures for related-party transaction, if applicable

Related-Party Transactions

- ▶ Transactions so close that a reasonable person would conclude that one or both parties might be disinclined to fully pursue their separate interest
- ▶ For transaction outside the ordinary course of operations
- ▶ Describe the nature of the relationship
- ▶ Describe the transaction
- ▶ Amount
- ▶ Receivables / payables

Summary Disclosure of Significant Contingencies

- ▶ Loss contingencies
 - Not probable or not measurable
 - Disclose if:
 - Reasonably possible, but not probable
 - Probable, but cannot be reasonably estimated
 - Incurred but not reported (IBNR)
 - Guarantees, even if remote
 - Ex. Repurchase of receivables
 - If measurable by a dollar range
 - Record liability equal to the low end of range
 - Disclose balance of range as contingent liability

Other Disclosures

- ▶ **Contingent Liability for Debt**
 - Primary government is secondarily liable for debt of another party
- ▶ **Gain Contingencies (GASB 62)**
 - Avoid misleading implications as to the likelihoods of realization
- ▶ **Subsequent Events**
 - Recognized events – additional information about what's in the statements
 - Nonrecognized events –
 - Issuance of debt
 - Creation of a new component unit
 - Major casualty loss (national disaster)

Other Disclosures

▶ Bankruptcies

- Conditions and events that led to the filing
- Expected or known effect of those conditions
- Effect on service levels and operations
- Possibility of termination of the government
- How to obtain a copy of the plan of adjustment

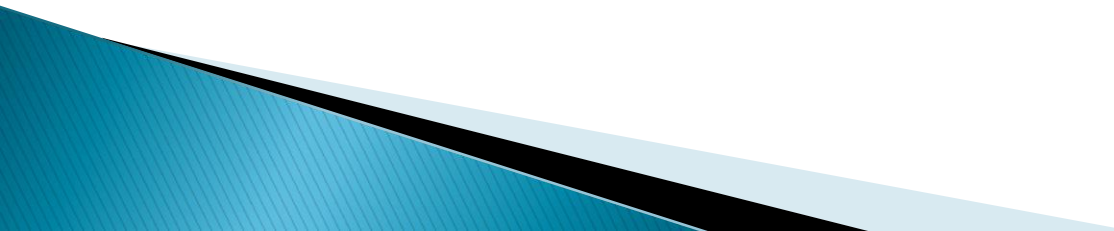
▶ Going-Concern Considerations

- Must disclose if there is substantial doubt about its ability to continue for 12 months beyond the financial statement date

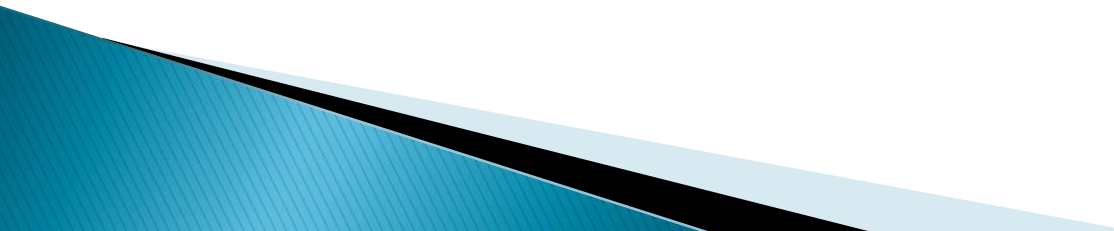
Areas for Improvement

- ▶ Self-review to ensure note amounts articulate those in the financial statement
- ▶ Eliminate negative or immaterial disclosures
- ▶ Update terminology
- ▶ Thoughtfully organize note disclosures or consider adding table of contents for notes
- ▶ Report budgetary disclosures in appropriate location (BFS vs RSI).

Which of the following may be included in the notes to the financials statements?

- ▶ A. Assessments concerning the effect of reported information on future financial position.
 - ▶ B. Predictions concerning the effect of future information on future financial position.
 - ▶ C. Both A and B
 - ▶ D. Neither A nor B
- 

To be included in the notes to the financial statements, information should:

- ▶ A. Have a clear and demonstratable relationship to information in the financial statements
 - ▶ B. Be essential to a user's understanding of the financial statements.
 - ▶ C. Both A and B
 - ▶ D. Neither A nor B
- 

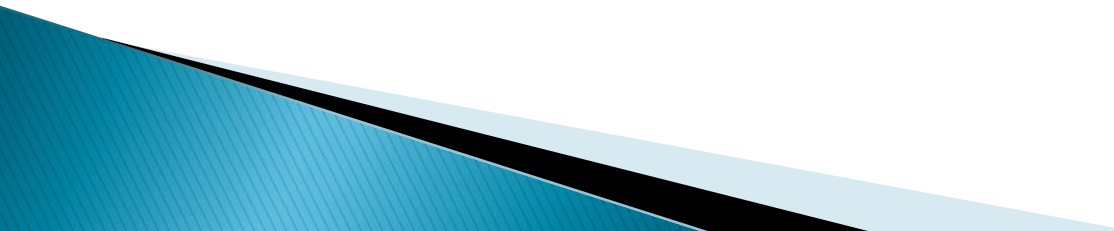
Since the notes to the financial statements are an integral part of the basic financial statements, presentation in the notes sometimes may be a substitute for mandated display on the face of the financial statements.

