What You Should Know about Your Local Government's Finances

A Guide to Financial Statements

3rd Edition

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of the Financial Accounting Foundation
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FOREWORD

Meeting the needs of financial statement users is a primary objective of the GASB. However, when users have difficulty understanding the financial statements issued by local governments, the importance of the information conveyed sometimes is lost.

This guide, a third edition of the highly successful and respected user guide series, is written from the user's perspective. From an accountant's standpoint, this posed some challenges. For example, although every attempt was made to make the document technically pure, understandability is the goal of this guide. Because it is not an accounting pronouncement, this document has no standing in the formal hierarchy of generally accepted accounting principles and does not modify or interpret any authoritative pronouncements. The GASB members did not approve or clear this guide, so the accuracy of the content is the sole responsibility of the author and the director of research and technical activities.

Dean Mead, GASB senior research manager and author of this document, brings a unique but highly appropriate background to this project. Before joining the GASB in 1998, Dean spent over 10 years analyzing state and local government financial statements, primarily as assistant director of research for the Citizens Budget Commission of New York. He has spent countless hours working with financial statement users, preparers, and auditors in writing this guide. Without Dean's tireless efforts, the user guide series would not have become a reality.

The ultimate success of the GASB's efforts to improve governmental financial reporting depends on the users. We believe that the third edition of this guide will assist those users to better understand the local government financial reports they encounter.

June 2017
Norwalk, Connecticut

David R. Bean
Director of Research and Technical Activities

PREFACE

The GASB's original series of user guides was part of an effort to engage the users of governmental financial information in the process of establishing the standards for reporting that information. The GASB committed itself to communicating more plainly with users and with less accounting jargon and to focus on how the work of the GASB would affect the kinds of information users would receive. The user guides were a centerpiece of that effort.

The first guide to local government financial statements was published in September 2000, and an updated and much-expanded second edition was released in 2011. But neither the governmental environment nor governmental accounting standards are set in stone. Much has happened in the 6 years since the publication of the second edition: the reporting of deferrals has been fully implemented and the standards for reporting pensions and retiree health insurance were revamped. Nineteen Statements of Governmental Accounting Standards have been issued in all (through December 2016), 8 of which were related to retirement benefits. This third edition encompasses the most important of those changes.

This guide benefited greatly from the advice of the GASB members and staff, for which I am grateful. I also would like to thank them for their support of the GASB's user outreach efforts. This edition of the guide would not have reached the finish line were it not for the diligent attention of Ragan Bolesta, supervisor of administration; Patti Waterbury, word processing specialist; and the production staff of the Financial Accounting Foundation.

Dean Michael Mead

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HIGHLIGHTS OF THIS GUIDE

PART ONE. WHAT IS SO IMPORTANT ABOUT GOVERNMENT FINANCIAL STATEMENTS?

- Most governments are unlike private-sector businesses—governments do not charge citizens directly for most services they receive but, rather, finance services with taxes and other fees applied generally to the public.
- Because citizens have little choice about paying these taxes and fees, and because it is not always clear how the taxes citizens pay relate to the services they receive, governments must take special care to demonstrate that they have been accountable to the public.
- Financial statements are an important way for governments to demonstrate their accountability and to provide information that is useful for people to make decisions.

PART TWO. INFORMATION ABOUT THE WHOLE GOVERNMENT

- The first two financial statements provide comprehensive information about your entire government.
- You can use the information in the *statement of net position* to:
  - Identify the value of things your government owns (assets), the amounts it owes to others (liabilities), amounts received and paid in the past that are actually related to future periods (deferred inflows and outflows), and what is left (net position) after liabilities have been satisfied
  - Determine if your government's financial status is improving or declining
  - Assess your government's ability to cover its costs and to continue financing services in the future, and
  - Find out what resources your government has available for providing new services or starting new programs.
- You can use the information in the *statement of activities* to:
  - Learn where your government gets resources and what it uses them for
  - Find out what it costs your government to provide services
  - Determine the extent to which services cover their own costs with user fees, charges, and grants
  - Identify out-of-the-ordinary costs and unusual sources of funding, and
  - Discover if sufficient resources were raised during the year to cover costs or if there was a shortfall.

PART THREE. DETAILED INFORMATION ABOUT YOUR GOVERNMENT'S FUNDS

- The *fund financial statements* provide information about the individual activities of your government, dividing them into three parts—governmental, proprietary, and fiduciary funds.
- You can use the information in the *governmental funds statements* to:
  - Determine your government's short-term financing needs and assess its capacity to meet them, and
  - Assess your government's short-run ability to balance inflows of resources with outflows to pay for services.
- You can use the information in the *proprietary funds statements* to analyze the activities of your government that are business-like, such as utilities.
- You can use the information in the *fiduciary funds statements* to learn about the resources your government manages or holds on behalf of others, such as employee pension funds.
- You can use the information in the *component units statements* to examine the legally separate entities for which the elected officials of your government are financially accountable.

PART FOUR. NOTES TO THE FINANCIAL STATEMENTS

- Your government's notes disclose additional information that is essential to representing its financial status accurately and completely—they are an integral part of the financial statements.
- You can learn from the notes, among other things:
  - Your government's significant accounting methods and assumptions
  - The types of investments it has made and the potential risks associated with them
  - How much your government is owed and by whom
  - How much your government owes and to whom
  - The approximate cost of using capital assets to provide services
  - Amounts your government is obligated to provide for public employee pensions and retiree health insurance
  - How assets set aside in retirement plans compare with the amounts your government is obligated to provide to employees and retirees, and
  - Financial activity among your government's funds.

PART FIVE. SUPPORTING INFORMATION PROVIDED BY YOUR GOVERNMENT

- Management's discussion and analysis (MD&A) is a narrative overview of the financial statements, written by the finance officials of your government, which appears before the financial statements. MD&A prepares you to use the financial statements more knowledgeably and capably by:
  - Giving you a summary analysis of your government's financial health based on the information in the statements, and

  - Highlighting important financial issues.
- Your government presents a budgetary comparison for its general fund and each major special revenue fund for which it legally adopts a budget to help you:
  - Judge your government's compliance with its budget, and
  - Assess your government's financial management capacity.
- If your government provides information about the financial status of its pension and retiree health insurance plans, you can use it to:
  - Determine whether the plan's assets are sufficient to finance retirement benefits, and
  - Compare your government's actual contributions with the amounts determined by an actuary or required by law.
- If your government provides information about its bridges, roads, and other infrastructure assets, you can use it to determine:
  - If the condition of infrastructure is improving or deteriorating, and
  - How the estimated cost of maintaining infrastructure assets compares to what your government actually spent.

PART SIX. OTHER INFORMATION YOU MAY GET WITH THE FINANCIAL STATEMENTS

- Your government may include its basic financial statements in a comprehensive annual financial report, where you can find additional supporting information such as:
  - Your government's structure and chief officials (introductory section)
  - Statements that offer more detailed data than is included in the basic financial statements (financial section), and
  - Financial, economic, and demographic data for the past 10 years that you may find useful for analyzing financial statements (statistical section).

PART ONE

WHAT IS SO IMPORTANT ABOUT GOVERNMENTAL FINANCIAL STATEMENTS?

There are slightly more than 90,000 state and local governments in the United States. In addition to 50 state governments, there are tens of thousands of local governments—counties, cities, towns, and villages. There are school districts, water districts, parks districts, fire districts, mosquito abatement districts, and special districts for myriad other purposes. Public authorities are created by states and localities to build housing, coordinate economic development incentives, provide low-cost loans, treat wastewater, operate electric utilities, and construct hospitals, as well as for other reasons.

In the course of operating from day to day, each one of those governments collects and spends money and other resources. Each one of them has procedures for keeping track of what is collected and spent. Nearly every one of them takes its information about collecting and spending and prepares **FINANCIAL STATEMENTS** that are audited by an independent **CERTIFIED PUBLIC ACCOUNTANT (CPA)** or state government auditor and are made available to the public. The tracking procedures are collectively known as **FINANCIAL ACCOUNTING,** and communicating that information is called **FINANCIAL REPORTING.**

WHY DEVOTE TIME AND RESOURCES TO ACCOUNTING AND FINANCIAL REPORTING?

One reason managers of private organizations keep track of their finances is to ensure that they bring in more resources than they send out and thereby earn a profit. Managers prepare statements summarizing the company's finances for the year to demonstrate their **STEWARDSHIP** to the owners and creditors of the company. This routine is an integral part of establishing a manager's **ACCOUNTABILITY.**

BUT MY GOVERNMENT IS NOT IN BUSINESS TO MAKE A PROFIT. WHY SHOULD IT BOTHER WITH ACCOUNTING AND REPORTING?

Indeed, most activities of your government are not motivated to make a profit. Nevertheless, your government still needs to demonstrate to *its* shareholders—citizens—and creditors that it has been financially accountable. Even if a government does not generate profits, it must still raise enough resources to remain financially viable. Further, as we shall see, governments need to demonstrate their accountability for more than just staying solvent. The fact that your government's activities may be very unlike private-sector transactions necessitates special care by your government to demonstrate through financial statements and other means that it has been accountable.

The Financial Transactions of Governments Are Not Always Apparent...

Governments do engage in some business-like activities (electric and water utilities and golf courses are examples), providing a good or service in return for a payment from the actual recipient or user of the service. But most government services are quite unlike private goods and services. Rather than charge fees or prices directly to the consumer, governments levy taxes on property and retail sales to finance services such as police and fire protection, elementary and secondary education, and parks. In such instances, there is no obvious connection between the payment made by the customer (taxes) and the provision of the service. Who is to say whether it was the sales taxes or the property taxes that paid for the police officers' salaries? Who can tell if the taxes on retail sales in August paid for government services at that time, or if they financed activities the following March?

...And Taxpayers Are Not Always Willing Participants in Those Transactions...

Another important factor that shapes how your government demonstrates its accountability is the involuntary nature of taxes. In the private sector, customers usually can choose what they want from a variety of products and a multitude of sellers and *voluntarily* exchange cash or a promise to pay (a credit card charge, perhaps) in return. By contrast, governments *impose* taxes on citizens and businesses, which are required to pay without necessarily seeing what services they will get in return. In other words, no business-like exchange of resources for goods or services takes place. Furthermore, it is much more difficult and time-consuming for the recipient of government services to switch providers. The private customer may only have to cross the street to find another store, whereas the citizen-taxpayer would have to move to another town or county or wait until the next election.

...Therefore, Taxpayers Need Considerable Evidence of How Their Money Is Being Used by Their Governments.

The combination of involuntary financing and the unclear relationship between the financing and provision of government services requires special efforts to demonstrate accountability. Your government seeks to show not only that it made ends meet in the aggregate, but also how it used taxpayer dollars to provide services. Furthermore, your government needs to prove that it has complied with the many laws and regulations stipulating what, how, when, and where it provides and finances services. Your government employs a variety of means to achieve these ends; financial statements are a principal method. Each year your government prepares for the public a set of financial statements specially designed to support the unique accountability relationship between a government and its citizens.

WHAT IS THE PURPOSE OF THIS USER GUIDE?

Conceivably, each of the more than 325 million citizens of the Unites States is a potential user of the information contained in audited state and local government financial reports. Each has a stake in multiple governmental entities (for instance, a person may simultaneously live in a state, county, town, school district, and water district) and needs information for making decisions related to those

governments. In reality, a very small fraction of Americans has actually ever handled an audited financial report or accessed one on the Internet. However, many have likely come across financial report information without realizing it. Information such as fund balance, budget deficits, or the funded status of a pension plan often is obtained, analyzed, and then communicated to citizens by someone with the requisite knowledge and experience, such as a reporter, a taxpayer association director, or a mutual fund analyst.

The basic aim of this guide is to introduce you to the financial statements of your local governments and the information those statements contain—to supply you with the tools that you need to open a financial report and understand what it says. Once the introduction is complete, the guide offers examples of how the information might be useful to the specific decisions you make and informative about the issues you wish to explore. This guide shows how governmental financial information can be valuable to you when making and participating in a variety of important decisions, such as allocating budget resources among programs, choosing where to locate a business, buy a house, or send a child to school, voting in an election, or buying a municipal bond.

This guide does not, however, go further than to (1) explain what you can find in the statements and (2) provide you with a basic set of selected analytical tools. The next step—making a decision based on your interpretation of the financial statements—is entirely yours to take. This guide offers some insights into the general meaning of financial statement information, but ultimately *you* have to decide what is "good" versus "bad," "high" versus "low," or "prudent" versus "unwise."

Upon further review...overview of an annual financial report

The **BASIC FINANCIAL STATEMENTS (BFS),** which contain the principal information about your government's finances, are the heart of its annual financial report. The information comes in three forms:

- **GOVERNMENT-WIDE FINANCIAL STATEMENTS**—comprehensive financial information about all of the activities of your government (covered in Part Two of this guide)
- **FUND FINANCIAL STATEMENTS**—focusing on particular kinds of activities of your government (Part Three)
- **NOTES TO THE FINANCIAL STATEMENTS**—detailed information supporting the data in the financial statements (Part Four).

The BFS are presented between two sets of **REQUIRED SUPPLEMENTARY INFORMATION (RSI)**—information that is important for a complete understanding of the financial statements (Part Five):

- **MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)** precedes the BFS; it prepares you to use the financial statements by providing a narrative overview of the information contained in the BFS, notes, and other RSI.
- The remaining RSI follows the notes. One part of the RSI is a **BUDGETARY COMPARISON** that contrasts information from a government's originally adopted budget, its final modified budget, and its actual results for the year (it may be included with the BFS instead). Another common type of RSI tracks (1) the degree to which sufficient resources have been set aside to pay pension and health insurance benefits for retired government workers and (2) the causes of increases and decreases in your government's long-term obligations for those benefits. Certain governments also report information about the physical condition of bridges, roads, and other infrastructure assets and the governments' efforts to maintain their condition.

If your government includes its financial statements in a **COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR),** you also will find additional statements and schedules that contain relevant financial, economic, and demographic information, often for multiple years (Part Six).

Helpful Features

This guide contains a variety of aids to help you understand governmental financial statements:

- Samples of the financial statements and other important information are illustrated throughout the text and in Appendices A and B.
- Information from the illustrations is highlighted in the text to help you navigate the sample financial statements, notes, and supporting information. The highlights look like this:

Figure 1: As of December 31, 2016, Local City had assets totaling $438,426,951.

- The story of Penelope Wise's visit to her accountant is told in a series of installments that begins on page 9 and continues through Parts Two and Three of this guide. Each of these vignettes is intended to take the discussion of governmental accounting that follows and place it in a context with which you may be more familiar—your personal finances. As Penny's accountant considers various aspects of her financial situation, you will get a hint about the kind of government finance information the guide is about to introduce.
- The text is frequently accompanied by boxes and margin notes with additional information. Conceivably, you could read through the main text of this guide without reading those boxes and

notes and you would still learn what the guide is meant to convey. The boxes and notes provide material for looking at the topics in a little more depth:

- **Keep in mind...** points out important issues you may wish to consider as you read the guide or as you read a government's financial statements.
- **Upon further review...** delves a layer or two deeper into topics covered in the text, raises relevant qualifying facts, or offers additional examples.
- **By the numbers...** expands on the brief definitions of key terminology presented in the text.
- **Tools of the trade...** offers tips on how to analyze financial information.

- From time to time the guide will refer you to Appendix C, which contains a small but useful set of tools you can use to analyze the information in your government's financial statements. That appendix demonstrates how to process financial data to put it in a form you can base decisions on.
- The language spoken by accountants can seem foreign, as if they have a different word for everything. This guide includes "accounting-ese" alerts: Words and phrases printed in BLUE CAPITAL LETTERS are defined in Appendix D, the glossary. Some especially important terms also are defined nearby in the margin of that page.
- Appendix E covers the basics of governmental accounting and financial reporting. It is provided for those readers without any prior knowledge who may want to learn the basics before plunging into the statements themselves. It also is handy as a reference guide for more knowledgeable readers or as a quick refresher course for those who have not looked at a financial statement in a while. Throughout the guide, certain parenthetical references signify that the text is touching upon a basic accounting concept discussed in Appendix E; the accompanying number refers to the pertinent page of the appendix—for example, **(See p. E-1).**
- Appendix F offers some background information about the GOVERNMENTAL ACCOUNTING STANDARDS BOARD and how state and local governmental accounting and financial reporting standards are established in the United States.

By the numbers…acronym guide

Not only has accounting developed its own language (see Appendix D, the glossary), but its practitioners use a lot of acronyms. Here is a list of selected acronyms used in this guide and in governmental accounting. It may be your Google Translate for governmental accounting.

AICPA: American Institute of Certified Public Accountants
BFS: basic financial statements
BTA: business-type activity
CAFR: comprehensive annual financial report
CPA: certified public accountant
FAF: Financial Accounting Foundation
FASAB: Federal Accounting Standards Advisory Board
FASB: Financial Accounting Standards Board
GAAFR: governmental accounting, auditing, and financial reporting
GAAP: generally accepted accounting principles
GAAS: generally accepted auditing standards
GAGAS: generally accepted government auditing standards
GASAC: Governmental Accounting Standards Advisory Council
GASB: Governmental Accounting Standards Board
GO: general obligation
IPSASB: International Public Sector Accounting Standards Board
MD&A: management's discussion and analysis
MFBA: measurement focus and basis of accounting
NCGA: National Council on Governmental Accounting
NOL: net OPEB liability
NPL: net pension liability
OPEB: other postemployment benefits
PERS: public employee retirement system
RSI: required supplementary information
SI: supplementary information
TOL: total OPEB liability
TPL: total pension liability

Terms in **BLUE CAPITAL LETTERS** are defined in Appendix D, the glossary. Some especially important terms also are defined in the margins of the page.

FINANCIAL ACCOUNTING is the systematic measuring and recording of the financial effects of an organization's activities for the purpose of external reporting

FINANCIAL REPORTING is the process of summarizing an organization's accounting information and reporting it to persons external to the organization

A note to the reader...

This guide discusses the financial statement information of governments under the assumption that the statements are prepared according to existing standards of accounting and financial reporting. However, not all governments can or do prepare their financial statements in accordance with generally accepted accounting principles (GAAP), so you may not see everything discussed here in your own government's financial statements.

PART TWO

INFORMATION ABOUT THE WHOLE GOVERNMENT

The typical local government's basic financial statements begin with the **STATEMENT OF NET POSITION** and the **STATEMENT OF ACTIVITIES.** They are referred to collectively as the government-wide financial statements because they encompass all of the government's activities related to providing services. **(See Appendix E, p. E-9)** The only activities not included are those in which the government acts as a trustee or agent for resources that belong to others. (See **Upon further review...fiduciary activities.**)

WHAT'S AHEAD?

→ FIND OUT WHAT YOUR GOVERNMENT OWNS AND HOW MUCH IT OWES.

→ ASSESS YOUR GOVERNMENT'S PRESENT FINANCIAL STATUS AND FUTURE OUTLOOK.

STATEMENT OF NET POSITION

> Penelope Wise is finally taking her dream vacation—a three-month trip around the world. When her fear of flying gets the better of her, she arranges a meeting with her accountant—Bill Meelater, CPA, of the firm Readum & Weape LLP—to "get her affairs in order." Bill suggests that Penny start by making two lists: The first will contain all of her property and possessions; the other will detail all of her debts. "This exercise will give you a general sense of where you stand financially," Bill says.

The statement of net position essentially tells you what the government owns (**ASSETS**) and owes (**LIABILITIES**) at a given point in time, usually the last day of the **FISCAL YEAR.** (See Figure 1.) All private- and public-sector organizations produce a similar statement, sometimes called a balance sheet or statement of financial position.

The bottom line of the statement of net position—**NET POSITION**—represents the resources remaining for the government to use after the liabilities have been paid off or otherwise satisfied. Net position is not merely the difference between assets and liabilities, however. It also encompasses items called **DEFERRED OUTFLOWS OF RESOURCES** and **DEFERRED INFLOWS OF RESOURCES,** which are neither assets nor liabilities but which still affect a government's net position. (These items—which are not found in the financial statements of businesses or not-for-profit organizations—are explained further below.)

Figure 1. Government-Wide Statement of Net Position

Local City
Statement of Net Position
As of December 31, 2016

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents ①	$ 13,597,899	$ 10,221,420	$ 23,819,319	$ 303,935
Investments	27,365,221	47,596,245	74,961,466	7,428,952
Receivables, net	11,118,035	3,568,121	14,686,156	4,042,290
Due from other governments	1,715,097	41,494	1,756,591	—
Internal balances	175,000	(175,000)	—	—
Inventories	322,149	126,674	448,823	83,697
Restricted cash and cash equivalents	—	1,493,322	1,493,322	—
Capital assets (Note 2): ②				
Land and construction in progress	28,469,120	3,836,119	32,305,239	—
Infrastructure, net	90,651,241	30,952,214	121,603,455	751,239
Buildings, property, and equipment, net ③⑤	50,902,399	116,600,418	167,502,817	36,993,547
Total capital assets	170,022,760	151,388,751	321,411,511	37,744,786
Total assets	224,316,161	214,261,027	438,577,188	49,603,660
DEFERRED OUTFLOWS OF RESOURCES				
Pensions	8,365,521	4,999,868	13,365,389	1,488,110
Retiree health insurance ④	6,686,417	2,999,966	9,686,383	892,866
Accumulated decrease in fair value of hedging derivatives	1,754,896	—	1,754,896	2,987,635
Total deferred outflows of resources	16,806,834	7,999,835	24,806,668	5,368,611
LIABILITIES				
Accounts payable	7,102,607	751,430	7,854,037	4,790,967
Advances on grants ⑥	1,435,599	—	1,435,599	—
Portion of long-term obligations due within one year (Note 3)	9,236,000	4,426,286	13,662,286	1,426,639
Portion of long-term obligations due after one year (Note 3)	183,598,630	127,815,003	311,413,633	42,979,322
Total liabilities	201,372,836	132,992,719	334,365,555	49,196,928
DEFERRED INFLOWS OF RESOURCES				
Pensions	3,903,910	2,333,272	6,237,182	694,451
Retiree health insurance ④	3,120,328	1,399,984	4,520,312	416,671
Service concession arrangement proceeds	—	1,435,599	1,435,599	—
Total deferred inflows of resources	7,024,238	5,168,855	12,193,093	1,111,122
NET POSITION				
Net investment in capital assets	103,711,386	73,088,574	176,799,960	15,906,392
Restricted for:				
Capital projects	11,705,864	—	11,705,864	492,445
Debt service	3,020,708	1,451,996	4,472,704	—
Community development projects	4,811,043	—	4,811,043	—
Other purposes ⑦	3,214,302	—	3,214,302	—
Unrestricted (deficit)	(93,737,382)	9,558,717	(84,178,665)	(11,734,616)
Total net position ⑧	$ 32,725,921	$ 84,099,287	$ 116,825,208	$ 4,664,221

Figure 1 Notes

① Governments are encouraged to list assets and liabilities in order of their relative liquidity or maturity, respectively, although they are allowed to list current and noncurrent assets and liabilities separately (the classified format). Assets are presented in order of how readily they can be converted to cash; cash is the most liquid, capital assets the least. Liabilities are shown in order of when they are expected to be paid off or otherwise satisfied.

② The capital assets note includes the beginning and ending balances of major classes of capital assets and their related accumulated depreciation, and how they changed during the year. (See Figure 16.)

③ Most capital assets are shown at their original purchase/construction cost, less annual depreciation charges accumulated over time, except for (a) land, (b) construction in progress, and (c) infrastructure reported with the modified approach, which are not depreciated.

④ Certain parts of the annual increase or decrease in the pension and other postemployment benefit liabilities are initially reported as deferrals before being reported as expense. The amounts shown here are disaggregated by your government in the notes to its financial statements. (See Figure 22.)

⑤ Accumulated depreciation already is subtracted from historical cost (hence the word "net"); if your government does not show the amount of accumulated depreciation here, it will disclose it in the notes. (See Figure 16.)

⑥ This note discloses details about major types of long-term liabilities. (See Figure 18.)

⑦ Governmental activities of this City have no unrestricted net position because those activities owe more than they own. This fact is discernible because governments separate governmental activities from business-type activities in this statement.

⑧ Total net position for the governmental activities is calculated as follows: Total assets + deferred outflows − total liabilities − deferred inflows = total net position ($224,316,161 + 16,806,834 – 201,372,836 – 7,024,238 = $32,725,921).

⑨ See the discussion of component units beginning on page 15.

The statement is designed to display the equation for deriving net position: *assets plus deferred outflows minus liabilities minus deferred inflows equals net position.* **(See p. E-1)** Therefore, the statement lists assets first, followed by deferred outflows, liabilities, deferred inflows, and finally net position. (See Figure 1, an illustrative statement of net position for a government, Local City.)

Figure 1: As of December 31, 2016, Local City had assets totaling $438,577,188, deferred outflows of $24,806,668, liabilities of $334,365,555, deferred inflows of $12,193,093, and total net position of $116,825,208.

Assets—What Your Government Owns

Following Bill's advice, Penny prepares her first list. The big items come to mind first—her house, her car. The furnishings in her home, television and stereo equipment, computer, and family heirlooms are added to the list, along with dozens of other items. She also includes the cash in her checking and savings accounts, her individual retirement account and investments in a couple of mutual funds, as well as the accumulation in the employee pension plans she belongs to. Bill helps her put a value on each item and she comes up with a total.

In their statement of net position, most local governments present assets in order of their relative **LIQUIDITY**. (An optional alternative presentation is discussed in **By the numbers…the classified**

format.) They begin with the assets most easily converted to cash or consumed most quickly, proceeding to the least liquid assets.

Cash is the most liquid asset (as it already is cash). Investments such as certificates of deposit, U.S. Treasury notes, and corporate bonds can readily be sold or cashed in. ACCOUNTS RECEIVABLE may take longer to liquidate than investments, but cash payments from a government's debtors typically will be received quicker than a government will use up its inventory. Some other common examples are defined in **By the numbers…selected examples of current assets.**

The largest asset amounts for most governments are their long-lived CAPITAL ASSETS, such as land, buildings, and equipment. The original or HISTORICAL COST of capital assets is included in the statement, less ACCUMULATED DEPRECIATION. Depreciation is an accounting method governments use to spread the historical cost of a capital asset over its estimated USEFUL LIFE. **(See p. E-14)** For qualifying INFRASTRUCTURE assets (such as bridges and roads) governments may use the MODIFIED APPROACH, under which they do not depreciate the assets but instead focus on maintenance expenses and the annual cost to sustain the usefulness of the asset indefinitely. (For more information on the modified approach, see **By the numbers…modified approach** and Part Five.)

You also will see more detailed information about the composition of your government's capital assets in the notes to its financial statements. (See Figure 16 in Part Four.)

Liabilities—What Your Government Owes

The second list Penny prepares for Bill includes the amounts she owes—the mortgage on her home, her car loan, balances on three credit cards, and some outstanding utility bills that just arrived in the mail. She provides Bill with the documents he needs to add up her total liabilities.

Your local government presents its liabilities in order of their relative MATURITY. Liabilities are listed in order of how quickly they must be repaid, beginning with those that must be repaid earliest. Liabilities with the shortest maturities generally are a variety of ACCOUNTS PAYABLE such as those listed in **By the numbers…selected examples of accounts payable.**

Figure 1: The portion of Local City's long-term liabilities due within one year is $13,662,286. The portion due beyond a year is $311,413,633.

The most common long-term liabilities of governments are amounts they have borrowed and must repay, usually with INTEREST, over periods ranging from a couple of years to a few decades depending on the type of debt. The amounts of long-term liabilities are divided into two parts—the portion that is due within one year and the remainder. As it does for capital assets, your government provides a note describing more precisely the nature of its long-term liabilities. (See Figure 18 in Part Four.)

Deferred Inflows and Outflows—Resources Related to Future Years

Assets and liabilities result from resources flowing to and from the government. Consider these transactions:

- A city levies its property taxes—now the city records property taxes receivable (an asset) and **REVENUE.**
- A city has an outstanding loan with a bank and interest on the outstanding amount of the loan is due on the 15th of every month—on that date, the city records a liability called interest payable and an **EXPENSE** in the amount of the payment due.

These inflows and outflows—like most inflows and outflows—are related to the fiscal year covered by the financial statements (or an earlier year) and, therefore, result in the immediate reporting of assets, liabilities, revenues, and expenses.

Some inflows and outflows during the fiscal year, however, actually are related to *future* fiscal years. They also result in the immediate reporting of assets and liabilities—*but the reporting of revenues and expenses is deferred until a future period.* Consider, for instance, a county that receives a state grant for general operating purposes during fiscal year 2017. The county does not have to meet any eligibility requirements for the grant, so it usually reports the cash received as an asset and revenue. But what if the state had said that the grant could not be used until *next year,* fiscal year 2018? Should the county still report the grant as revenue in fiscal year 2017? No, because the grant belongs to next year, based on the limitation imposed by the state. Consequently, the county initially reports a deferred inflow in 2017 instead of revenue. Only when fiscal year 2018 arrives does the county report the grant as revenue and eliminate the deferred inflow.

The main reason local governments report deferred inflows and outflows is to help the users of their financial statements assess **INTERPERIOD EQUITY.** Interperiod equity refers to the degree to which a government raises sufficient resources in a year to cover its costs, as opposed to living off of resources accumulated in the past or pushing costs off to future years. By waiting to report inflows and outflows as revenue and expenses, respectively, until the years they are related to, local government financial statements make it easier to assess whether local governments are living within their means from year to year.

Net Position—What Is Left Over

Bill compares the value of Penny's possessions with her amounts owed and finds that her possessions exceed her debts by about $50,000. "That's your net worth," Bill says. "Basically, it's what you've got left over if you sell all your worldly goods and pay off all your bills and debts." He then looks Penny in the eye and asks, "Are you satisfied with that amount?"

The look on Bill's face suggests the answer should be, "No." But $50,000 seems like a lot of money to Penny. If she could invest it, it would make a nice little nest egg for her retirement… "Whoa there, hold on a second!" Bill cries. "I didn't say you have $50,000 in cash. More than half of the total value of your possessions is tied up in your home. Are you planning to sell it? Where will you live? Will you sell the investments you own now, just to buy others? And don't forget, $8,000 is tied up in your 401k, which you can't touch until you retire, and another $7,000 or so is actually your kid's college savings account, which you really shouldn't touch. You see, you don't have as much to work with as you thought. But don't panic—the whole story of your financial situation has yet to be told."

Theoretically, net position represents the resources your government has left over to use for providing services after its debts are settled. **(See p. E-1)** As Penny's story demonstrates, however, those resources are not always in a spendable form. Furthermore, there may be restrictions on how some of those resources can be used. In order to clarify these issues, your government divides its net position into three components:

- **NET INVESTMENT IN CAPITAL ASSETS**—This figure is derived by subtracting the outstanding debts incurred by your government to buy or construct its capital assets from the net figure for capital assets shown on the statement of net position. Capital assets, especially infrastructure features such as bridges and sewers, cannot readily (or ever, in some cases) be sold and converted into cash.
- **RESTRICTED NET POSITION**—Resources are considered restricted if their use is constrained to a particular purpose by an external party. An external organization, such as the state or federal government or the buyers of municipal bonds, might impose restrictions on how a local government may use certain resources. Similarly, a local government may be legally or constitutionally required to use certain resources for particular programs. Your government shows not only total restricted net position but also how much of the total is restricted for various purposes.
- **UNRESTRICTED NET POSITION**—Simply put, these are the resources that do not fall into the first two categories. They can be used for any purpose, though they are not necessarily liquid.

Figure 1: Local City had total restricted net position of $24,203,913, of which $11,705,864 was restricted for buying and building capital assets, $4,472,704 for repaying long-term debts, $4,811,043 for community development programs, and $3,214,302 for a variety of other purposes.

Distinguishing between the Parts of Your Government

Both of the government-wide statements divide the information they contain between the **PRIMARY GOVERNMENT** and its **COMPONENT UNITS**—organizations that are legally distinct from a local government but for which the elected officials of the government are nonetheless financially accountable. Component units may have their own managers and governing boards, but the leaders of the parent government are accountable for them to some degree. Component units often take the form of a **PUBLIC BENEFIT CORPORATION** or **PUBLIC AUTHORITY** and common examples include utilities, housing authorities, and airports. Local City has two component units—the Local Public School District, which runs the

elementary and secondary schools, and the Local City Landfill Authority, which operates municipal landfills.

The government-wide statements further distinguish between the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of the primary government's **GOVERNMENTAL ACTIVITIES** and **BUSINESS-TYPE ACTIVITIES (BTAs).** This distinction is made primarily because the governmental and business-type activities are different—their operating styles, missions, and methods of financing often are quite unalike—and it is logical to separate their financial information. The rationale for separating them will manifest itself even more when we look at the statement of activities.

Figure 1: Local City had total assets of $49,603,660 for its component units. Local City's BTAs had $10,221,420 in cash, and its governmental activities had $13,597,899 in cash.

What Can You Do with Statement of Net Position Information?

You can use the information in the government-wide statement of net position to address at least three issues:

- What your government owns and how much it owes, and how that has changed over time
- Your government's current financial status
- Your government's future financial status.

You can identify types of assets and liabilities

One thing you can do with statement of net position information is to examine the composition of your government's assets and liabilities. (See **COMMON-SIZE RATIOS** in Appendix C.) You can determine what proportion of total assets (liabilities) is represented by each individual kind of asset (liability) your government owns (owes). The column **PERCENTAGE DISTRIBUTION** in Figure 2 shows that among Local's assets, 73.3 percent, or almost 3 of every 4 dollars, is capital assets. Other assets, such as cash and cash equivalents (5.4 percent) and investments (17.1 percent), account for much smaller shares of total assets.

Figure 2. Percentage Distributions and Percentage Changes of Assets in the Statement of Net Position

	Amount from Statement	Percentage Distribution	Percentage Change from Prior Year
Cash and cash equivalents	$23,819,319	5.4%	6.2%
Investments	74,961,466	17.1%	(14.0)%
Receivables, net	14,686,156	3.3%	63.6%
Due from other governments	1,756,591	0.4%	11.6%
Inventories	448,823	0.1%	11.6%
Restricted cash and cash equivalents	1,493,322	0.3%	8.9%
Capital assets, net	321,411,511	73.3%	3.8%
Total assets	$438,577,188	100.0%	4.0%

The percentage distribution may be more meaningful if you calculate similar figures for earlier years to get a sense of what direction your government is headed in. You can get some of this data from the prior-year information in management's discussion and analysis (MD&A; see Part Five and Appendix A) and from prior years' financial statements. Growth in the percentage of assets that are receivables might signal difficulties collecting taxes. On the other hand, it could mean that a significant cost associated with a new state grant was incurred late in the year and payment from the state government is expected to be received in the following year. Other information would be necessary to determine this for certain, but this quick analysis raises a red flag for you to look further for clues to a potential problem.

You also can determine the degree to which assets and liabilities changed from one year to the next. The tables with summary financial information in the MD&A in Appendix A include **PERCENTAGE CHANGE** numbers to help you understand what happened to Local City's finances during the year. The right-hand column of Figure 2 contains percentage changes for Local City's assets from fiscal year 2015 to 2016. The largest percentage increase among the assets was 63.6 percent for receivables; inventories increased 11.6 percent and cash increased 6.2 percent. Investments *decreased* 14.0 percent.

One benefit of percentage changes is their ability to raise your awareness of potentially important financial issues. Changes of significant magnitude, for example, should catch your eye immediately and lead you to investigate the circumstances behind them. Local City's receivables increased almost 64 percent in a single year. Determining the precise cause requires further investigation, but you would not have known in the first place that a potential problem might exist if not for the percentage changes you calculated.

Sometimes, the *absence* of change may catch your eye. Consider, for example, that your government raised property tax rates 5 percent last year, but property tax revenue increased only 1 percent. What happened to offset the effects of the tax increase?

You can assess your government's financial status

The simplest and most straightforward way to assess your government's present financial situation is to compare its total assets and liabilities. Does it own more than it owes, or vice versa? You do not even need a calculator, because the net position figure is the difference between the two. (To be precise, net position also is the result of adding deferred outflows and subtracting deferred inflows, as described earlier.)

To add some additional meaning to the net position figure, you could compare it to the previous year's net position. (This kind of information also can be found in Table A-1 of the illustrative MD&A in Appendix A.) Did net position increase? Then **FINANCIAL POSITION** improved. Decrease? Then financial position deteriorated. (The next statement we will discuss—the statement of activities—can help you determine *why* financial position improved or deteriorated.) You also could divide net position by total assets and compare the result with other governments. In either case, you can utilize only the unrestricted component of net position if you wish to assess or compare the most broadly available resources.

You can evaluate your government's financial prospects

A simple definition of **ECONOMIC CONDITION** (sometimes called **FINANCIAL CONDITION**) is *your government's ability and willingness to meet its financial obligations and service commitments on an ongoing basis*. The statement of net position provides information to help you assess the *ability* part of that definition.

This information is suited to making budget decisions (if you are a public official) or assessing the decisions or proposals made by public officials (if you are an advocate for a particular service, or an academic, or a member of a taxpayer organization). The budget process often starts with projections of spending based on the types and levels of services required by the public. This establishes a target for raising resources. Any information the financial statements can provide regarding your government's ability to cover the costs of its operations can be valuable in addressing these concerns. Further, knowledge of the availability of resources accumulated from prior years (or, conversely, the existence of significant obligations incurred but not financed in prior years) might bear on budget decisions.

Ability to meet financial obligations. Your government's ability to finance its obligations in the future can be examined along two dimensions—short term and long term. If you want to know if your government has enough readily available resources to meet the obligations that will come due over the next year, you could compare its current assets to its current liabilities. (See liquidity ratios in Appendix C.) Are there enough liquid assets to cover the obligations that will come due in the next year? In other words, are current assets greater than current liabilities? You may want to do this for the governmental activities alone, and not for the total primary government, unless (1) the resources of the BTAs are available to fund governmental activities or (2) the BTAs are not self-sustaining and depend on support from the government's general revenues. If you make this comparison for Local City's governmental activities, you will find that its current assets (cash and cash equivalents, investments, receivables, due from other governments, internal balances, and inventories) are 3.0 times greater than its current liabilities (accounts payable, advances on grants, and the current portion of long-term liabilities). That means current assets are nominally sufficient to

cover obligations as they come due over the coming year. Deciding whether this is the right level for *your* government depends upon your personal views—some might be comfortable with this level of liquidity, while others might believe it to be too high or too low.

If you are particularly concerned about your government's liquidity, you might take a more stringent approach. You could compare only the *most* liquid assets of your government—generally cash, near-cash assets like money market funds, and other short-term investments—to its current liabilities. This is a more conservative indicator of your government's ability to meet financial obligations, assuming implicitly that its current liabilities will come due so soon that current assets like receivables cannot be liquidated quickly enough to pay for them.

The cash and investments of Local City's governmental activities are slightly more than double the current liabilities. Is that good enough? Ultimately, it is up to you to decide what a satisfactory number is for the purposes of the decisions you wish to make. Though there are plenty of "rules of thumb" to which you may choose to compare your government, they should be handled with extreme care. The circumstances of governments vary greatly from jurisdiction to jurisdiction, raising the very real possibility of comparing apples to oranges. A particular rule of thumb may be predicated on a set of assumptions that are not applicable to your government—in which case the comparison may be meaningless or, worse, misleading.

Even though this guide cannot state categorically how large current assets should be relative to current liabilities, it is appropriate, at least, to mention some possible implications. If you divide current assets by current liabilities you can produce a number that is indicative of your government's liquidity (refer to Appendix C). In the eyes of some observers, as that ratio gets smaller, a government is less able to cover its obligations as they are due or expected to be paid in the next year. On the other hand, some believe that a higher ratio suggests that more of a government's resources are in the form of cash or near-cash assets than is necessary to pay bills as they come due. In their view, the government would be better off investing more of these highly liquid assets on a longer term basis, which would generate more investment income for the government than leaving them in low-interest bank accounts and short-term investments.

If you are interested in your government's long-term viability or **SOLVENCY**, you will want to look at a broader set of assets and liabilities than just the current ones. There are two ways to consider solvency—**LEVERAGE** and **COVERAGE**. Leverage is the degree to which your government's assets are financed through borrowing and other long-term obligations. Stated differently, leverage implies the extent to which your government's assets will be needed to satisfy its debts, rather than be available resources for providing public services. Coverage refers to your government's ability to generate sufficient resources to "cover" its future debt repayments when they are due. Because you will need additional information from other statements to examine coverage, it is discussed later in this guide.

You can use statement of net position information in two ways to assess solvency—you can compare total liabilities to either total assets or net position. (See solvency ratios in Appendix C.) If you divide Local City's total liabilities by its total assets, you would get 0.77 or 77 percent; in other words, more

than three-quarters of the city's assets would be needed over the long run to satisfy its debts. (Be mindful that this is a measure of magnitude and not necessarily an indication that your government could liquidate enough of its assets to pay off its debts right away. After all, much of the value of your government's assets is found in its capital assets, which it is unlikely to sell.) Dividing by net position instead produces a figure of 3.0, meaning for every dollar of resources Local City has available to use for providing public services, it owes $3.00. Although these two numbers are different, they provide the same answer to the question, "What kind of burden do your government's liabilities place on its available resources?"