- ▶ A. True
- ▶ B. False

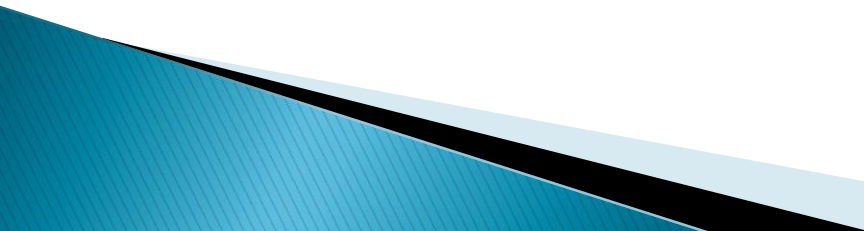
Which of the following statements is true regarding the presentation of note disclosures for discretely presented component units in the reporting entity's financial statements?

- ▶ A. The same disclosures should be presented as in the component unit's separate report.
- ▶ B. The same disclosures should be presented as in the component unit's separate report, but the information should be kept separate from similar information of the primary government.
- ▶ C. Disclosures should be presented based on their relevance to the financial reporting entity.
- ▶ D. Disclosures for discretely presented component units should be *excluded*.

When authoritative standards prescribe a disclosure that is not relevant to a government's circumstances, the notes should explain that fact.

- ▶ A. True
 - ▶ B. False
- 

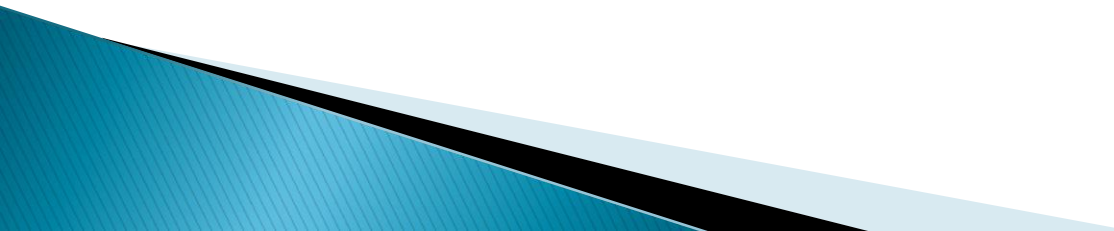
Which of the following is a true statement regarding the appropriate application of the concept of *materiality* to note disclosure?

- ▶ A. Note disclosure should focus on *quantitative* materiality.
 - ▶ B. Note disclosure should focus on *qualitative* materiality.
 - ▶ C. The concept of *materiality* applies to display rather than disclosure.
 - ▶ D. Both A and B.
- 

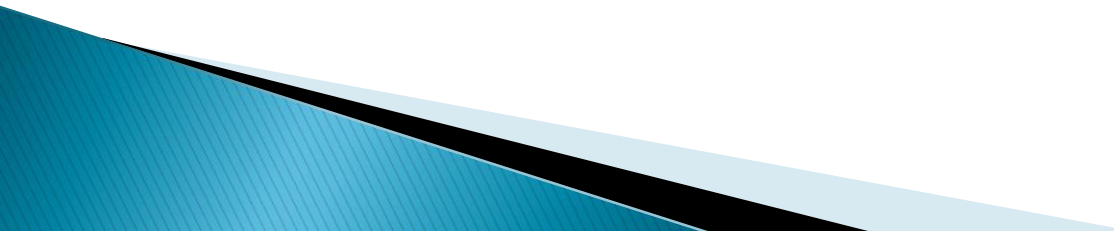
The requirement to disclose deficits in individual funds applies to all funds.

- ▶ A. True
- ▶ B. False

Which of the following statements is true concerning custodial credit risk?

- ▶ A. It is relevant to all deposits.
 - ▶ B. It is relevant to all investments.
 - ▶ C. Both A and B
 - ▶ D. Neither A nor B
- 

Which of the following constitutes a *policy* for purposes of deposit and investment disclosure?

- ▶ A. Past practice
 - ▶ B. Managerial directives
 - ▶ C. Applicable state law
 - ▶ D. All of the above.
 - ▶ E. None of the above.
- 

Disclosures for pension benefits and OPEB are virtually identical.

- ▶ A. True
- ▶ B. False

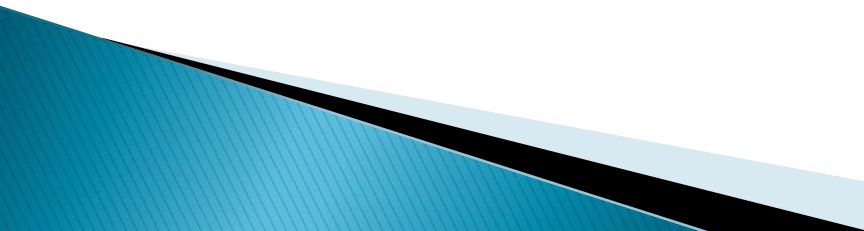
The disclosure for short-term debt is only required if short-term debt is outstanding as of the reporting date.

- ▶ A. True
 - ▶ B. False
- 

The schedule of changes in long-term liabilities must report all long-term liabilities, not just debt.

- ▶ A. True
- ▶ B. False

When disclosing debt service requirements to maturity on variable-rate debt, which interest rate should be used to calculate future interest payments?

- ▶ A. The maximum rate permitted by the terms of the contract
 - ▶ B. The weighted average rate for the preceding five years.
 - ▶ C. The rate in effect as of the financial reporting date.
 - ▶ D. The rate in effect at the time the financial statements are issued.
- 

For purposes of note disclosure, the portion of the liability for vacation leave that is considered *due within one year* is:

- ▶ A. The entire amount (vacation is considered to be payable on demand).
- ▶ B. None (vacation is not considered *due* until taken)
- ▶ C. The amount expected to be taken within 1 year.

Subsequent events disclosures apply only to transactions and events that affect assets and liabilities recognized as of the reporting date.

- ▶ A. True
- ▶ B. False

QUESTIONS?

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