Ability to meet service commitments. Some of the information you will need to determine your government's capacity to finance the services needed by its constituents—either by raising additional revenue or borrowing—comes from the statement of activities and the STATISTICAL SECTION of your government's CAFR. However, liability information in the statement of net position, when combined with certain nonfinancial data, can offer insights into your government's financial capacity.

For instance, you might compare outstanding debts with economic indicators that imply a constituency's "ability to pay" for government services. (See ability-to-pay ratios in Appendix C.) The pertinent indicators typically are those related to the economic activity that your government taxes. Because debt frequently is financed with property taxes, a standard comparison would be debt-to-property-values (alternatively, you could use all liabilities instead of only debt). Your government's CAFR often contains information about the value of property within its geographic boundaries. Local City's figure is $2.02 of debt per $100 of assessed property value. Many governments are limited by law as to how much they can borrow, and these limitations often are stated in terms of a proportion to assessed value. So it would be relevant to compare this debt ratio to your government's debt limit. (See more on debt limits in Part Six.)

Personal income and population also are commonly used for indicators of ability to pay—Local City has outstanding debts of $9.91 per $1,000 of personal income, or $882 per resident. Those ratios can be examined over time to determine if debt levels are rising or falling relative to the economic base that supports them through taxes. Comparisons also can be made with similar governments, though you will need to make sure the governments measure property value the same way.

Figure 3. Government-Wide Statement of Activities

Local City
Statement of Activities
For the Year Ending December 31, 2016

Functions/Programs	① Expenses	② Program Revenues: Charges for Services	② Program Revenues: Operating Grants and Contributions	② Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Units
Primary government:								
Governmental activities:								
General government	$ 9,571,410	$ 3,146,915	$ 843,617	$ —	$ (5,580,878)	$ —	$ (5,580,878)	$ —
Public safety	34,844,749	1,198,855	1,307,693	62,300	(32,275,901)	—	(32,275,901)	—
Public works	10,128,538	850,000	—	2,252,615	(7,025,923)	—	(7,025,923)	—
Engineering services	1,299,645	704,793	—	—	(594,852)	—	(594,852)	—
Health and sanitation	6,738,672	5,612,267	575,000	—	(551,405)	—	(551,405)	—
Cemetery	735,866	212,496	—	—	(523,370)	—	(523,370)	—
Culture and recreation	11,532,350	3,995,199	2,450,000	—	(5,087,151)	—	(5,087,151)	—
Community development	2,994,389	—	—	2,580,000	(414,389)	—	(414,389)	—
Education (payment to school district)	21,893,273	—	—	—	(21,893,273)	—	(21,893,273)	—
Interest on long-term debt	6,068,121	—	—	—	(6,068,121)	—	(6,068,121)	—
Total governmental activities	105,807,013	15,720,525	5,176,310	4,894,915	(80,015,263)	—	(80,015,263)	—
Business-type activities:						③		
Water	3,595,733	4,159,350	—	1,159,909	—	1,723,526	1,723,526	—
Sewer	4,912,853	7,170,533	—	486,010	—	2,743,690	2,743,690	—
Parking facilities	2,796,283	1,344,087	—	—	—	(1,452,196)	(1,452,196)	—
Total business-type activities	11,304,869	12,673,970	—	1,645,919	—	3,015,020	3,015,020	—
Total primary government	$ 117,111,882	$ 28,394,495	$ 5,176,310	$ 6,540,834	(80,015,263)	3,015,020	(77,000,243)	—
Component units:								
Landfill	$ 3,382,157	$ 3,857,858	$ —	$ 11,397	—	—	—	487,098
Public school system	31,186,498	705,765	3,937,083	—	—	—	—	(26,543,650)
Total component units	$ 34,568,655	$ 4,563,623	$ 3,937,083	$ 11,397	—	—	—	(26,056,552)
General revenues:								
Taxes:								
Property taxes, levied for general purposes					51,693,573	—	51,693,573	—
Property taxes, levied for debt service					4,726,244	—	4,726,244	—
Franchise taxes					4,055,505	—	4,055,505	—
Public service taxes					8,969,887	—	8,969,887	—
Payment from Sample City					—	—	—	21,893,273
Grants and contributions not restricted to specific programs					1,457,820	—	1,457,820	6,461,708
Investment earnings					1,958,144	601,349	2,559,493	881,763
Miscellaneous					884,907	104,925	989,832	22,464
Subtotal, excess (deficiency) of revenues over expenses					(6,269,183)	3,721,294	(2,547,889)	3,202,656
④ Special item—gain on sale of park land					2,653,488	—	2,653,488	—
Transfers ⑤					501,409	(501,409)	—	—
Total general revenues, special items, and transfers					76,900,977	204,865	77,105,842	29,259,208
Change in net position					(3,114,286)	3,219,885	105,599	3,202,656
⑥ ⑦ Net position—beginning					35,840,207	80,879,402	116,719,609	1,461,565
⑧ Net position—ending					$ 32,725,921	$ 84,099,287	$ 116,825,208	$ 4,664,221

Figure 3 Notes

① At a minimum, governments report expenses at the same level of detail as they do in the governmental funds statements. However, they are encouraged in the accounting standards to provide additional detail, such as police, fire, and ambulance service instead of the broad public safety function.

② Program revenues are produced by or provided by external parties (such as higher levels of government) for use in a particular function, thereby reducing the net expense to the public of that function.

③ A (negative) amount represents a net expense to the government: the portion of expenses not covered by program revenues but, instead, financed with taxes and other general revenues. Governmental activities typically have a net expense. A positive amount is a net revenue: program revenues exceed program expenses and make a net contribution to general revenues.

④ Because special and extraordinary items and transfers are shown separately, you can determine if common annual revenues were sufficient to meet expenses or if unusual costs or resources affected the bottom line.

⑤ In addition to the items shown here, other changes in net position shown separately from general revenues include contributions to term and permanent endowments and contributions to permanent fund principal.

⑥ When these subtotals and totals are positive, revenues and other inflows exceeded expenses and other outflows (a surplus), and net position improved. When expenses and other outflows exceed revenues and other inflows (a deficit), the amount is negative and net position declined. Governmental activities net position declined despite the sale of park land and a transfer from the BTAs.

⑦ If only the total column for the primary government and its $105,599 increase in net position had been shown, you would not have known that a $3.1 million decrease in governmental activities net position was offset by a $3.2 million increase in BTA net position.

⑧ These ending net position amounts appear as the total net position amounts in the statement of net position (Figure 1).

WHAT'S AHEAD?

→ SEE WHAT IT COSTS TO PROVIDE GOVERNMENT SERVICES.
→ DETERMINE THE TAX BURDEN PLACED ON CITIZENS AND BUSINESSES TO FINANCE GOVERNMENT SERVICES.
→ FIND OUT IF YOUR GOVERNMENT IS RAISING ENOUGH RESOURCES TO FINANCE ITS OPERATIONS.

STATEMENT OF ACTIVITIES

"You're young and have plenty of time to build up your net worth," Bill continues reassuringly. "Let's find out what you have available to work with this year." He asks Penny to make two more lists—one with all of her annual costs and another with everything she earns during the year.

The statement of activities tracks your government's yearly revenues and expenses, as well as any other transaction that increases or reduces its net position. (See Figure 3.) The statement is unlike the familiar top-to-bottom structure of the other financial statements—it begins in the upper left corner, proceeds left to right across the top, and then down the right side. The design is unusual, but it has its purposes.

Expenses—The Cost of Services

As Penny works through the list with Bill, she is surprised by some of the entries. Food, clothing, housing, utilities, cable and internet, and entertainment all seem obvious. Wear and tear on the car makes sense, she supposes. But Bill also includes changes in the value of her investments. "Why is that included?" she asks. "I'm not going to sell the investments, so if the value declines it's just a paper loss." Bill nods knowingly. "You're right, but if the value of your investments decreases, so does your net worth, and that's what we're trying to figure out here: Over the course of the year, what increases your net worth and what reduces it?"

The first column in the top half of the statement of activities is a list of expenses. These amounts represent the full costs of providing government services. This is a more comprehensive measure than just the amount of cash that has changed hands—it includes the cost of supplies used up during the year to operate the government, as well as a portion of the original purchase cost of long-lived assets like buildings and bridges. **(See p. E-14)**

The column begins with the expenses of the governmental activities, sorted by major function. Below the governmental activities, the expenses for BTAs are listed separately, a total for the primary government is provided, and then the expenses of the component units.

Figure 3: Local City's total expenses for 2016 were $117,111,882.

A "function" is an assemblage of similar activities. Local City, for instance, has a functional category called "culture and recreation," which includes parks, recreation centers, senior centers, libraries, museums, and related services. Functional categories of expenses are the *minimum* level of detail of expense reporting for governments, but many governments provide more detail in this statement—expenses for specific single types of government services (which may cover multiple programs) or for a particular government program.

Others list expenses at different levels of detail without differentiating them, as does Local City. Its 10 lines beneath governmental activities include:

- Five functions (general government, public safety, public works, health and sanitation, and culture and recreation)
- Three specific individual services (engineering, community development, and education)
- One program (cemetery), and
- Interest on LONG-TERM DEBT (which always is shown separately and actually is a "nature" or "object" category of expenses).

If your government prepares a CAFR, you may find among its supplemental schedules more detailed expense and revenue information than is included in the statement of activities, and for multiple years. (See Part Six.)

Program Revenues—Resources Generated by the Services Themselves

As you move from left to right across the top of the statement of activities, the next set of columns presents your government's **PROGRAM REVENUES.** These revenues are directly connected with the functional (programmatic, service-specific) expenses listed to the left. They are of two types—charges for services, and grants and contributions.

- **CHARGES FOR SERVICES** are fees and other charges to the users or recipients of the services your government provides. For instance, in Figure 3, the nearly $4 million of charges reported in the "culture and recreation" row might represent admissions fees to museums and parks, concession proceeds from food and souvenir stands, permit fees for using softball and soccer fields, and other similar revenues. Program revenues for "public safety" might include permit fees for parades, and traffic and parking fines.
- Program revenues include the grants and contributions a government receives that are restricted for use to a particular purpose. The statement of activities divides these grants into two categories:
  - **OPERATING GRANTS AND CONTRIBUTIONS**—to finance the annual operating activities of your government, and
  - **CAPITAL GRANTS AND CONTRIBUTIONS**—to fund the acquisition, construction, or rehabilitation of capital assets.

The vast majority of grants are **INTERGOVERNMENTAL AID**—funds provided by the state and federal governments (and, in some cases, other levels of government). In the vocabulary of government finance, these are mostly **CATEGORICAL GRANTS,** aid that comes with strings attached—it must be used for its specified purpose or not at all. In fact, governments often have to spend money *first* on a particular purpose before they receive the grant dollars. Well-known examples of categorical operating grants are income support and health care for the poor, elementary and secondary education, and mass transit. Capital grants are quite common, as well—for building wastewater treatment plants, highways and bridges, and schools, to name a few purposes. Governments also sometimes receive grants and contributions from nongovernmental foundations and private organizations and individuals.

Figure 3: Charges for services for the health and sanitation function were $5,612,267.

Net Cost of Services—The Burden on the Taxpayer

So, what is the point of separating program revenues from other revenues, and organizing the top of the statement of activities in this fashion? An important purpose of the statement is to tell you the degree to which your government's various public services are financed with revenues—mostly taxes—raised generally from taxpayers. The remaining four columns in the top part of the statement display this information—**NET (EXPENSE) REVENUE.** Those dollar amounts are derived by subtracting program revenues from each expense category.

It should not come as a surprise that the expenses of the governmental activities surpass their program revenues, creating negative numbers—net expenses or **NET COSTS** to the general public. (Parentheses in

financial statements generally indicate a number is negative—below zero.) After all, services like public safety and education are dependent upon tax dollars and are supplied by governments because the private sector does not provide such services in quantities sufficient to meet public demand. Occasionally, a governmental activity will show a net revenue (an amount above zero), such as when a very large capital grant is received or a capital asset has been donated to a government. The vast majority of the time, however, the expenses of a governmental activity will be greater than its program revenue and thus produce a net expense.

The "negative" numbers listed next to the governmental activities should not be construed as something "bad"—they merely indicate whether a particular function of government relies on general revenues for financing or is a net contributor of resources to the general government.

Figure 3: The net cost to the public of Local City's public safety activities was ($32,275,901). Local City's water services were a net contributor to general revenues in the amount of $1,723,526.

BTAs often fall into the net contributor category. These functions typically are self-sufficient, and sometimes contribute additional resources your government can use to support its governmental activities. They also may generate additional resources each year and retain them for the purpose of financing future capital improvements or replacements. The program revenues of both the water and sewer services of Local City are greater than their expenses; as a result, they show a net revenue or positive figure. The parking facilities, however, are not self-sustaining; their user fees and other program revenues fall short of expenses, and they require financial support from taxes and other general revenues. (See **Upon further review...mass transit.**)

General Revenues—Taxes, et al.

The remainder of the statement of activities proceeds downward from the net (expense) revenue columns. Below these columns, the statement presents the GENERAL REVENUES and other items the government used to finance the cost of services not funded by program revenues. Most of the general revenues of local governments are taxes, of which the property tax is most common. Unrestricted aid from other governments (noncategorical grants not devoted to a particular program) appears with general revenues, as well as income earned from investments. (See **By the numbers...dedicated taxes.**)

> The list Penny just compiled with Bill was her annual costs. The next list contains her earnings, including her salary, birthday and holiday gifts received, and interest on investments and bank accounts. Bill puts in the change in investment value again. But before totaling the figures in each list, Bill circles two items. The first is a bill for replacing the roof on Penny's garage; the second is $500 she won from a lucky pull at a slot machine in Atlantic City. "These things aren't likely to happen on a regular basis, so you should separate them from your regular costs and earnings. After all, you can't count on winning at the slots every year, and hopefully a tree won't fall on your garage every year!"

In the lower half of the statement, your government shows several other transactions and events that affect net position. TRANSFERS are shifts of resources from governmental to business-type activities (or

vice versa) in the primary government without receiving anything in return. **SPECIAL ITEMS** and **EXTRAORDINARY ITEMS** are nontypical increases and decreases in net position. They are shown separately from revenues and expenses specifically because they are not part of the usual annual flows in and out of your government. To include them might lead to incorrect conclusions about your government's ability to balance its revenues and expenses. (See **By the numbers...special and extraordinary items.**)

Figure 3: $501,409 was transferred from Local City's BTAs to its governmental activities.

Suppose, for example, a New England town has been ravaged by a tornado. The costs of cleaning up after this natural disaster are not common, recurring annual expenses for this government, because dangerous tornadoes rarely occur in New England. Would it be fair to include those costs when trying to determine if that government raised sufficient resources to cover expenses that year? Probably not, if it would distort the picture of its ongoing ability to make ends meet. In a similar vein, one would not want to include any federal disaster aid that the town received to finance its clean-up efforts. The information nonetheless is important, so your government reports it and it is considered as part of the changes in net position for the year. (See **Upon further review...selling land.**)

Change in Net Position—Is There More or Less in Your Government's Pocket?

After Bill totals the items in the two lists, he subtracts the total costs from the total income. By his calculations, Penny should have about $7,000 per year left over. "That's what we have to work with," Bill says. "If we don't do anything at all, that's how much your net worth would increase each year. But we shouldn't just stuff that money in a mattress; invested properly, your net worth can grow much faster, and you can be assured of providing well for your retirement and your kid's college education."

The general revenues and other items of your government are totaled in the statement of activities and added to the net (expense) revenue total from above. This sum is the aggregate **CHANGE IN NET POSITION** for the year. It is added to the net position balance for the beginning of the year to produce the net position balance for the end of the year. Each of the end-of-year net position amounts is the same as those in the statement of net position.

Overall, Local City's total revenues exceeded total expenses slightly, producing a surplus or increase in net position of $105,599. However, while the BTAs produced an increase in net position of $3.2 million, the governmental activities had a deficit that reduced net position nearly as much.

What Can You Do with Statement of Activities Information?

As we moved through the structure and contents of the statement of activities, we found that its information can be used to examine seven issues:

- Cost of services
- Net cost of services to taxpayers
- Types of expenses and revenues

- Balance between revenues and expenses
- **CHANGE IN FINANCIAL POSITION** and its causes
- Unusual transactions
- Financial relationships between BTAs and governmental activities.

What do services cost, and how much of that cost must taxpayers finance?

Depending on the level of detail provided by your government, you may find in the expenses column information about *how much it cost your government to perform its various functions* and possibly *how much individual services cost to provide*. This kind of information may help to inform basic questions about whether your government is giving, and its citizens are receiving, good value in public services in return for tax dollars and user fees. When combined with information obtained from other sources about the performance of government services, you can use cost data to *examine how efficiently your government uses public resources to provide services*. What did it cost per ton to collect garbage? What was the cost per student in the school system? How do those amounts compare with prior years and other governments?

Furthermore, the comparison of expenses with program revenues tells you *the degree to which each function or service raises or receives sufficient program revenues to cover its costs* or, alternatively, *the degree to which each function or service requires taxes and general revenues* for financing. You can use this information to help guide budgetary decisions: Are taxes sufficient to support your government's net expense? Can program revenues be increased? (See **Upon further review...there's trouble in Local City.**)

Where does your government get its money, and how does your government use it?

You can examine the composition of total revenues and total expenses, and how they have changed over time, just as we did with assets and liabilities in the statement of net position. (Refer to common-size ratios in Appendix C.) Alternatively, you might want to look at percentage distributions and percentage changes for governmental and business-type activities individually, or program revenues separately from general revenues.

An important use for percentage distribution is determining your government's level of **REVENUE DISPERSION.** The degree of dispersion or diversity in your government's sources of revenue can tell you something about its *exposure to financial difficulty* if a particular revenue source dries up. Examining the individual components of total revenues, you might find that your government relies on a broad range of revenues to support its activities and, therefore, is relatively less likely to be dramatically affected if one type of revenue does not meet expectations. Alternatively, you might find that it relies heavily on one or two sources of revenue—reductions in those kinds of revenues could harm your government financially because it is very dependent on those revenues to run its operations.

Revenue dispersion is another type of information that may be handy for making or assessing budget decisions. An important part of budgeting is identifying revenues sufficient to cover a government's costs during the coming year. That determination requires a decision about the certainty of receiving the projected

revenues and providing some assurance that balance still can be achieved if one or more revenue sources do not live up to projections.

Is your government better or worse off financially, and why?

A basic function of the statement of activities is to let you know if your government raised sufficient revenues to cover the expenses incurred by its activities. *Did your government live within its means?* The statement of activities helps to answer this question because it shows other types of changes in net position separately from revenues and expenses. Because transfers and out-of-the-ordinary items are kept apart, you can determine if your government's basic, ongoing revenues matched its recurring annual expenses.

This information is particularly useful for judging *whether your government is financing each year's services and activities with revenues from that year,* or if it is using resources accumulated from previous years or passing the costs of today's services onto future taxpayers. This is the concept described earlier as interperiod equity. You can use statement of activities information to help answer this question, but you will need information from other sources (particularly about the circumstances of any shifting of resources from one year to the next) to produce a satisfactorily complete answer. (See the discussion of surpluses and deficits in Part Three.)

Changes in a government's financial position also may be considered part of the evidence of your government's financial acumen. *The ability of government officials to manage finances* may be a factor in your voting decisions. For example, you might look at your government's financial statements for the period a mayor has been in office. What happened to financial position during the mayor's tenure? Did it improve, decline, or remain stable? How or why did it improve, decline, or remain stable? Viewed in light of your particular government's circumstances, this could be a factor that contributes to your decision.

What unusual transactions occurred during the year? Was there financial activity between the governmental and business-type activities?

The fact that your government shows unusual transactions apart from other changes in net position provides important information about *why net position changed* during the year. It identifies not only atypical resources like the proceeds from selling capital assets or a windfall judgment from a lawsuit but also uncommon costs. The transfers line on the statement of activities begins to give the reader a sense of *how the BTAs and governmental activities relate* to one another financially.

Will your government be able to finance services in the future?

Some of the information necessary to assess your government's ability to finance long-term debt can be found in the statement of activities. The remaining information comes from the fund statements, so this issue is discussed in the next section as well.

You can compare revenue and expense information to economic and demographic data to produce measures of future financing capability, just as we did with assets and liabilities. (Refer to ability-to-pay

ratios in Appendix C.) For instance, any expense category could be divided by population to produce a *cost per person:*

- Local City's expenses for health and sanitation amounted to $75 per person.
- Dividing the payment to the school district by the number of students produces a financial support per pupil figure of $1,609.
- Total taxes divided by population were $772 per person. You also could divide an *individual* tax by its relevant tax base—for example, property tax revenue was $1.44 per $100 of property value.

Information like this—which can help you ascertain your government's potential need for resources and the economy's ability to bear additional financial burdens—may be important for deciding how to vote on a public referendum or ballot question related to a proposed tax increase (or tax cut). This information and the results of your examination of the statement of net position also could help you decide how to vote on a referendum calling for new long-term debt to finance a particular kind of capital investment (such as water pollution control projects). What are current debt levels? What financial burden does the public bear to repay debt each year? If your government uses the modified approach for the infrastructure in question, you have physical condition information that may help you determine if the capital investments the debt will finance are necessary, or what their priority is relative to the need for other types of capital assets.

All of the analyses discussed in this section can be used together to inform your personal investment decisions about buying municipal **BONDS** from your or any government. In particular, you may find very useful information about the likelihood that a government will be able to repay the interest and **PRINCIPAL** on the bonds you purchase. That information would be equally valuable if you were trying to decide whether to hold or sell bonds you already own.

the **GOVERNMENT-WIDE FINANCIAL STATEMENTS** cover all of a government's activities (except fiduciary activities) and include the statement of net position and statement of activities

the **STATEMENT OF NET POSITION** reports what a government owns (assets), what it owes (liabilities), amounts related to future periods (deferred outflows and inflows of resources) and what is left over after assets have been used to satisfy liabilities (net position)

LIQUIDITY refers to how quickly an asset can be exchanged for cash or used up

MATURITY refers to when a liability is due

a **PRIMARY GOVERNMENT** is a state or general purpose local government and all departments and agencies that are legally a part of it

the **STATEMENT OF ACTIVITIES** reports a government's revenues and expenses, as well as other changes in its net position during the year

the **STATEMENT OF ACTIVITIES** reports a government's revenues and expenses, as well as other changes in its net position during the year

NET EXPENSE is the portion of service costs not covered by related program revenues and which, therefore, requires financing from general revenues

NET REVENUE is the portion of program revenues in excess of related service costs

GENERAL REVENUES are those that do not qualify as program revenues; they typically are taxes and unrestricted aid

Upon further review...fiduciary activities

The government-wide financial statements exclude activities in which your government acts solely as a *fiduciary* for someone else. In other words, your government is acting as the trustee or agent for resources it does not own. The principal example of such an arrangement is an employee pension plan. Your government may be responsible for investing and maintaining the plans' resources, and may operate the benefits distribution aspect of the plan, but the resources in the plan are not available to your government. This is the reason **FIDUCIARY ACTIVITIES** are not included in the government-wide statements; to include resources that do not belong to your government could be misleading if you are trying to determine your government's financial standing. Instead, your government reports the finances of its fiduciary activities in separate financial statements for fiduciary funds, which are discussed further in Part Three.

By the numbers...the classified format

Instead of presenting assets and liabilities in order of their relative liquidity and maturity, respectively, some local governments present the statement of net position in a **CLASSIFIED FORMAT.** The classified format categorizes the assets and liabilities as **CURRENT ASSETS, NONCURRENT ASSETS, CURRENT LIABILITIES,** and **NONCURRENT LIABILITIES,** and provides separate subtotals for each. This format is helpful for certain kinds of analyses (some of which will be discussed later) and for calculating **FINANCIAL RATIOS** (such as those in Appendix C).

By the numbers...selected examples of current assets

Taxes receivable—payments due to a government from taxes it levies

Patient service receivables—payments due to a government for hospital and health care services provided

DUE FROM THE PRIMARY GOVERNMENT—amounts a component unit is owed by its parent government

DUE FROM OTHER GOVERNMENTS—amounts a government is owed by other governments

By the numbers...modified approach

Some people think that infrastructure assets are maintained and preserved in such a fashion that their useful lives are practically infinite, rendering the process of depreciating historical cost over those lives impossible (theoretically, at least) or meaningless because the amounts would be so small. **(See p. E-14)** Others state that many infrastructure assets, such as roads and bridges, contain many individual components that are repaired and replaced at different times; consequently, the task of depreciation is made extremely complex.

Based in part on these premises, accounting standards allow your government to report annual maintenance and preservation expenses (instead of depreciation) for infrastructure assets that it can prove are, in fact, preserved at a consistent physical condition your government has chosen. To be eligible, your government must meet two requirements for each asset network or subsystem it wishes to report with this "modified approach":

1. Your government must manage the assets with an asset management system that:
   - Has an up-to-date inventory of the assets
   - Assesses the physical condition of the assets and summarizes the results using a measurement scale, and
   - Estimates each year the amount needed to maintain and preserve the assets at the condition level your government established.
2. Your government must document that the assets are being preserved approximately at or above the condition level it chooses. It does so by disclosing this evidence in required supplementary schedules to its financial statements. (These schedules are described in Part Five.)

By the numbers...selected examples of accounts payable

Wages payable—amounts owed to employees for work performed

Vendors payable—amounts owed to businesses that have sold goods or services to a government

Interest payable—amounts owed to banks or persons who have loaned money to a government

Grants payable—amounts owed to other entities (such as not-for-profit social service agencies, school districts, and other governments) to which the government provides financial aid

Upon further review…does unrestricted mean "usable"?

Unrestricted net position is not necessarily unspent cash sitting in a bank account. Consider a government with unrestricted net position of $5 million but cash on hand of just $2 million. In order to spend the remaining unrestricted net position, $3 million of noncash assets would have to be sold, a choice with repercussions that must be considered before acting. Sell an asset and you no longer have the benefit of its use in the future, such as inventory that is used when providing services or investments that generate interest income to pay for services. When inventory is sold, the government can no longer use it to provide services. Similarly, when the proceeds from selling the investments have been spent, the earnings on the investments are no longer available to the government.

By the numbers…governmental and business-type activities

Governmental activities comprise the traditional services of government. They are not self-supporting very often but, rather, rely for their financing on taxes and other revenues levied generally on the public. In the absence of government providing them, many governmental activities might not occur in the private sector, or at least not in sufficient quantity to meet public demand. Examples include police protection, firefighting, and parks.

Business-type activities or BTAs charge a fee directly to the people or groups that use their services. These activities may set a fee high enough to cover their costs of operation, and sometimes high enough to generate a profit that can be reinvested in the activity or returned to the general government to finance other activities. The common examples of BTAs also are prevalent in the private sector—electric utilities, universities, hospitals, and golf courses.

Upon further review…long-term leases

Long-term leases are common among long-term liabilities. If a government signs a lease lasting several years, it commits to paying the owner of the equipment or property specific amounts on a regular basis over time in return for the right to use the equipment or property. Structurally, such a lease is no different from a bank loan, in which a government essentially receives the right to use a bank's money to purchase equipment or property and promises in return to pay the bank certain amounts over a specific schedule.

Upon further review…level of detail for reporting deferrals

Your government may show its deferred outflows and deferred inflows of resources in the statement of net position by source—for example, Figure 1 shows deferred inflows related to pensions, retiree health insurance, and a transaction called a "service concession arrangement." However, your government may present just the total amount of deferred outflows and the total amount of deferred inflows in the financial statements. If it presents only the totals, your government discloses the breakout of those total deferred outflows and inflows by source in the notes to the financial statements.

Upon further review…deficit net position

It is not unusual for a government to have a negative unrestricted net position. Sometimes, total net position may be negative as well. In other words, the government's liabilities are greater than its assets. If your government is in this situation, does it mean that your government is bankrupt? Probably not.

One contributing factor is that your government recently began to follow new accounting standards that require your government's long-term obligations to provide pension benefits to its employees as a liability in the statement of net position. Your government will soon do the same for other postemployment benefits (called OPEB for short and primarily taking the form of retiree health insurance). These liabilities are quite large for many governments, possibly yours included. (See Part Four for more information about these accounting standards.)

The good news is that the long-term liabilities that have created the deficit net position—and which also may include accumulated employee leave time, claims and judgments, and obligations to clean up pollution, for example—are not due right at this moment. A bill collector is not going to show up at city hall demanding a check for tens or hundreds of millions of dollars. On the other hand, these are still significant financial obligations that your government is likely paying off over time with money from its annual budget. You may want to explore further to answer questions such as: Can my government afford

to pay off these debts? Where will the money come from? How will this affect other priorities that require resources, such as the provision of basic government services like police, fire, and sanitation?

Upon further review…other ways to apply percentage distributions

While the percentages in Figure 2 are calculated using total primary government data, you could just as easily calculate them for the governmental or business-type activities or for the component units. In addition to assets and liabilities, you also could calculate percentage distributions for net position to determine the share that falls into each of the three net position components. Finally, instead of columns, you could calculate percentage distributions in rows; for instance, what percentage of total cash is held by the BTAs?

Upon further review…an example of trend and cross-government comparisons

Your examination of liquidity may be more useful if you compare your government with other similar governments and with itself over time.

Consider a county that has current assets that are 1.2 times greater than its current liabilities—perhaps you are concerned that this is not high enough. But what if you knew that this had risen steadily over the last 5 years from just 0.6? The fact that the county's liquidity was improving might allay your concerns. On the other hand, you might become more worried if you learned that the ratio had been declining over the last few years.

What if you knew that, on average, other counties similar to this county had an average ratio of current assets to current liabilities of 0.9? In such a light, the county's situation seems brighter. Conversely, if the average ratio were higher than this county's, you might be more concerned.

Upon further review…mass transit

Mass transit activities, such as bus and subway service, do not fit the theory that governmental activities place a burden on taxpayers while BTAs are net contributors to general revenue. Mass transit typically is operated and accounted for as a BTA—bus and train passengers are charged a fare. However, that fare rarely comes close to covering the cost of ridership.

Rather, mass transit tends to be subsidized by tax revenues and grants. If mass transit appeared in Figure 3, it probably would show a sizeable net expense, like Local City's parking facilities.

By the numbers…dedicated taxes

Accounting standards require that all taxes be reported as general revenues. What about **DEDICATED TAXES,** though, which by law can be used only for a specific purpose? A common example is a motor fuel tax that is used to fund road repairs. But those fuel taxes are generated by a driver's purchase of gas, not a government's provision of road services.

Consequently, dedicated taxes *do not* meet the definition of program revenues: They are not program-specific grants and contributions; nor are they charges for services. Therefore, they are considered part of the general revenues governments use to finance the portion of program costs not covered by program revenues.

By the numbers…special and extraordinary items

Extraordinary and special items are identified by two characteristics:

First, extraordinary items are *both* unusual in nature *and* infrequent in occurrence, while special items are one or the other.

Second, special items are within the control of government, such as the costs of an early retirement incentive—in the form of a one-time cash payment—offered by a government to its employees in order to reduce the size of its work force. In most cases, governments have no control over extraordinary items.

Note: Any significant transaction or event that is *either* unusual or infrequent (like special items) *but* also is outside the control of a government (unlike special items) should be disclosed in the notes to financial statements.

Upon further review…selling land

Consider the scenario presented in the illustrative financial statements. Local City sold several parcels of park land during 2016. The gain on the sale of that land (the sales price less what the land originally cost the city) increased its net position. However, Local City cannot sell park land every year to balance its budget; eventually, it would run out of land to sell. That

transaction, which some might call a "one-shot," should not be considered when trying to assess a government's recurring capacity to live within its means.

Upon further review…there's trouble in Local City

Local City's governmental activities did not make ends meet in 2016. Despite a $501,409 transfer from the BTAs and a $2,653,488 gain from selling park land, the governmental activities still showed a shortfall of $3,114,286. Consequently, net position declined by that amount. (See Figure 3.)

Explaining how this shortfall came to be requires some more investigation. You will find explanations in MD&A that eliminate the need for some of the most basic analysis. (See Part Five.) The *budgetary comparison schedule* (also discussed in Part Five) can be used to determine how actual inflows and outflows compared with what a government expected when it adopted its budget for the year. You also can find out how revenue and expense items have changed by comparing this year's financial statements with those from prior years.

PART THREE

DETAILED INFORMATION ABOUT YOUR GOVERNMENT'S FUNDS

As Bill helps Penny to plan her finances, he creates a spreadsheet that summarizes all of the financial information she put in those lists. But he doesn't stop there. He also creates several other spreadsheets containing information about only certain parts of her finances. "What are those for?" Penny asks. Bill explains, "These are meant to keep track of important specific aspects of your finances, like your pension plan, your mortgage and car loan, and your kid's college savings account. In addition to making sure your overall financial situation is healthy, we will want to pay close attention to these areas in a little more detail. That way we can make sure that your specific financial goals are being attained. We also can use these to track certain kinds of spending; for example, we could keep a record of your business-related spending for tax purposes or to seek reimbursement from your employer."

Whereas the *government-wide* financial statements provide an all-encompassing view of your government's finances, the remainder of the statements—collectively called **FUND FINANCIAL STATEMENTS**—provide a more detailed look at the major individual portions or **FUNDS** of your government. The government-wide and fund financial statements also measure the finances of your government's most basic services differently. The government-wide statements present both a short- and long-run perspective on the finances of governmental activities that contains all of the related assets, liabilities, deferred inflows and deferred outflows, revenues, and expenses connected with its basic government services. The financial statements for the governmental funds take a more detailed, short-run view of basic government services, generally focusing on the most readily available assets and presently due liabilities, and on just the resources that flow in and out of your government during the year or shortly thereafter. **(See p. E-11)**

The government-wide and fund financial statements work in tandem, offering different information that together you can use to develop a thorough understanding of your government's financial health. This section introduces the financial statements your government prepares for its three types of funds—governmental, proprietary, and fiduciary—and explains some of what you can do with their information to assess your government's finances.

WHAT'S AHEAD?

→ LOOK AT THE FINANCES OF YOUR GOVERNMENT'S MOST BASIC SERVICES.

→ JUDGE YOUR GOVERNMENT'S ABILITY TO PAY ITS BILLS OVER THE NEXT YEAR.

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

The **GOVERNMENTAL FUNDS** generally track the financial activity of your government's basic services—such as police, fire, parks, and road repairs—which are considered the staples of local government. These services basically are the same as those included in the governmental activities of the government-wide statements. Two financial statements report the finances of the governmental funds—the **BALANCE SHEET** and the **STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**. (See **By the numbers…comparing governmental funds and governmental activities.**)

By the numbers…major funds

There are three circumstances under which a fund is considered "major" and is displayed in its own column in the financial statements:

1. The main operating fund (usually the general fund) always is considered major.
2. An individual governmental or enterprise fund's assets and deferred outflows, liabilities and deferred inflows, revenues, OR expenditures/expenses are at least:
   a. 10 percent of the total for all governmental OR enterprise funds, respectively, AND
   b. 5 percent of the total for all governmental AND enterprise funds COMBINED.
3. A government may designate as major any other governmental or enterprise fund it believes is important to the users of its financial statements.

This last clause gives you and your government latitude to determine the contents of the statements that is far wider than typically afforded by governmental accounting standards. If there is fund information that you wish to see included individually on the statement, your government has the ability to comply with your wishes (though it is not *required* to).

Figure B-3 in Appendix B presents the calculations for the funds listed in Local City's governmental funds statements. The general fund qualifies automatically, though it also is large enough to qualify under liabilities plus deferred inflows, revenues, and expenditures. The HUD fund qualifies by liabilities plus deferred inflows and the Community Redevelopment fund by assets plus deferred outflows. The inclusion of the Route 7 fund is done at the government's discretion, though it should be noted that the fund is close to qualifying by both assets plus deferred outflows and expenditures.

By the numbers…comparing governmental funds and governmental activities

There are three key differences between the information contained in the governmental funds and the governmental activities—the scope of your government they cover, the resources they report, and the financial activities they report.

	Governmental Activities	Governmental Funds
Scope (See p. E-6)	• Typically the basic services of your government (no BTAs or fiduciary activities) • Contain all but a few of the activities of governmental funds • Include most internal service funds	• Typically the basic services of your government (those not included in proprietary and fiduciary funds) • Internal service funds are found in the proprietary funds (discussed later in Part Three)
Types of resources	• All assets and liabilities, both short-term and long-term, financial and capital (See p. E-10)	• *Current financial resources*—generally, cash, assets that will become cash during the year, and short-term liabilities that short-term assets will be used to pay off (See p. E-11) • Do not contain capital assets or long-term liabilities
Types of financial activities	• All transactions and other events regardless of whether cash changed hands (See p. E-11)	• Transactions and other events in which (a) cash was received during the year or soon thereafter, (b) goods or services were received and the payment for them was normally due, or (c) resources flowed between the governmental and other funds (See p. E-13)

Figure 4. Governmental Funds Balance Sheet

Local City
Balance Sheet
① Governmental Funds
As of December 31, 2016

	General	HUD Programs	③ Community Redevelopment	Route 7 Construction	④ Other Governmental Funds	Total Governmental Funds
ASSETS ②						
Cash and cash equivalents	$ 3,418,485	$ 1,236,523	$ —	$ —	$ 5,606,792	$ 10,261,800
Investments	—	—	13,262,695	10,467,037	3,485,252	27,214,984
Receivables, net	3,644,561	2,953,438	353,340	11,000	10,221	6,972,560
Due from other funds	1,370,757	—	—	—	—	1,370,757
Receivable from other governments	—	119,059	—	—	1,596,038	1,715,097
Liens receivable	791,926	3,195,745	—	—	—	3,987,671
Inventories	182,821	—	—	—	—	182,821
Total assets	$ 9,408,550	$ 7,504,765	$ 13,616,035	$ 10,478,037	$ 10,698,303	$ 51,705,690
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 3,408,680	$ 129,975	$ 190,548	$ 1,104,632	$ 1,074,831	$ 5,908,666
Due to other funds	—	25,369	—	—	—	25,369
Payable to other governments	94,074	—	—	—	—	94,074
Advances on grants	—	1,435,599	—	—	—	1,435,599
Total liabilities	3,502,754	1,590,943	190,548	1,104,632	1,074,831	7,463,708
Deferred inflows of resources:						
Unavailable revenue—taxes	4,250,430	—	—	—	—	4,250,430
Unavailable revenue—grants	—	1,641,701	250,000	11,000	—	1,902,701
Total deferred inflows of resources	4,250,430	1,641,701	250,000	11,000	—	6,153,131
Fund balances:						
Nonspendable:						
Inventories	182,821	—	—	—	—	182,821
Nonexpendable corpus	—	—	—	—	1,405,300	1,405,300
Restricted for:						
Community development	—	576,376	2,119,314	—	—	2,695,690
Debt service	—	—	—	—	3,832,062	3,832,062
Capital projects ⑤	—	—	—	5,792,587	675,404	6,467,991
Other purposes	310,027	—	—	—	—	310,027
Committed to:						
Community development	—	500,000	11,056,173	—	—	11,556,173
Capital projects	—	—	—	2,569,818	—	2,569,818
Other purposes	40,292	—	—	—	1,138,718	1,179,010
Assigned to:						
Parks and recreation	100,000	—	—	—	1,007,077	1,107,077
Capital projects	—	—	—	1,000,000	1,241,270	2,241,270
Other purposes	—	—	—	—	323,641	323,641
Unassigned ⑥	1,022,226	3,195,745	—	—	—	4,217,971
Total fund balances	1,655,366	4,272,121	13,175,487	9,362,405	9,623,472	38,088,851
Total liabilities, deferred inflows of resources, and fund	$ 9,408,550	$ 7,504,765	$ 13,616,035	$ 10,478,037	$ 10,698,303	

⑦ Amounts reported for *governmental activities* in the statement of net position are different because (see Note 4, also):

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	161,082,708
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	9,348,876
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	2,994,691
Deferred outflows of resources and deferred inflows of resources related to pension and retiree health insurance liabilities and derivatives are not reported in the funds.	9,782,596
Certain accounts payable are not due and payable in the current period and, therefore, are not reported in the funds.	(469,534)
Long-term liabilities, including bonds payable and retirement benefits, are not due and payable in the current period and, therefore, are not reported in the funds (see Note 4a).	(188,252,504)
Net position of governmental activities	$ 32,575,684

Figure 4 Notes

① Three elements appear at the top of every statement: name of the government, name of the statement, and the date of or period covered by the statement. The fund statements also identify the category of funds covered by the statement (governmental, proprietary, or fiduciary).

② No distinction is made between current and noncurrent because governmental funds mostly present current financial resources; there are no capital assets or long-term debts.

③ The governmental funds statements present a government's *major* funds. The criteria defining major can be found on page 34.

④ The funds that are not major are aggregated in a single column; some governments report them individually in a combining statement with their supplemental information.

⑤ Your government does not have to show this level of detail for fund balance on the balance sheet. It may show as little as the aggregate amounts for each of the five categories (see page 39), as long as it presents the detail for each category in the notes to the financial statements.

⑥ Unassigned should be a positive number only in the general fund. If a negative number (in parentheses) is shown on the unassigned fund balance line in one of the other governmental funds, it means that fund spent more for a particular purpose than it had available for that purpose.

⑦ The reconciliation of total governmental fund balance to the net position of governmental activities that you find may not be this detailed. Some governments provide greater detail in the notes (see Part Four and Figures 25 and 26) if the descriptions here are broad or if there are important adjustments that cannot be identified within the larger categories. Some governments may place the reconciliation on a separate page from the statement. (See Figure 6, for example.)

In the two governmental funds financial statements, governments show their **MAJOR FUNDS** separately; the remaining **NONMAJOR FUNDS** are combined in a column on the right-hand side of the statement. Major-fund reporting helps you to see information about the individual funds of a government, making it easier to track the specific programs and revenue sources that funds were established to account for in the first place.

Balance Sheet

In form and function, the balance sheet is very similar to the statement of net position. Both contain assets, deferred outflows, liabilities, and deferred inflows, though the balance sheet contains primarily *short-term* assets and liabilities. Instead of net position, the balance sheet ends with **FUND BALANCE.** The arrangement of the balance sheet is slightly different—*assets plus deferred outflows equal liabilities plus deferred inflows plus fund balances,* rather than assets plus deferred outflows minus liabilities minus deferred inflows equals net position—but this is more a function of emphasis than a substantive difference.

As you can see in Figure 4, the types of assets, liabilities, and deferrals are listed on the left-hand side, just as in the statement of net position. The columns represent individual major governmental funds. (The qualifications for being considered "major" are listed in **By the numbers…major funds.**) The **GENERAL FUND** always is included and listed first. The **SPECIAL REVENUE FUNDS, CAPITAL PROJECTS FUNDS, DEBT SERVICE FUNDS,** and **PERMANENT FUNDS** that qualify as major are listed subsequently.

By the numbers…types of governmental funds		
Governmental Funds track the basic activities of a government.	**Fund Types**	**Examples**
	The *general fund* accounts for resources not required to be in another fund.	Every government should have a general fund or primary operating fund.
	Special revenue funds track revenue sources restricted or committed to specific uses.	State mental health aid received and used by a county is tracked in the county's mental health fund.
	Capital projects funds follow the resources used to build, acquire, and renovate major general capital assets.	A town issues long-term bonds and uses the proceeds to replace old coal-burning furnaces in its buildings; this activity is accounted for in the capital improvements fund.
	Debt service funds account for resources used to repay general long-term debt.	A city has separate funds for repaying general obligation debt and tax-backed bonds.
	Permanent funds report resources legally restricted so that only the earnings they generate, and not the resources themselves, may be used.	A municipal art endowment fund tracks investments donated by a patron who stipulates that only the earnings of the investments be used to purchase outdoor sculptures.

The remaining nonmajor funds are aggregated in a single column, second from the right. The nonmajor funds may be shown individually in COMBINING FINANCIAL STATEMENTS included in your government's CAFR. (This is discussed further in Part Six.) Finally, all of the governmental funds are totaled in the right-hand column.

Figure 4: Total assets of Local City's governmental funds for 2016 were $51,705,690, total liabilities were $7,463,708, total deferred inflows were $6,153,131, and fund balances were $38,088,851.

Fund balances—what is your government allowed to use?

The fund balances listed at the bottom of the statement are divided among five categories:

- Nonspendable

- Restricted
- Committed
- Assigned
- Unassigned.

These categories of fund balance are based on the degree to which your government is bound to honor the constraints placed on how the fund balance can be used—ranging from nonspendable as the most stringent constraint to unassigned as the least.

NONSPENDABLE FUND BALANCE represents resources that cannot be spent, either because they are not in spendable form (such as inventory) or because they are required by an external individual or organization to be maintained intact (such as an amount donated to your government with the stipulation that it be invested and only the earnings be spent, which would be reported in a permanent fund).

RESTRICTED FUND BALANCE is constrained in the same ways as the resources represented by restricted net position—for instance, a federal program requirement or a provision in the state constitution.

COMMITTED FUND BALANCE is constrained by your government itself, using its highest level of decision-making authority (perhaps a statute or resolution passed by the city council; the exact action may differ from government to government). Committed fund balance is different from restricted in that your government does not have to obtain the agreement of another government or get a constitutional provision changed in order to use the resources for another purpose. Nonetheless, committed fund balance cannot be used for any purpose other than the use for which it was committed unless your government again uses its highest level of decision-making authority to change or remove the purpose limitation.

By contrast, **ASSIGNED FUND BALANCE** represents resources your government *intends* to use for a particular purpose. Ultimately, your government could use those resources for some other purpose without taking any further action to change the assignment. Fund balances outside of the general fund (for instance, in a special revenue fund) are at least assigned, and often are committed or restricted. This means that when you see resources in another governmental fund, you know that your government at a minimum *intends* to use those resources for the purpose associated with the fund (such as repaying long-term debt or constructing roads). Otherwise, those resources do not belong in that fund; resources available for any purpose should be found only in the general fund.

The final category is **UNASSIGNED FUND BALANCE.** Unassigned fund balance contains the resources not required to be reported in one of the other categories. In other words, these resources are not constrained in any way and can be used for any purpose. The only place that you will see a positive unassigned fund balance is in the general fund. If a number appears on the unassigned line in another governmental fund, it will be a negative number (either presented in parentheses or preceded by a minus sign). You should understand that negative number to indicate that your government spent more for a particular purpose than was available in that fund.

Figure 4: Local City had $4,217,971 in unassigned fund balance.

Reconciliation—tying the statements together

Each of the governmental funds statements contains a **RECONCILIATION** or explanation of their differences from the governmental activities in the government-wide statements. The reconciliation may appear in the lower right corner of the balance sheet, below the total fund balance for the governmental funds, although your government has the option to put it in an accompanying schedule on the page following the balance sheet. In either case, your government may provide less detail with the statement but then offer sufficient additional explanation in a note to the financial statements. A sample illustration of this note (Figure 25) is included in Part Four.

The reconciliation in the balance sheet explains the differences between the *total fund balance* for the governmental funds and the *total net position* for governmental activities. Essentially it attaches numbers to the differences described in **By the numbers…comparing governmental funds and governmental activities** on page 35.

What can you do with balance sheet information?

The potential uses of the information in the balance sheet are similar to those of the statement of net position information. However, while many of the analyses are the same, because the information in the two statements is inherently different, the analyses tell you different things about your government.

You can analyze the nature of current financial resources. Percentage distributions and percentage changes can tell you what kinds of noncapital assets and short-term liabilities your government has, and how their balances have changed over time. (Refer to common-size ratios in Appendix C.)

You can assess short-term financing needs and your government's capacity to meet them. The short-term financial information contained in the governmental funds statements makes them particularly well-suited for assessing the near-term financial issues of your government's basic public services. Liquidity can be assessed in a very straightforward fashion. The balance sheet information is essential for this purpose if the statement of net position does not separate current and noncurrent assets and liabilities and you cannot make the distinctions on your own. (Refer to liquidity ratios in Appendix C.)

You can understand the relationships between the government-wide and governmental funds statements and their respective accounting methods. The reconciliation is an extremely valuable tool for learning about these differences. It is informative both about differences in the scope of your government that each encompasses and about how the accounting assumptions of the two kinds of statements differ. For instance, the list of adjustments to fund balance tells you that the methods used in governmental funds statements do not account for capital assets and long-term liabilities, unlike the approach of the government-wide statements. **(See p. E-11)**

Statement of Revenues, Expenditures, and Changes in Fund Balances

The inflows and outflows measured in the governmental funds are different from the changes in net position in the statement of activities; this statement focuses primarily on cash and other current financial resources that come into and flow out of your government. (See Figure 5.) Inflows are counted as revenues only if cash is received during or shortly after the year. Outflows in the governmental funds statements are called **EXPENDITURES** rather than expenses. Whereas expenses represent the using up of assets, expenditures occur when your government has received a good or service it purchased and payment is normally due. **(See p. E-12)** Consistent with the fund focus of these statements, the difference between revenues (and **OTHER FINANCING SOURCES**) and expenditures (and **OTHER FINANCING USES**) is **CHANGE IN FUND BALANCE** rather than change in net position.

Figure 5: Local City's nonmajor governmental funds had total expenditures of $15,697,954.

Figure 5 Notes

① In the governmental funds, revenues are included only if the transaction occurs and cash is received during the year or soon enough thereafter to be used to pay current costs. They are shown by major source.

② This is a special revenue fund formed to report on federal aid received from the Department of Housing and Urban Development (HUD).

③ These are capital projects funds.

④ No debt service or permanent funds qualified as major.

⑤ Expenditures generally are recorded when a government has received a good or service and payment is normally due. They are listed by major function.

⑥ Debt service and capital outlay demonstrate basic differences in the kinds of information contained in the governmental funds and government-wide statements. The government-wide statements report only interest on debt; repayment of principal reduces an outstanding liability, not net position. In the governmental funds statements, the entire cost of capital assets is recorded as an expenditure right away, rather than depreciated over the assets' useful lives.

⑦ Every governmental fund had a deficit—expenditures were greater than revenues. The deficits in the two capital projects funds, however, arise in part because the related inflows—typically proceeds from bonds—are considered *other financing sources* instead of revenues.

⑧ When revenues, expenditures, and other financing sources (uses) of the general fund are added together, there is a shortfall of $4.7 million [(2,034,436) + (2,695,008)]. Were it not for the capital asset sale, the beginning fund balance of $2.9 million would have been reduced to a *deficit* of $1.8 million [2,908,322 + (4,729,444)].

⑨ These are the fund balances that appear in the balance sheet. (See Figure 4.)

⑩ The reconciliation for this statement is presented on a separate page. (See Figure 6.) It also could be displayed here, as in the balance sheet. (See Figure 4.)

Figure 5. Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances

Local City
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2016

	General	② HUD Programs	Community Redevelopment	③ Route 7 Construction	④ Other Governmental Funds	Total Governmental Funds
REVENUES ①						
Property taxes	$ 51,173,436	$ —	$ —	$ —	$ 4,680,192	$ 55,853,628
Franchise taxes	4,055,505	—	—	—	—	4,055,505
Public service taxes	8,969,887	—	—	—	—	8,969,887
Fees and fines	606,946	—	—	—	—	606,946
Licenses and permits	2,287,794	—	—	—	—	2,287,794
Intergovernmental	6,119,938	2,578,191	—	—	2,830,916	11,529,045
Charges for services	11,374,460	—	—	—	30,708	11,405,168
Investment earnings	552,325	87,106	549,489	270,161	364,330	1,823,411
Miscellaneous	881,874	66,176	—	2,939	94	951,083
Total revenues	86,022,165	2,731,473	549,489	273,100	7,906,240	97,482,467
EXPENDITURES ⑤						
Current:						
General government	8,630,835	—	417,814	16,700	121,052	9,186,401
Public safety	33,729,623	—	—	—	—	33,729,623
Public works	4,975,775	—	—	—	3,721,542	8,697,317
Engineering services	1,299,645	—	—	—	—	1,299,645
Health and sanitation	6,070,032	—	—	—	—	6,070,032
Cemetery	706,305	—	—	—	—	706,305
Culture and recreation	11,411,685	—	—	—	—	11,411,685
Community development	—	2,954,389	—	—	—	2,954,389
Education—payment to school district	21,893,273	—	—	—	—	21,893,273
Debt service:						
Principal	—	—	—	—	3,450,000	3,450,000
Interest and other charges	—	—	—	—	5,215,151	5,215,151
Capital outlay ⑥	—	—	2,246,671	11,281,769	3,190,209	16,718,649
Total expenditures	88,717,173	2,954,389	2,664,485	11,298,469	15,697,954	121,332,470
Excess (deficiency) of revenues over expenditures ⑦	(2,695,008)	(222,916)	(2,114,996)	(11,025,369)	(7,791,714)	(23,850,003)
OTHER FINANCING SOURCES (USES)						
Proceeds of long-term capital-related debt	—	—	17,529,560	—	2,060,856	19,590,416
Transfers in	129,323	—	—	—	5,551,187	5,680,510
Transfers out	(2,163,759)	(348,046)	(2,273,187)	—	(219,076)	(5,004,068)
Total other financing sources and uses	(2,034,436)	(348,046)	15,256,373	—	7,392,967	20,266,858
SPECIAL ITEM ⑧						
Proceeds from sale of park land	3,476,488	—	—	—	—	3,476,488
Net change in fund balances	(1,252,956)	(570,962)	13,141,377	(11,025,369)	(398,747)	(106,657)
Fund balances—beginning	2,908,322	4,843,083	34,110	20,387,774	10,022,219	38,195,508
Fund balances—ending ⑨	$ 1,655,366	$ 4,272,121	$ 13,175,487	$ 9,362,405	$ 9,623,472	$ 38,088,851 ⑩

This statement contains the same major funds in columns as the balance sheet, with "Other Governmental Funds" and "Total Governmental Funds" columns on the right. Revenues are listed by nature or type—various taxes, fees and fines, intergovernmental aid, and so on. Expenditures are listed by function. Expenditures for **DEBT SERVICE** (repaying outstanding debt) and capital projects (building or buying capital assets) are listed separately from the functional operating expenditures. This distinction

from the government-wide statement of activities is a prime example of the differences between the kinds of information the two statements report. **(See p. E-13)** Whereas the cost of purchasing, building, or renovating capital assets is spread over the useful lives of the assets through depreciation in the statement of activities, the entire cost is reported in the governmental funds statements in the year it is incurred. Similarly, the latter statements report *both* interest on long-term debt *and* repayment of debt principal as expenditures, while the statement of activities includes just the interest as expense.

Surpluses and deficits

The difference between revenues and expenditures is labeled as **EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES**, or surplus (deficit). You can see in Figure 5 that each of Local City's major governmental funds had a deficit—expenditures exceeded revenues—in 2016. Not all deficits in the funds are created equal, however:

- The Route 7 construction fund shows a deficit of more than $11 million in 2016, but we know from Local City's MD&A (page A-9) that this spending was financed with the proceeds of bonds sold the previous year. A quick look at the bottom of that fund's column shows a sizeable fund balance at the beginning of the year.
- On the other hand, the deficit in the general fund is a current shortfall—the year's revenues were insufficient to cover the year's expenditures by $2.7 million.

The moral of this story is that surpluses and deficits are flags that alert you to potentially favorable and unfavorable situations, but you need to ask additional questions to understand the reasons behind them and their positive and negative connotations.

Other changes in fund balance

Your government shows changes in fund balances that are not revenues or expenditures (or, at least not typical ones) separately at the bottom of the statement. The purpose is basically the same as in the statement of activities: to allow you to directly compare the resource flows from your government's operating activities to ascertain (1) whether your government is raising enough resources (in this case, short-term financial resources) to finance its expenditures and (2) how basic operations are affecting fund balances. Including other items unrelated to basic operations that change fund balance (such as special and extraordinary items) would distort that picture.

The other financing sources (uses) section lists resource flows related to the proceeds from issuing long-term debt and transfers among funds. Most of the financial activity here is related to Local City's issuance of debt. (See page A-11 of MD&A.) Much of the transfer activity took place in the general and community redevelopment funds; one can surmise from the nonmajor funds column and the supplemental combining statement for the nonmajor funds (see Figure B-11) that these transfers primarily went to Local City's debt service funds.

Figure 5: Total other financing sources and uses of the Community Redevelopment fund were $15,256,373.

Reconciliations

This governmental funds financial statement also includes a reconciliation—this one explaining the differences between the net change in fund balances for the governmental funds and the change in net position for governmental activities. (See **By the numbers…reconciling change in fund balance with change in net position.**) Figure 4 demonstrates the option your government has to show the reconciliation on the same page as the statement. Figure 5 does not show the reconciliation on the face of the statement; rather, Figure 6 shows a reconciliation on the page following the statement. Your government will provide a note disclosure if additional explanation is necessary, or if the categories in the reconciliation obscure important individual differences (see Part Four and Figure 26).

What can you do with information from the statement of revenues, expenditures, and changes in fund balances?

This statement is not organized to supply the net cost information you can get in the statement of activities. However, it does serve many of the other purposes of that statement but with a narrower focus on short-term resources and how they are used. You can *describe the nature of the inflows and outflows of current financial resources and how they have changed over time*. (Refer to common-size ratios in Appendix C.) Comparisons may be made with other governments, though care must be taken to avoid comparing apples to oranges. The structures and definitions of funds are idiosyncratic, designed primarily to serve the purposes of a government's particular interests and budget; consequently, they may differ greatly from one local government to the next. **(See p. E-6)** Furthermore, as noted in Part Two regarding expenses, the definitions of functional expenditure categories may be different.

You also can compare inflows and outflows to *determine if your government is raising sufficient resources to meet its short-term financing needs*. In other words, did your government run a surplus or deficit for the year? In fact, each of Local City's displayed funds ran a deficit—revenues fell short of expenditures—most notably the Route 7 fund, which was expending the proceeds received from selling bonds the previous year on capital projects.

Once again the reconciliation proves to be a valuable instructional tool from which you can *learn about the differences between the types of information in the governmental funds and governmental activities columns* and *how the governmental funds statements and the government-wide statements relate to one another*.

Will your government be able to finance services in the future? Recall that the statement of net position provides information useful for determining your government's ability to finance its long-term liabilities. This information is used to assess the extent to which your government's assets are *leveraged* by debt. Information from the funds statements and the government-wide statement of activities can inform the issue of *coverage*. (See solvency ratios in Appendix C.)

To assess your government's ability to "cover" future repayment of its outstanding debt, you can compare cash flows generated by operations to either its interest payments on debt or its entire debt

repayments, both interest *and* principal. (See coverage ratios in Appendix C.) In general, the larger the cash flows are relative to the pertinent payments, the better your government's ability to repay long-term debt. Conversely, the smaller the cash flows relative to the payments, the more questions that may arise about your government's ability to pay off long-term debt. Again, it is up to you to determine what is "large enough" or "too small" or "just right" for your government's coverage ratios. You can do so with trend comparisons and cross-government comparisons, by looking further into the circumstances surrounding your government's outstanding debts, and by seeking out the rules of thumb of regular observers of government debt.

Figure 6. Reconciliation of Net Changes in Governmental Fund Balance to Governmental Activities Change in Net Position (Separate Page Format)

Local City
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2016

Net change in fund balances—total governmental funds	①	$ (106,657)
Amounts reported for *governmental activities* in the statement of activities are different because (see Note 6, also):	②	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		13,231,649
In the statement of activities, only the *gain* on the sale of the park land is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in the net position differs from the change in the fund balance by the cost of the land sold.		(823,000)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		1,920,630
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which proceeds exceeded repayments.		(16,140,416)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(437,684)
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The change in net position of the internal service funds is reported with governmental activities.	③	(758,808)
Change in net position of governmental activities.	④ ⑤	$ (3,114,286)

Figure 6 Notes

① This is from the governmental funds statement of revenues, expenditures, and changes in fund balances. (See Figure 5.)

② This note is illustrated in Figure 26. Your government will provide a note disclosure if further clarification is needed because of the abbreviated language or categorization of the reconciliation.

③ The internal service funds are reported in the proprietary funds statements (see Figures 7–9) and not the governmental funds because they try to charge a price for goods and services high enough to recoup their costs. However, the nature of the activity (providing essentially support and administrative services to other parts of a government) merits its inclusion with the governmental activities.

④ The reconciliation also could be presented on the face of the statement, as it is for the illustrative balance sheet in Figure 4.

⑤ This is the amount you will find in the government-wide statement of activities. (See Figure 3.)

Particular advantages of governmental funds information. While the information in the statement of revenues, expenditures, and changes in fund balances may be used for similar purposes as the statement of activities information, the former may be better suited than the latter to informing budgetary analysis and decision making. Because the governmental funds often are structured like a government's budget, or vice versa, the financial statement information from past years may be comparable to current and future budget numbers. Consequently, you may be able to *use your analysis of past trends to assist in making or assessing present-day budget choices*.

The similarities between budget and fund structure and the display of information for major individual funds also should make the funds statements more useful than the government-wide statements for *judging compliance with budgetary and legal restrictions*. Tracking the collection and use of the revenue from a tax restricted to a particular purpose is easier when the fund that accounts for that tax is visible on the statement, rather than aggregated within a larger category like governmental activities.

PROPRIETARY FUNDS FINANCIAL STATEMENTS

PROPRIETARY FUNDS are the activities for which your government charges a fee to the users or beneficiaries of the service. That fee usually is set high enough to cover most or all of the costs of providing the service, though this is not universally true. (See **Upon further review…mass transit** on page 26 for a common example of an exception to this rule.) There are two kinds of proprietary funds. **ENTERPRISE FUNDS** account for activities (such as utilities) directed toward those outside your government. **INTERNAL SERVICE FUNDS** normally record the services provided to other parts of your government, such as central supply purchasing or a motor pool.

The proprietary funds statements are the:

- Statement of net position (Figure 7)
- **STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION** (Figure 8), and

- **STATEMENT OF CASH FLOWS** (Figure 9).

By the numbers…types of proprietary funds		
	Fund Types	**Examples**
Proprietary Funds report activities generally financed by charging a fee to customers.	*Enterprise funds* may be used to account for any activity that charges a fee to users; they are *required* to be used for any activity that: • Is financed with debt that is repaid only with the activity's own user revenues, and/or • Is legally required to cover its costs (including depreciation or debt service) with fees and charges rather than taxes and similar revenues, and/or • Sets its fees and charges in order to recover all of its operating and capital costs (including depreciation or debt service).	A county has a public utility to provide electricity to residents and businesses.
	Internal service funds report activities that provide goods or services to other funds of the government, or to other governments, in return for a fee to reimburse costs.	A municipal garage fuels and services a city's fleet of road maintenance vehicles, garbage trucks, and patrol cars.

The first two statements use the same accounting methods as the government-wide statements. **(See p. E-10)** If you have a particular interest in the activities reported in your government's proprietary funds, you can explore the same basic issues we have discussed thus far in the government-wide and governmental funds statements. For example, you can examine proportions of and changes in a proprietary fund's assets, liabilities, deferrals, revenues, and expenses, and you can assess the ability of proprietary activities to finance their costs in both the short and long run.

Figure 7: Unrestricted net position of the internal service funds was a deficit of ($5,696,055).

Figure 7. Proprietary Funds Statement of Net Position

Local City
Statement of Net Position
Proprietary Funds
As of December 31, 2016

	Business-Type Activities—Enterprise Funds			Governmental Activities—Internal Service Funds (Note 5)
	① Water and Sewer	Parking Facilities	Total	② ③
ASSETS				
Current assets:				
Cash and cash equivalents	$ 8,416,653	$ 1,804,767	$10,221,420	$ 3,336,099
Investments	47,596,245	—	47,596,245	150,237
Receivables, net	3,564,586	3,535	3,568,121	157,804
Due from other governments	41,494	—	41,494	—
Inventories	126,674	—	126,674	139,328
Total current assets	59,745,652	1,808,302	61,553,954	3,783,468
Noncurrent assets:				
Restricted cash and cash equivalents ④	—	1,493,322	1,493,322	—
Capital assets:				
Land	813,513	3,021,637	3,835,150	—
Distribution and collection systems	39,504,183	—	39,504,183	⑤ —
Buildings and equipment	106,135,666	23,029,166	129,164,832	14,721,786
Less accumulated depreciation	(15,328,911)	(5,786,503)	(21,115,414)	(5,781,734)
Total capital assets	131,124,451	20,264,300	151,388,751	8,940,052
Total noncurrent assets	131,124,451	21,757,622	152,882,073	8,940,052
Total assets	190,870,103	23,565,924	214,436,027	12,723,520
DEFERRED OUTFLOWS OF RESOURCES				
Pensions	4,849,872	149,996	4,999,868	—
Retiree health insurance	2,909,967	89,999	2,999,966	—
Total deferred outflows of resources	7,759,839	239,995	7,999,835	—
LIABILITIES				
Current liabilities:				
Accounts payable	447,427	304,003	751,430	780,570
Due to other funds	175,000	—	175,000	1,170,388
Compensated absences	112,850	8,827	121,677	237,690
Claims and judgments	—	—	—	1,687,975
Bonds, notes, and loans payable	3,944,109	360,000	4,304,109	249,306
Total current liabilities	4,679,386	672,830	5,352,216	4,125,929
Noncurrent liabilities:				
Compensated absences	451,399	35,806	487,205	—
Claims and judgments	—	—	—	⑥ 5,602,900
Net pension liability	32,332,482	999,974	33,332,456	—
Net OPEB liability	19,399,781	599,993	19,999,774	—
Bonds, notes, and loans payable	54,452,049	19,544,019	73,996,068	—
Total noncurrent liabilities	106,635,711	21,179,792	127,815,503	5,602,900
Total liabilities	111,315,097	21,852,622	133,167,719	9,728,829
DEFERRED INFLOWS OF RESOURCES				
Pensions	2,263,274	69,998	2,333,272	—
Retiree health insurance	1,357,985	42,000	1,399,984	—
Service concession arrangement proceeds	—	1,435,599	1,435,599	—
Total deferred inflows of resources	3,621,258	1,547,597	5,168,855	—
NET POSITION				
Net investment in capital assets	72,728,293	360,281	73,088,574	8,690,746
Restricted for debt service	—	1,451,996	1,451,996	⑦ —
Unrestricted	10,965,294	(1,406,577)	9,558,717	(5,696,055)
Total net position	$ 83,693,587	$ 405,700	$84,099,287	$ 2,994,691
			⑧	⑨

Figure 7 Notes

① The water and sewer system has two identifiable *segments*—water services and sewer services—for which additional information is provided in the notes.

② Internal service funds are aggregated in a single column; governments may present them individually in a combining statement with the supplementary information. (See Part Six.)

③ This refers to the note explaining the reconciliation of governmental fund balance with governmental activities net position. (See Figure 25.)

④ A government is prohibited from using **RESTRICTED ASSETS** for operating purposes. Sources of this restriction may be laws, regulations of oversight bodies, or agreements connected with outstanding debt.

⑤ These capital asset amounts, along with additional details, can be found in the capital assets note. (See Figure 16.)

⑥ The long-term liabilities note provides detailed information on these obligations (see Figure 18). The notes combine the current and noncurrent parts shown here but also show the current portions in a separate column.

⑦ Internal service funds are included with the governmental activities in the government-wide statements.

⑧ This total is the same as found for the BTAs in the government-wide statement of net position. (See Figure 1.) It also is shown as the ending net position in the statement of activities (Figure 3) and statement of revenues, expenses, and changes in fund net position (Figure 8). (However, the numbers will be different in the rare instance that there are activities in the enterprise funds that are classified as governmental activities instead of BTAs. See the next note.)

⑨ Enterprise funds and BTAs generally are synonymous. If, however, your government has an enterprise fund that is categorized as a governmental activity in the government-wide statements, then it will provide—at the bottom of this statement or on the next page—a reconciliation of total enterprise funds net position to total BTA net position.

Figure 8. Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Position

Local City
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ending December 31, 2016

	Business-Type Activities—Enterprise Funds			Governmental Activities—
	Water and Sewer	Parking Facilities	Total	Internal Service Funds (Note 6) ③
Operating revenues: ①			②	
Charges for services	$ 11,329,883	$ 1,340,261	$ 12,670,144	$ 15,256,164
Miscellaneous	—	3,826	3,826	1,066,761
Total operating revenues	11,329,883	1,344,087	12,673,970	16,322,925
Operating expenses:				
Personal services	3,400,559	762,348	4,162,907	4,157,156
Contractual services	344,422	96,032	440,454	584,396
Utilities	754,107	100,726	854,833	214,812
Repairs and maintenance	747,315	64,617	811,932	1,960,490
Other supplies and expenses	498,213	17,119	515,332	234,445
Insurance claims and expenses	—	—	—	8,004,286
Depreciation	1,163,140	542,049	1,705,189	1,707,872
Total operating expenses	6,907,756	1,582,891	8,490,647	16,863,457
Operating income (loss) ④	4,422,127	(238,804)	4,183,323	(540,532)
Nonoperating revenues (expenses):				
Interest and investment revenue	454,793	146,556	601,349	134,733
Miscellaneous revenue	—	104,925	104,925	20,855
Interest expense	(1,600,830)	(1,166,546)	(2,767,376)	(41,616)
Miscellaneous expense	—	(46,846)	(46,846)	(176,003)
Total nonoperating revenue (expenses)	(1,146,037)	(961,911)	(2,107,948)	(62,031)
⑤ Income (loss) before contributions and transfers	3,276,090	(1,200,715)	2,075,375	(602,563)
Capital contributions	1,645,919	—	1,645,919	18,788
Transfers out ⑥	(290,000)	(211,409)	(501,409)	⑦ (175,033)
Change in net position	4,632,009	(1,412,124)	3,219,885	(758,808)
Total net position—beginning	79,061,578	1,817,824	80,879,402	3,753,499
Total net position—ending ⑧	$ 83,693,587	$ 405,700	$ 84,099,287	$ 2,994,691
				⑨

Figure 8 Notes

① What does and does not constitute **OPERATING REVENUES** and expenses is determined by each government based on guidance in accounting standards. Generally, however, operating revenues are those fees and charges produced by the activity's provision of goods or services to customers, and **OPERATING EXPENSES** are the costs of that provision and of collecting payment from customers.

② If Local City had nonmajor enterprise funds, they would be aggregated in a single column (just as in the governmental funds statements) just before the total enterprise funds column in each of the proprietary funds statements. If your government has nonmajor enterprise funds, it may present them individually in supplementary combining statements in its CAFR.

③ This refers to the note reconciling governmental funds change in fund balances to governmental activities change in net position. (See Figure 26.)

④ This is calculated by subtracting operating expenses from operating revenues. The revenues generated by the operations of the parking facilities and internal service funds were insufficient to finance their operating expenses.

⑤ You can use this line to judge the financial sustainability of the activities. A loss indicates that an activity is not supporting itself and must use resources accumulated from the past or push costs off to the future, or utilize some other financing method to cover costs.

⑥ **CAPITAL CONTRIBUTIONS** are amounts received for purchasing or building capital assets (or the receipt of an actual capital asset). They increase net position but should not be considered with the inflows and outflows associated with a BTA's operations. That is why capital contributions are presented below the income (loss) amount. Similar reasoning leads to the same presentation of transfers, special and extraordinary items, and additions to endowment principal.

⑦ This total transfers-out amount can be found in the statement of activities (Figure 3); the transfer is made to the governmental activities.

⑧ Note the presence of these total net position amounts in the proprietary funds statement of net position (Figure 7) and in both government-wide statements (Figures 1 and 3).

⑨ Enterprise funds and BTAs generally are synonymous. If, however, your government has an enterprise fund that is categorized as a governmental activity in the government-wide statements, then it will provide—at the bottom of this statement or on the next page—a reconciliation of change in enterprise funds net position to change in BTA net position.

WHAT'S AHEAD?

→ ASSESS IF AND HOW CASH NEEDS WERE MET.

→ DETERMINE FUTURE CASH REQUIREMENTS.

Statement of Cash Flows

Penny had a long but fruitful session with her accountant, and she starts to reach for her coat. "Just a second," Bill says, "There's one other thing we ought to look at. It's not only important to make sure your ends meet for the year as a whole. You should be certain you have a healthy cash flow as well. In other words, in addition to having income equal to or higher than your costs for the whole year, you want to be sure you have enough cash on hand to pay your bills as they come due throughout the year."

The purpose of a statement of cash flows is to identify where cash comes from and how it is used. Why track the flow of cash when we already have a statement that tracks revenues and expenses? The implication of the scenario in **Upon further review…a cash flow problem** is that your government can have sufficient resources to cover expenses but not have enough cash to actually pay its bills. It may be equally possible that, despite having a deficit, a government has plenty of cash available. This is the case because not all revenues and expenses involve cash. **(See p. E-11)** When a utility provides water to a customer, it is entitled to payment in return and records revenue in the amount of the value of the water, even if the customer does not pay right away. By the same token, a government can receive and use goods or services and record expenses even though it has not yet paid the vendor.

Types of cash flows—more than just cash in, cash out

The cash flows statement helps you determine *whether* your government's BTAs met their cash needs during the year and *how* they met them. For these purposes, the statement divides cash flows into four categories:

- **OPERATING CASH FLOWS** are generated by and used for basic operating purposes—the provision of services and the production and sale of goods. Examples include cash received for goods and services and cash payments to employees and suppliers. Here you discover whether the operations of the BTAs were self-sufficient on a cash basis—whether they raised enough cash to make their payments. If they did not, the cash they needed to pay the bills came from one of the other three categories. Both the enterprise and internal service funds of Local City had positive operating cash flows.

Figure 9: Net cash provided by the operating activities of Local City's enterprise funds was $1,921,872.

- **NONCAPITAL FINANCING CASH FLOWS** generally relate to (1) borrowing money for purposes other than buying or constructing capital assets and (2) certain grants and subsidies to or from other governments.

  Borrowing for noncapital purposes typically involves the sale of short-term **NOTES** (examples of which are listed in **By the numbers…examples of short-term debt**) to even out cash flow over the year. These types of notes usually are repaid within the year, so the net cash flow for the year (absent the grants and subsidies) should be close to zero. If you notice that the net cash provided by short-term borrowing is growing, it may suggest that your government is having trouble raising via operations the cash it needs to pay bills. This is an alert to look deeper and ask more questions. Alternatively, it may reflect a change in the timing of when your government receives payments on bills or grants, or when it must make payments of its own.

  If your government operates a mass transit system or another activity that relies on subsidies and intergovernmental grants, that financing would be listed here as well.

Figure 9: Net cash used by the noncapital financing activities of Local City's enterprise funds was ($501,409).

- **CAPITAL AND RELATED FINANCING CASH FLOWS** are the product of borrowing and repaying funds for the purposes of purchasing, building, or reconstructing capital assets. They also include cash receipts from selling a capital asset and aid received from other levels of government to finance capital assets.

Figure 9: Net cash used by the capital and related financing activities of Local City's enterprise funds was ($3,691,303).

- **INVESTING CASH FLOWS** relate to the acquisition and sale of investments, and the loaning of money and collection on loans by your government. Virtually all of the cash flows in this category for Local City were the receipt of interest and dividends from its investments; there is only a small amount ($15,684) in the internal service funds related to the sale of investments.

Figure 9. Proprietary Funds Statement of Cash Flows

Local City
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2016

	Business-Type Activities—Enterprise Funds			Governmental Activities—Internal Service Funds
	Water and Sewer	Parking Facilities	Total	
CASH FLOWS FROM OPERATING ACTIVITIES (1)				
Receipts from customers	$ 11,400,200	$ 1,345,292	$ 12,745,492	$ 15,326,343
Payments to suppliers	(2,725,349)	(365,137)	(3,090,486)	(2,812,238)
Payments to employees	(3,360,055)	(750,828)	(4,110,883)	(4,209,688)
Internal activity—payments to other funds	(1,296,768)	—	(1,296,768)	—
Claims paid	—	—	—	(8,482,451)
Other receipts (payments)	(2,325,483)	—	(2,325,483)	1,061,118
Net cash provided by operating activities	1,692,545	229,327	1,921,872	883,084
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES (2)				
Operating subsidies and transfers to other funds	(290,000)	(211,409)	(501,409)	(175,033)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES (3)				
Proceeds from capital debt	4,041,322	8,660,778	12,702,100	—
Capital contributions	1,645,919	—	1,645,919	—
Purchases of capital assets	(4,194,035)	(144,716)	(4,338,751)	(400,086)
Principal paid on capital debt	(2,178,491)	(8,895,000)	(11,073,491)	(954,137)
Interest paid on capital debt	(1,479,708)	(1,166,546)	(2,646,254)	41,616
Other receipts (payments)	—	19,174	19,174	48,184
Net cash (used) by capital and related financing activities	(2,164,993)	(1,526,310)	(3,691,303)	(1,264,423)
CASH FLOWS FROM INVESTING ACTIVITIES (4)				
Proceeds from sales and maturities of investments	—	—	—	15,684
Interest and dividends	454,793	143,747	598,540	129,550
Net cash provided by investing activities	454,793	143,747	598,540	145,234
Net (decrease) in cash and cash equivalents	(307,655)	(1,364,645)	(1,672,300)	(411,138)
Balances—beginning of the year	8,724,308	4,662,734	13,387,042	3,747,237
Balances—end of the year (5)	$ 8,416,653	$ 3,298,089	$ 11,714,742	$ 3,336,099
Reconciliation of operating income (loss) to net cash provided (used) by operating activities: (6)			(7)	
Operating income (loss)	$ 4,422,127	$ (238,804)	$ 4,183,323	$ (540,532)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Cash flows reported in other categories:				
Depreciation expense	1,163,140	542,049	1,705,189	1,707,872
Change in assets and liabilities:				
Receivables, net (8)	653,264	1,205	654,469	31,941
Inventories	2,829	—	2,829	39,790
Accounts and other payables	(297,446)	(86,643)	(384,089)	475,212
Accrued expenses	(4,251,369)	11,520	(4,239,849)	(831,199)
Net cash provided by operating activities (9)	$ 1,692,545	$ 229,327	$ 1,921,872	$ 883,084

Figure 9 Notes

① These cash flows relate to the provision of services and the production and sale of goods.

② These cash flows relate to borrowing or lending money, and transfers, for purposes other than buying or building capital assets. The amounts shown here are transfers from the BTAs to the governmental activities.

③ These cash flows relate to borrowing and repaying debt for purchasing and constructing capital assets, as well as the sale of capital assets.

④ These cash flows predominantly relate to investment earnings and the sale and purchase of investments.

⑤ These amounts tie to the proprietary funds statement of net position in Figure 7. The amount for the Parking Facilities fund includes restricted cash.

⑥ The reconciliation explains the differences between the flows of cash described here and the operating income (loss) reported in the proprietary funds statement of revenues, expenses, and changes in fund net position. (See Figure 8.)

⑦ This is the amount shown as the combination of unrestricted and restricted cash in the BTAs on both the government-wide and proprietary funds statements of net position. (See Figures 1 and 7.)

⑧ These adjustments remove revenues and expenses that did not involve an exchange of cash.

⑨ If your government engaged in any investing, capital, or financing activities that affected assets and liabilities but did not involve cash, it would explain them either on the face of the statement or in a separate schedule. For example, a government might make a one-for-one exchange of capital assets with another entity. This disclosure is not illustrated because Local City had no such activities.

Figure 9: Net cash provided by the investing activities of Local City's enterprise funds was $598,540.

The net cash flows for each of the four categories are totaled near the bottom of the statement of cash flows to determine the overall net increase or decrease in cash. In the case of Local City, there were overall net decreases in cash in both types of proprietary funds. In the manner of the statement of activities, the net change in cash is then added to the beginning cash balance to produce the ending cash balance.

Reconciliation of cash and accrual

The last section of the statement is a reconciliation of the net cash provided (used) by operating activities with the operating income (loss) amounts in the statement of revenues, expenses, and changes in fund net position. (See Figure 8.) The function of this reconciliation is similar to those in the governmental funds statements. In this case, it is intended to explain how the accrual-based results of operations for your government differ from its annual cash flows. As noted earlier, not all revenues and expenses involve cash. Depreciation, for example, is a noncash expense; the reported value of capital assets, rather than cash, is reduced on the statement of net position. There are other expenses, such as using up inventory, that similarly do not involve cash changing hands.

On the inflow side, cash is not the only resource that flows into your government and is considered revenue. Recall the example of delivering a service to a customer who promises to pay later; revenue is

recorded, but rather than cash flowing in, a receivable is created and appears on the statement of net position.

What Can You Do with Statement of Cash Flows Information?

Four closely related potential uses for cash flows statement information have been touched upon:

- *You can assess whether and how cash requirements were met.* The division of cash flows into categories allows you to readily see whether the operations of BTAs generated enough cash on their own to support their needs, or whether other means of raising cash were employed to pay for operations.
- *You can identify sources and uses of cash.* You can use percentage distributions and percentage changes to track where your government's BTAs get their cash and how they use it, and make comparisons over time and with other BTAs. (Refer to common-size ratios in Appendix C.) For example, you might examine the BTAs' use of external financing to balance cash flows, how that has changed during the past decade, and how it compares with similar BTAs' use of external financing.
- *You can get a sense of future cash needs and the ability of your government's BTAs to pay bills as they come due.* Your consideration of the first two issues should give you a good sense of where your BTAs are headed. Is cash harder to come by through operations, or is it easier? Are BTAs becoming less reliant or more dependent on borrowing and asset sales? Your answers to these questions will provide insight into your government's future finances.
- *You can learn about the differences between cash and income.* In the same way that the governmental funds reconciliations were instructive about the differences between change in net position and change in fund balances, the reconciliation in the cash flows statement identifies the differences between cash flows and more broadly measured flows of resources.

Your assessment of these issues will be informative to judgments about the ability of your government's BTAs to manage their cash flows, as well as assist in evaluating your government's overall financial management. You might also use such analyses as part of a determination of whether and how the BTAs' methods for meeting cash flow requirements should change. Should they engage in more or less short-term borrowing? Do bill collection deadlines or the timing of major cash outlays need to be altered?

WHAT'S AHEAD?

→ REVIEW THE STATUS OF RESOURCES, SUCH AS PENSIONS, YOUR GOVERNMENT TAKES CARE OF FOR OTHERS.
→ ANALYZE YOUR GOVERNMENT'S CAPACITY TO MANAGE THESE RESOURCES.

FIDUCIARY FUNDS FINANCIAL STATEMENTS

Your government's **FIDUCIARY FUNDS** account for the activities in which it acts solely as a *fiduciary* for someone else. In other words, your government is acting as the trustee or agent for resources it does not own. The principal example of such an arrangement is an employee pension plan. Your government may be responsible for providing resources to the plan and investing and maintaining those resources,

and may actually operate the benefits distribution aspect of the plan, but the resources in the plan are not available to your government.

Another example of a fiduciary relationship might be a county government that collects property taxes on behalf of the smaller governments within its jurisdiction. The collection of the taxes and subsequent distribution to the town and village governments and public school districts would be accounted for in an **AGENCY FUND**, but at no time would any of those resources be legally available to the county government.

Although the resources in fiduciary funds are not your government's, they may be *yours*. You may find the fiduciary funds statements useful for beginning to ask questions about the financial status of pensions and trusts. Ultimately, the search for answers to those questions should lead you to the additional disclosures your government may make in its notes or RSI (see Part Five), and from there to the separately issued financial statements, if available, for the entities and activities represented by those funds. This is particularly true for public employee retirement systems. In this way, the fiduciary funds statements may be a first step toward identifying crucial issues and raising questions that further research can answer.

By the numbers…classes of fiduciary funds

	Fund Classifications	Examples
Fiduciary Funds report assets that belong to others and that cannot be used to support a government's own programs.	**PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS** account for resources held in trust for employees and beneficiaries of pension and retiree healthcare plans.	A city has a retiree health insurance plan and a public employee retirement fund.
	INVESTMENT TRUST FUNDS track the portion of a government's investment pools that belongs to other governments.	A county manages a short-term investment pool so localities can earn income from spare cash until it is needed.
	PRIVATE-PURPOSE TRUST FUNDS report all other trust arrangements.	A township has an unclaimed funds account where it holds abandoned bank accounts and other property that is expected to be returned to the original owners or their beneficiaries.

	Agency funds contain resources held on a temporary, purely custodial basis.	As a county collects its own property taxes, it also collects for its villages and towns and then passes along their share.

There are many reasons that you might want to examine the fiduciary funds. For instance, if you are a public employee or a union official, you might want information about pension funds. With the data in these statements, as well as the notes and RSI about pensions, you could begin to assess the fiscal health of your pension plan. Are the assets growing or declining? Is the government making its necessary contributions as employer? A government official might have many of the same questions but also might want to look for opportunities for budget savings by reducing annual contributions to the pension plan, or investing the plan's assets differently to increase earnings.

There are two required statements for the fiduciary funds, and both contain the same kind of comprehensive financial information as the government-wide and proprietary funds statements:

- **STATEMENT OF FIDUCIARY NET POSITION** (Figure 10), and
- **STATEMENT OF CHANGES IN FIDUCIARY NET POSITION** (Figure 11).

Figure 10: The fair value of investments of the employee retirement plan was $65,280,187.

Figure 10 Notes

① This column actually is a single fund rather than an aggregation of multiple funds because Local City has just one pension plan.

② If Local City had any investment trusts, they would be aggregated in a column here.

③ Unlike the governmental and enterprise funds, fiduciary funds are aggregated by class of fund rather than individual major funds. In the case of Local City, each fund classification is just a single fund. If your government's fiduciary fund classifications contain multiple funds, it may present supplementary combining statements in its CAFR that disaggregate the individual funds. (See Part Six.)

④ Unlike other assets such as inventories and buildings, most investments are shown in this and other statements at their fair values as of the date of the statement, rather than at their purchase price. (See Part Four.)

⑤ Local City's fiduciary funds do not have any deferred inflows or deferred outflows. If they did, separate sections would appear in the statement of fiduciary net position to report them, just as in the government-wide statement of net position. (See Figure 1.)

⑥ Net position is not categorized as it is in the government-wide and proprietary funds statements, because resources of the fiduciary funds do not belong to the government.

⑦ Agency funds hold resources only temporarily on behalf of others—everything held by these funds is due to be passed along to the governments or other organizations it belongs to. Therefore, assets (plus deferred outflows) equal liabilities (plus deferred inflows) at all times, and there is no residual net position.

⑧ Your government will provide additional information about its pension and OPEB plans in the notes and RSI. See Parts Four and Five for more details.

⑨ You will find statements for pension plans and investment pools in the notes to your government's financial statements if the plans or pools do not issue separate statements of their own.

Figure 10. Statement of Fiduciary Net Position

Local City
Statement of Fiduciary Net Position
Fiduciary Funds
As of December 31, 2016

	① Employee Retirement Plan	② Private-Purpose Trust	③ Agency Fund
ASSETS			
Cash and cash equivalents	$ 1,973	$ 1,250	$ 44,889
Receivables:			
Interest and dividends	508,475	760	—
Other receivables	6,826	—	183,161
Total receivables	515,301	760	183,161
Investments, at fair value: ④			
U.S. government obligations	13,056,037	80,000	—
Municipal bonds	6,528,019	—	—
Corporate bonds	16,320,047	—	—
Corporate stocks	26,112,075	—	—
Other investments	3,264,009	—	—
Total investments	65,280,187	80,000	—
Total assets	65,797,461	82,010	$ 228,050
LIABILITIES ⑤			
Accounts payable	—	1,234	$ —
Refunds payable and others	1,358	—	228,050
Total liabilities	1,358	1,234	$ 228,050
NET POSITION ⑥			⑦
Held in trust for pension benefits and other purposes	$ 65,796,103	$ 80,776	
	⑧	⑨	

Figure 11. Statement of Changes in Fiduciary Net Position

Local City
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended December 31, 2016

	Employee Retirement Plan	Private-Purpose Trust ①
ADDITIONS ②		
Contributions:		
Employer	$ 2,721,341	$ —
Plan members	1,421,233	—
Total contributions	4,142,574	—
Investment earnings:		
Net (decrease) in fair value of investments	(272,522)	—
Interest	2,460,871	4,560
Dividends	1,445,273	—
Total investment earnings	3,633,622	4,560
Less investment expense	216,428	—
Net investment earnings	3,417,194	4,560
Total additions	7,559,768	4,560
DEDUCTIONS ③		
Benefits	2,453,047	3,800
Refunds of contributions	464,691	—
Administrative expenses	87,532	678
Total deductions	3,005,270	4,478
Change in net position	4,554,498	82
Net position—beginning of the year	61,241,605	80,694
Net position—end of the year	$ 65,796,103	$ 80,776

Figure 11 Notes

① Agency funds are not included in this statement because their assets equal their liabilities and thus they do not have residual net position.

② **ADDITIONS** increase the net position of a fiduciary fund, and commonly include contributions from the government and employees to the pension plan and earnings from investments.

③ **DEDUCTIONS** reduce net position and primarily take the form of benefit payments, though they also include general administrative costs.

WHAT'S AHEAD?

→ LOCATE IMPORTANT FINANCIAL INFORMATION ABOUT RELATED PARTS OF YOUR GOVERNMENT.

COMPONENT UNITS

Component units are legally separate organizations, often governmental, for which the elected officials of a primary government are financially accountable. A government's component units often prepare and release to the public their own audited financial statements. But the ultimate financial responsibility that a government bears for its component units requires that they also be reported in statements of the primary government. Furthermore, your government should include as component units other entities that it would be *misleading to exclude*. In other words, if leaving one of these entities out would affect the decisions made by a user of the primary government's financial statements, the entity should be included.

You usually will find component units combined in the government-wide statements of net position and activities (though some governments do show component units individually). You will find additional information regarding the individual component units in one of two forms:

- Combining statements of major component units, located between the fund financial statements and the notes to the financial statements (Figures B-4 and B-5), or
- CONDENSED FINANCIAL STATEMENTS in the notes (Figure B-6).

What Can You Do with Component Unit Information?

The information in the component unit statements is no different from the information in the other statements of net position and statements of activities. Consequently, you can examine the same basic issues about the information in the component unit statements and can ask the same questions about the financial health of component units. Your decision about whether or not to use the component unit statements and the information they contain depends on your individual information needs and the circumstances of your government.

By the numbers...combining versus condensed financial statements

Combining statements show the major component units individually in their own columns. Some component units have funds of their own, just like any other governmental organization; if so, the funds are collapsed into the single column that appears on the combining statement. The nonmajor component units are totaled in a single column; some governments provide a separate combining statement of the nonmajor component units with the supplementary information in their CAFR. (See Part Six.)

If your government reports its component units with combining statements, it presents a *combining statement of net position* (see Figure B-4 in Appendix B) and a *combining statement of activities* (Figure B-5). These statements appear after the funds statements and before the notes to the financial statements.

As their name suggests, condensed statements are a boiled-down version of the complete financial information that component units present in their own audited financial statements. This approach is illustrated in Figure B-6, a note that includes condensed statements of net position and activities. This illustration presents the minimum required information that your government must disclose in condensed statements; your government may present more detailed information.

Upon further review...how component units are shown

Most of the time, your government will show its component units in a separate column in the government-wide financial statements. This is called *discrete presentation*.

However, some component units are so intertwined with your government that they are instead *blended* (combined) with the governmental and business-type activities. Your government will blend a component unit in any of the following four circumstances:

- The component unit's total debt outstanding is expected to be repaid with your government's resources.
- The component unit provides service exclusively or almost exclusively to your government, like an internal service fund.
- The component unit's governing body is substantively the same as the governing body of your government *and* one or both of the following is true:
  - The component unit represents a financial benefit or burden to your government.
  - Your government effectively operates the component unit as if it were a department or program of the government.
- The component unit is a not-for-profit corporation in which your government is the sole corporate member.

As with its discretely presented component units, your government will present individual blended component units that it considers major in combining or condensed financial statements. (See **By the numbers...major component units** on page 64 and **By the numbers...combining versus condensed financial statements** above.)

FUND FINANCIAL STATEMENTS separately report the finances of individual portions of a government—its governmental, proprietary, and fiduciary funds

a **FUND** is an accounting entity created by a government for the purpose of tracking the finances of a particular revenue source, activity, or group of activities; each fund is assigned its own set of assets, liabilities, deferrals, and residual balances

FUND BALANCE is what remains in a governmental fund after liabilities and deferred inflows are subtracted from assets and deferred outflows

OTHER FINANCING SOURCES and **OTHER FINANCING USES** are flows of resources other than revenues and expenditures in the governmental funds that increase and reduce fund balances, respectively

a **STATEMENT OF CASH FLOWS** compares the sources of cash during the year to the purposes for which cash was used

Upon further review...the proper place for nonspendable resources

There are certain resources that are not in a spendable form but should *not* be reported as nonspendable fund balance. If an asset produces inflows—for example, collections of payments on a long-term loan receivable or the proceeds of selling property

that a government is holding temporarily before selling—and those inflows are restricted, committed, or assigned, then the asset should be reported in restricted, committed, or assigned fund balance, respectively, rather than in nonspendable fund balance.

Upon further review...rainy day funds

It is a common practice among governments to set aside a certain amount of money in case of a financial emergency. This set-aside often is called a *rainy day fund,* stabilization fund, contingency fund, or similar name. Most rainy day funds are filled periodically when surplus general resources are available and, for this reason, they do not qualify under accounting standards to be reported as special revenue funds. (They do not contain a restricted or committed revenue source.) Furthermore, most rainy day funds do not really have limitations on when their contents can be spent (in other words, it does not actually have to be raining), so these resources have to be reported in unassigned fund balance.

Your government will, however, disclose in the notes to the financial statements if it has a rainy day fund, how much the fund holds, how resources are deposited into it, and the circumstances under which those resources can be spent. Also, if your government has a formal policy of maintaining a minimum level of fund balance, it will disclose the details of that policy.

By the numbers...reconciling change in fund balance with change in net position

The sample reconciliation in Figure 6 runs through the major explanations of how net change in fund balances differs from change in net position:

- The net change in fund balances is the remainder when expenditures and other outflows are subtracted from revenues and other inflows. Included among expenditures, however, are outflows for capital construction and purchases, which are not included as expenses for governmental activities (recall that the construction or purchase price—historical cost—is reflected as an expense over the years of usefulness of the capital asset, a process called depreciation). These outflows are removed in the reconciliation and replaced with depreciation expense.
- When assets are sold, the governmental funds reflect all of the proceeds from the sale, but the government-wide statements count only the portion that represents the gain (or loss) on the sale, not the original purchase price (which is removed in the reconciliation).
- The government-wide statements generally report a broader, longer term set of inflows and outflows than the governmental funds. The net amount of those flows is added.
- The resources provided by bond sales and other long-term obligations, and their related liabilities, are treated differently in the two types of financial statements. Those resources are removed.
- Internal service funds are included with the proprietary funds, not the governmental funds. However, because they are typically considered a part of the governmental activities in the government-wide statements, they need to be added in.

Upon further review...a cash flow problem

A utility billed customers for $100,000 of water during the year—these are its total revenues. It also had expenses of $95,000. On the whole, then, the utility had a surplus of $5,000 that increased net position. Unfortunately, only 80 percent of the utility's customers paid their bills during the year, while all of the expenses were due to be paid during the year. Despite balancing revenues and expenses, the utility had a *cash flow deficit* of $15,000 (cash inflows of $80,000 minus outflows of $95,000). It would be unusual for an entity to have enough cash on hand at the beginning of the year to pay *all* of its bills during the year. Consequently, (1) bills may go unpaid, (2) other assets may be sold to raise the necessary cash, or (3) short-term notes may be sold to cover the short-term cash flow problem, which the utility may or may not be able to repay.

By the numbers...examples of short-term debt

BOND ANTICIPATION NOTES (BANs)—issued in advance of receiving proceeds from the sale of long-term bonds

REVENUE ANTICIPATION NOTES (RANs)—issued in advance of cash receipts

TAX ANTICIPATION NOTES (TANs)—issued in advance of expected tax receipts

TAX AND REVENUE ANTICIPATION NOTES (TRANs)—issued in advance of expected receipts from a combination of tax and nontax revenues

By the numbers…major component units

The determination of which component units are "major" is less objective than the percentage method used for selecting the major governmental and enterprise funds.

Your government has the option to call governmental and enterprise funds major even if they do not meet the percentage criteria, as long as they are significant to your government and its constituents. The decision for component units is entirely discretionary: Your government decides if a component unit is major based on the significance of its relationship with the primary government. The decision may be based on the significance of the transactions between the primary government and the component unit, a significant financial relationship between the two, or the essentiality to financial statement users of the component unit. As with major governmental and enterprise funds, if there is component unit information that you wish to see included individually on the statement, your government has the ability to comply with your wishes (though it is not required to).

PART FOUR

NOTES TO THE FINANCIAL STATEMENTS

WHAT'S AHEAD?

→ OBTAIN MORE DETAILS ABOUT THE AMOUNTS IN YOUR GOVERNMENT'S FINANCIAL STATEMENTS, SUCH AS CAPITAL ASSETS, INVESTMENTS, AND LONG-TERM LIABILITIES.

→ LEARN ABOUT THE RETIREMENT BENEFITS YOUR GOVERNMENT PROVIDES TO ITS EMPLOYEES AND HOW THOSE BENEFITS ARE FINANCED.

→ TAKE A CLOSER LOOK AT THE RELATIONSHIP BETWEEN GOVERNMENTAL FUNDS AND GOVERNMENT-WIDE STATEMENTS.

Note disclosures provide additional information that is *essential* for understanding a government's financial position and its inflows and outflows of resources. What does that mean? For one thing, it means you should not consider them to be scholarly footnotes that only the most die-hard user of financial statements would care about. The notes contain vital information that is not included in the financial statements or that is aggregated within amounts shown in the statements. That information is necessary for you to gain a complete view of your government's finances. The notes are an integral part of the statements, not an appendage to them.

This part of the guide covers some of the major note disclosures your government presents. However, they are only a few of the dozens of disclosures your government may be required to make. A fairly comprehensive list can be found in Figure B-33 of Appendix B. Specifically, Part Four will address disclosures regarding:

- Significant accounting policies
- Investments
- Receivables
- Capital assets
- Long-term liabilities
- Pensions and retiree health insurance
- Contingent liabilities
- Interfund balances and transfers
- Reconciliations of governmental activities and governmental funds
- Tax abatements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The first note disclosure following the financial statements usually is the **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES,** which explains the general accounting methods and assumptions employed by your

government when recording financial information and reporting that information in its financial statements. (Figure B-2 contains illustrative excerpts from the note.) Additional accounting policies are explained throughout the notes to the financial statements, accompanying the note disclosure of the relevant information governed by those policies. The information that is or is not included in the financial statements is determined by the methods used to record financial information and to prepare the financial statements. While it is not necessarily important for you, as a user, to understand the minutiae of financial statement preparation, it is essential for you to have a basic understanding of the kinds of information each statement contains so that you can assess that information appropriately.

This note is particularly useful when the accounting standards give your government a choice between two or more approaches—the note tells you which option your government has selected. For example, governments may select between two or more options for inventory accounting, depreciation methods, and estimating the historical cost of capital assets, as well as many others.

By the numbers...selected disclosures in the summary of significant accounting policies note lists some of the major topics that are included in this note. Each item's number appears in the sample note in Figure B-2 to identify its corresponding discussion.

WHAT'S AHEAD?

→ FIND OUT HOW YOUR GOVERNMENT INVESTS ITS MONEY.

→ IDENTIFY THE RISKS OF LOSS YOUR GOVERNMENT'S INVESTMENTS FACE.

INVESTMENTS

If your government has liquid resources available that it will not need immediately for paying bills, it may make good financial sense to invest those resources in order to get a better return than typically can be earned on a bank deposit (to the extent that laws and regulations allow). However, the greater potential rewards of investments usually go hand-in-hand with greater potential risks. Depending on the type of investments it has, your government may be exposed to a variety of risks that its investments will not pay out the *amounts* expected or *when* expected or, even worse, that some of or the entire amount invested by your government could be lost.

For instance, the longer the maturity on an investment, the greater the rate of return the investment typically offers. (In this context, *maturity* means the future date when the investment is expected to pay off.) However, the longer the period until maturity, the greater the opportunity for market conditions to change in a way that adversely affects the value of your government's investments. Furthermore, the longer the maturity, the greater the impact that a given change in market interest rates has on value. For instance, an increase in interest rates of 1 percentage point has a much bigger adverse impact on an investment that matures in 2 years than one that matures in 2 months. You need information about the investments reported in your government's statement of net position in order to assess their inherent risks.

The investments note disclosures present your government's investments that are exposed to certain risks by type, along with their **FAIR VALUE** or **AMORTIZED COST** as of the date of the financial statements. (See Figure 12.) Governments may use amortized cost to report interest-earning investments that can or will be liquidated (converted to cash) in the short run—those that will come due in less than one year and **MONEY MARKET INVESTMENTS**. (See **Upon further review…amortized cost.**) Virtually all other investments are reported using fair value. Investments tend to be aggregated in the financial statements, so this detail can tell you a lot about *what kinds of investments your government owns.*

Figure 12. Investments Note Disclosure

As of December 31, 2016, Gretatown City had the following recurring fair value measurements (amounts are in thousands):

①

		Fair Value Measurements Using:		
Investment Type	Fair Value	Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasuries	$ 112,316	$ —	$ 112,316	$ —
GNMA	23,614	—	23,614	—
ABC Corp. commercial paper	50,697	—	50,697	—
Corporate bonds	35,493	—	35,493	—
Residential mortgage-backed securities	22,548	—	—	22,548
Mutual bond fund	75,420	75,420	—	—
Total	$ 320,088	$ 75,420	$ 222,120	$ 22,548

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Residential mortgage-backed securities classified in Level 3 are valued using discounted cash flow techniques.

The investments had the following maturities:

②

		Investment Maturities (in years)			
Investment Type	Fair Value	Less Than 1	1–5	6–10	More Than 10
U.S. Treasuries	$ 112,316	$ 77,000	$ 20,316	$ 15,000	$ —
GNMA	23,614	—	15,000 *	8,614	—
ABC Corp. commercial paper	50,697	50,697	—	—	—
Corporate bonds	35,493	—	10,000	20,493	5,000
Residential mortgage-backed securities	22,548	—	22,548	—	—
Mutual bond fund	75,420	75,420	—	—	—
Total	$ 320,088	$ 203,117	$ 67,864	$ 44,107	$ 5,000

*These bonds mature July 2020 but are callable July 2018.

Interest Rate Risk. As a means of limiting its exposure to fair value losses resulting from rising interest rates, the City's investment policy limits at least half of the City's investment portfolio to maturities of less than one year. Investment maturities are limited as follows:

③

Maturity	Maximum Investment
1 to 5 years	30%
6 to 10 years	15%
More than 10 years	5%

Because the mutual bond fund had a weighted average maturity of 9.5 months as of December 31, 2016, it was presented as an investment with a maturity of less than 1 year.

Credit Risk. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). It is the City's policy to limit its investments in these investment types to the top rating issued by NRSROs. As of December 31, 2016, the City invested in commercial paper that was rated A1 by Standard & Poor's, F-1 by Fitch Ratings, and P-1 by Moody's Investors Service. The City invested in corporate bonds that were rated AAA by Standard & Poor's and Fitch Ratings, and Aaa by Moody's Investors Service. The City invested in mutual bond funds that were rated AAAf by Standard & Poor's and Aaa by Moody's Investors Service.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Of the City's $15 million investment in repurchase agreements, $2 million of underlying securities are held by the investment's counterparty, but not in the name of the City. The City's investment policy limits holding of securities by counterparties to no more than $5 million.

④ ⑤

Concentration of Credit Risk. The City places no limit on the amount it may invest in any one issuer. The City's investment in ABC commercial paper accounted for 15.84 percent of the City's total investments.

Figure 12 Notes

① NOTE: This is a different government from Local City and, therefore, this illustration does not tie to the financial statements.

② This is an example of using segmented time distribution to disclose exposure to interest rate risk.

③ You can tell this government is within its state-imposed limits: The investments with maturities between 1 and 5 years represent 21.2 percent of its total investments ([$67,864 ÷ $320,088] × 100); those between 6 and 10 years are 13.8 percent ([$44,107 ÷ $320,088] × 100); and those over 10 years are 1.6 percent ([$5,000 ÷ $320,088] × 100).

④ This government does not have a policy for managing concentration of credit risk and, therefore, states that fact.

⑤ This government is not exposed to foreign currency risk and, therefore, does not make a disclosure for this type of risk.

The notes also should disclose basic descriptive information about your government's investments:

- Your government's policy for determining which qualifying investments, if any, are reported at amortized cost instead of fair value.
- If your government has investments in an **EXTERNAL INVESTMENT POOL**, it discloses:
  - The regulatory oversight for the pool, if any, if the pool is not registered with the Securities and Exchange Commission (SEC), and whether there is a difference between the fair value of the investments and the value of your government's shares in the pool
  - Whether involvement in the external investment pool is involuntary (for example, state law might require that, if your government invests, it does so through the state-sponsored pool)
  - The methods and assumptions made to estimate fair value if your government cannot obtain from the pool the information needed to determine fair value, and
  - The existence of any limitations on the ability of your government to withdraw a part or all of its investment in the pool (for instance, if your government is required to provide advance notice, or if there is a maximum amount that may be withdrawn at any time).
- Income from the investments of one fund that is assigned to another fund.
- The types of investments that your government is legally or contractually allowed to purchase, if there were any violations of those legal or contractual provisions, and actions your government took to address the violations.

Where Fair Values Come From

The fair value of many of your government's investments is easily determined because they are investments that are bought and sold regularly in active markets. Recently issued U.S. Treasury notes—referred to as "on-the-run" Treasuries—are an example of an investment whose fair value can be determined by anyone simply by checking their prices online. This type of valuation information is referred to as "Level 1 inputs" and is considered highly reliable because it is *observable*—in other words, you can find the information yourself and verify its accuracy.

However, some of your government's investments may not be the type that are traded on public exchanges, or they may not be traded frequently. Each time the federal government sells new U.S.

Treasury notes, the previously issued Treasuries become "off-the-run" and are not bought and sold as often as when they were on-the-run. To measure the fair value of investments that are not traded publicly and frequently, your government may need to look at the prices at which *similar* investments have been sold. Or it may need to develop a value by corroborating two or more sources of observable information. These types of fair values are said to be based on Level 2 inputs, which still are observable information but not as easily verified by you and others outside the government's financial management.

Still other investments your government may have are valued using Level 3 inputs. These fair values are based on *unobservable* information, meaning that they are developed internally by your government using the best data available to it but which you cannot independently verify. Your government may use a private company that specializes in measuring fair value, sometimes called a "pricing service." Consequently, these types of fair values are considered relatively less reliable than fair values based on Level 1 or Level 2 inputs. Because you have little or no access to information about the investment, you cannot assess on your own the reliability of the values placed on investments in it.

For some investments such as limited partnerships and hedge funds, there may not be any inputs, regardless of level, with which your government can determine fair value. Instead, your government obtains information from the entity that it has invested in regarding the value of each ownership share in the entity. This often is called *net asset value (NAV) per share.* Your government essentially calculates the value of its investment in the fund by multiplying the NAV per share by the number of shares it owns.

Fair value disclosures

To assist you in understanding the nature of the fair values placed on its investments and how they were determined, your government discloses anything measured at fair value (there may be items other than investments) by the level of inputs used. You can see in Figure 12 that all of the sample government's mutual bond fund investments are in the Level 1 column. By contrast, all of its investments in corporate bonds have fair values based on Level 2 inputs.

If your government has investments with a value based on the NAV per share (or an equivalent measure), it discloses additional information to help you understand the nature of the investment, the risks associated with it, and the possibility that it could be sold for an amount that is not the same as the fair value. For example, your government's note would include descriptions of the following: (1) the investment strategy of the entity in which it has invested, (2) the terms and conditions under which it can redeem its investment, (3) circumstances under which it would not be allowed to redeem its investment, (4) when it would be allowed to redeem investments that currently are not allowed to be redeemed, and (5) any other significant restrictions on its ability to sell the investments. A sample disclosure might look like this:

Multi-strategy hedge funds. The state invests in 15 hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The hedge funds' composite portfolio for this type includes investments in approximately 50 percent U.S. common stocks, 30 percent global real estate projects, and 20 percent arbitrage investments. The fair values of the investments in this type have been determined using the NAV per share of the investments. Investments representing approximately 15 percent of the value of the investments in this type cannot be redeemed because the investments include restrictions that do not allow for redemption in the first year after acquisition. The remaining restriction period for these investments ranged from four to six months at December 31, 2016.

Exposure to Risks of Loss

Your government's notes also reveal whether its investments are exposed to any of five types of risk of loss:

- Overall credit risk
- Custodial credit risk
- Concentration of credit risk
- Foreign currency risk
- Interest rate risk.

For any of those risks that your government is exposed to, it discloses its policy for addressing the risk (or states that it has no policy). Notice in Figure 12 that each of the risk disclosures is accompanied by a policy description.Observe as well that two of the five types of risk are not mentioned, which means that the government's investments are not exposed to those risks.

OVERALL CREDIT RISK is the chance that an issuer of an investment will not fulfill its obligations; for instance, the possibility that your government may not receive the payments it is due from a corporate bond. Obligations of the U.S. federal government or guaranteed by the U.S. federal government are not considered to be exposed to overall credit risk. Your government discloses overall credit risk by reporting the credit quality ratings of its debt investments as determined by the rating agencies. The investments in mutual bond funds of the city in Figure 12 were rated AAAf by one rating agency and Aaa by another. High-credit-quality ratings such as these suggest the risk that the investments will not pay off is relatively low.

CUSTODIAL CREDIT RISK is the possibility that investments might be lost if another party holding the investments goes out of business. Your government's investments are *not* considered exposed to this risk if they are (1) insured or (2) collateralized with securities held by your government or in your government's name by a third-party agent representing the interests of the government (in other words, *not* the party holding the investments but potentially that party's trust department). When investments are uninsured and held by a counterparty or a counterparty's trust department or agent (but not in the government's name), your government discloses the amounts of those investments. Your government's investments in mutual funds and external investment pools are not exposed to this type of risk, however, because they do not involve an actual individual security but, rather, a share of the total investments made by the fund or pool as a whole.

Your government's potential losses from credit risk are heightened if a significant portion of its resources are invested with a single issuer. If that issuer did not make good on its obligation to the government, the impact could be particularly damaging. Therefore, your government reports its **CONCENTRATION OF CREDIT RISK** by disclosing, by amount and issuer, investments in any single issuer that represent more than 5 percent of the total investments in the column they are reported in. (For these purposes, governments do not have to report investments in obligations of the U.S. federal government or guaranteed by the U.S. federal government, or investments in mutual funds, external investment pools, or other pooled investments.)

FOREIGN CURRENCY RISK is the chance that changes in exchange rates will adversely affect the fair value of your government's investments. Your government discloses the amounts, in U.S. dollars, of investments exposed to foreign currency risk, organized by currency denomination and investment type.

The possibility that changes in interest rates will reduce the fair value of your government's investments is called **INTEREST RATE RISK.** As mentioned before, the longer the period until an investment matures, the greater the negative impact that changes in interest rates can have on fair value. Your government may use any of five prescribed methods for reporting interest rate risk (based on how they actually manage interest rate risk), disclosing any assumptions that were required.

If your government has few investments, it might use *specific identification* to list each of the investments and their maturity dates individually. A *segmented time distribution* shows the total fair value of investments maturing during a given period. For instance, Figure 12 divides fair value into 4 periods—less than 1 year, 1 to 5 years, 6 to 10 years, and more than 10 years.

The *weighted average maturity* of a type of investment is calculated by multiplying each individual investment's fair value by the amount of time until maturity (in years or months), then adding the individual calculations and dividing them by total fair value for the investment type. This produces an average maturity that takes into account the size of individual investments relative to the total. *Duration* is another approach to calculating aggregate measures of the time to maturity. Duration essentially calculates weighted average maturities for each of the payments made until the investment's maturity, rather than an average of the fair values. Duration is an indicator of volatility—the higher the duration, the greater the loss of fair value as interest rates rise. Some governments may use a *simulation model* to estimate the impact that potential changes in interest rates would have on fair value. For example, the disclosure might show estimated fair values if interest rates were to rise 1, 2, or 3 percentage points.

Your government pays particular attention to investments that are highly sensitive to interest rate risk—in other words, small changes in interest rates result in large changes in fair value. It will disclose in the notes the fair value of highly sensitive investments and the terms that cause them to be sensitive. For instance, an investment might include a multiplier—say, 1.25 times an accepted interest rate index—that amplifies the effect of changes in interest rates; for any change in interest rates, the impact on the fair value of this investment will be 25 percent greater.

Repurchase Agreements and Reverse Repurchase Agreements

Your government may engage in an investment called a **REPURCHASE AGREEMENT.** This involves your government providing cash to an investment firm or other financial institution and receiving U.S. government securities in exchange. The firm promises to repay the cash with interest in exchange for the return of the securities. Governments engage in "repos" because they tend to be short term but offer a relatively high return, and they generally involve U.S. government securities, which are high-quality investments. Repurchase agreements are distinguished from other types of investments in the required note disclosures for investments, including those identifying potential risks.

In a **REVERSE REPURCHASE AGREEMENT,** the roles are switched: Your government provides the securities in exchange for cash from the financial firm, which your government returns with interest at a later date upon return of the securities. They actually are two sides of the same transaction—a repo agreement from your government's perspective is a reverse repo agreement from the perspective of the firm, and vice versa.

There are risks inherent in a reverse repo. One is a credit risk that the securities transferred to the financial firm will not be returned; your government would lose the difference, if any, in the value between the securities and the cash received from the firm. Another risk is that the value of the securities diminishes before they are repurchased. A third risk relates to how your government uses the cash it receives. Ideally, it invests the cash in securities that (1) provide a greater return than the amount it is obligated to pay and (2) pay off in time to make the payments to the financial firm. There are risks, however, that the return will not be as great as expected or that the securities purchased with the cash will not mature in a timely fashion.

If your government participates in any reverse repurchase agreements, its investment note disclosure provides information you can use to assess these risks your government is exposed to. First, your government's note compares the amount of its obligations related to the agreement with the fair value of the securities underlying the agreements. Second, if your government is committed as of the date of the financial statements to repurchasing securities, it discloses the fair value of the securities and the terms of the agreement. Third, if a financial firm defaults on an agreement, your government discloses the resulting losses, as well as any amounts recovered from losses in prior years. Finally, if your government invests the proceeds of the reverse repurchase agreement, it discloses whether the maturities of those investments are matched to the maturities of the agreement. A typical reverse repurchase agreement disclosure might look like Figure 13:

Figure 13. Reverse Repurchase Agreement Note Disclosure

Reverse Repurchase Agreements. State statutes permit Ragan County to enter into reverse repurchase agreements. The credit exposure at year-end related to these agreements was $1,539,000. All sales of investments under reverse repurchase agreements are for fixed terms. In investing the proceeds of reverse repurchase agreements, county policy is for the term to maturity of the investment to be the same as the term of the reverse repurchase agreement. Such matching existed at year-end.

Securities Lending

A **SECURITIES LENDING** transaction involves your government transferring securities to a financial firm or other party in exchange for collateral (which may be cash, securities, or letters of credit), while simultaneously agreeing to return the collateral for the same securities in the future. Securities lending differs from reverse repurchase agreements in that the latter involves the actual *sale* and *repurchase* of securities. In the midst of the agreement, your government's financial statements report only the amounts received under the agreement (or the investments made with the amounts received) as assets, and not the securities, because the securities have been sold to the financial firm. Under securities lending, however, the securities have been *borrowed* from your government, so its financial statements continue to report the securities as assets, *as well as* the collateral provided by the financial firm (if that collateral is cash or securities that your government has the right to pledge or sell in another transaction) and a liability to the financial firm.

The basic descriptive note disclosures made for other investments also are made for securities lending transactions—the authority to engage in these activities, significant violations and actions to address them, exposure to custodial credit risk, classification by type of investment, and so on. Governments also describe their securities lending transactions, including:

- The types of securities involved
- The types of collateral received and whether the collateral can be pledged or sold
- The amount by which the value of the collateral is required to exceed the value of the securities
- The degree to which the borrower of the securities protects the government against loss.

The disclosure should report the fair values of the underlying securities as of the date of the financial statements, as well as the amounts reported for those securities in the financial statements if they differ from the fair value. (See Figure 14.)

Figure 14. Securities Lending Note Disclosure

Securities Lending Transactions. State statutes and board of trustees investment policies permit the Pelham County Pension System to use investments of the two plans to enter into securities lending transactions—loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The system's securities custodians are agents in lending the plans' domestic securities for cash collateral of 102 percent and international securities for cash collateral of 105 percent. At year-end, the system has no credit risk exposure to borrowers because the amounts the system owes the borrowers exceed the amounts the borrowers owe the system. Contracts with the lending agents require them to indemnify the system 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.

All securities loans can be terminated on demand by either the system or the borrower, although the average term of the loans is one week. In lending international securities, the term to maturity of the securities loans is matched with the term to maturity of the investment of the cash collateral by investing only in overnight repurchase agreements. Such matching existed at year-end. In lending domestic securities, cash collateral is invested in the lending agent's short-term investment pool, which at year-end had a weighted average maturity of 28 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.

Custodial Credit Risk. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the system will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Consistent with the system's securities lending policy, $226,050,000 was held by the counterparty that was acting as the system's agent in securities lending transactions.

Your government also makes note disclosures similar to those for reverse repurchase agreements, including:

- Whether the maturities of investments made with collateral cash generally match the maturities of the loaned securities
- The degree of credit risk exposure resulting from the amounts the borrower of the securities owes your government being greater than the amount your government owes the borrower
- Your government's losses, as well as any amounts recovered from losses in prior years, related to a borrower of your government's securities defaulting.

What Can You Do with Information about Investments?

Because cash deposits tend to earn lower interest, some governments invest much of their idle cash to earn more income until the resources are needed. If there is a risk that your government may not be able to convert those investments into cash for the expected amount when necessary, you should know about it. These notes to the financial statements help you to assess *whether your government's investments are exposed to some of the risks of loss*. What are the chances the issuer of an investment will not make good when your government needs its money back? Is your government heavily invested in one or a few types of

investments or issuers that are exposed to greater risk than is typical? If interest rates go up, what will happen to the value of your government's investments and therefore to the amount of money it will get if it needs to sell them? How long will it be before these investments pay off?

The disclosures also provide important, basic details you are not likely to see in the financial statements. What kinds of investments does your government have? Is it more heavily invested in one kind of investment or another? What kind of investing is your government allowed to do?

WHAT'S AHEAD?

→ SEE WHO OWES MONEY TO YOUR GOVERNMENT.

→ IDENTIFY RECEIVABLES THAT ARE NOT EXPECTED TO BE RECEIVED WITHIN A YEAR.

RECEIVABLES

In order to keep the financial statements orderly and readable, your government may aggregate certain similar items, such as different types of receivables—taxes receivable, fines receivable, interest receivable, and due from other governments, for instance. If it does so, your government will prepare a note disclosure with additional information about the significant components of that receivables amount. (See Figure 15.)

Figure 15: Amounts due from other governments to the gas tax fund as of June 30, 2016, were $1,841,000.

Your government is not required to present a note disclosure that looks like the table in Figure 15. Smaller, less complex governments sometimes present a narrative description of the types of receivables they have and the percentage those receivables represent of the amount shown in the financial statements. That narrative might look like this:

> Receivables in the general fund are 48 percent property taxes receivable, 28 percent intergovernmental receivables, and 24 percent other receivables. Receivables in the housing program fund consist principally of notes and liens receivable, 90 percent of which are not scheduled to be collected in the subsequent year. The remaining receivables in the nonmajor governmental funds are primarily intergovernmental receivables. Receivables in the water and sewer fund are 63 percent accounts receivable and 37 percent due from other governments.

However, many governments present the information in the tabular form shown in Figure 15. The illustration shows the different types of receivables for this government—accounts receivable, taxes receivable, special assessments receivable, due from other governments, and other accounts receivable—arrayed across the top of the table. The list in the left-hand column includes the government's funds. Thereby, for each fund you can see the different types of receivables it contains.

What Can You Do with Information about Receivables?

The first thing you may notice in this note is that governments have a lot of different kinds of receivables. Are all accounts receivable created equal? Perhaps not. Some receivables are collected at specific times during the year. For example, property tax receivables may be collected at the beginning and middle of the year. Some receivables may be collected more quickly than others. These facts could be important to you if you are interested in your government's liquidity—its ability to come up with the cash it needs to meet its payments in the short run. Such an assessment would involve a comparison of the resources your government will have available over the coming year with the bills that will come due during that time; some people look at even shorter periods—one month, three months, or six months.

Examining receivable balances over time may help you to understand whether your government's ability to collect its receivables is improving or declining. This might involve comparing a particular type of receivable with the relevant revenue source—for instance, you might divide the taxes receivable for your government's general fund by total general fund tax revenues. (See **FINANCIAL EFFICIENCY RATIOS** in Appendix C.) If the percentage is getting larger over time, it may mean your government is having more difficulty collecting its taxes; a declining percentage may mean your government is collecting its taxes more rapidly. In either case, you will want to explore the issue further before coming to a conclusion. Changes in your government's ability to collect monies it is owed will have a bearing on its liquidity—the quicker it collects, the more cash it has available to pay bills. If, on the other hand, your government is having more difficulty collecting on its receivables, it may have to borrow money in the short run (or increase the amount it already borrows short term) in order to pay its bills. That means higher costs for your government.

Receivables That Will Not Be Collected within a Year

If significant receivable amounts are not expected to be collected during the next year, your government will identify them in this note disclosure. Again, this is important to know if you are interested in your government's ability to pay its bills in the short run. If your government tells you in this note that a certain receivable will not be collected until more than a year later, then you know that you cannot include it as a resource that can be used to pay bills this year. If you did not have this note, you would not have known that a portion of the receivable amount in the financial statements would not be available for at least a year.

The government in Figure 15 meets this requirement by showing a separate line for "amounts not scheduled for collection during the subsequent year." This line reports that $1,650,000 of special assessments receivable will not be collected in the year after the financial statement date. Rather than including such a line, some governments may discuss this issue in narrative form, for example, "The only receivables not expected to be collected within 1 year are $10 million of notes and liens receivable in the housing program funds."

WHAT'S AHEAD?

SEE WHAT KINDS OF CAPITAL ASSETS YOUR GOVERNMENT HAS.

TRACK HOW CAPITAL ASSETS HAVE CHANGED OVER TIME.

CAPITAL ASSETS

Your government presents a note disclosure that details how its capital assets changed during the year covered by the financial report. (See Figure 16.) The first thing you should notice is that there is a lot more information here than the statement of net position. (Refer to Figure 1 in Part Two.) Your government may include only two lines for capital assets in the financial statement (those that are depreciated and those that are not), but it is required to show major classes of capital assets, such as land, buildings, infrastructure, and equipment in this note. The note also shows capital assets related to governmental activities separately from those related to BTAs. Finally, assets that are not subject to depreciation—land, infrastructure that is reported using the modified approach, and construction in progress—are reported separately from capital assets that are depreciated.

Figure 15. Receivables Note Disclosure

Receivables, net of doubtful accounts, at June 30, 2016, for the Town of Lakeville Green were as follows:

①

	Accounts	Taxes	Special Assessments	Due from Other Governments	Other	Total Receivables
Governmental activities:						
General	$ 10,935,000	$ 4,457,000	$ —	$ 5,004,000	$ 235,000	$ 20,631,000
Utilities services tax	2,676,000	—	1,990,000	—	—	4,666,000
Gas tax	347,000	—	22,000	1,841,000	—	2,210,000
Other governmental	141,000	—	—	653,000	182,000	976,000
Internal service	215,000	—	—	—	—	215,000
Total—governmental activities	$ 14,314,000	$ 4,457,000	$ 2,012,000	$ 7,498,000	$ 417,000	$ 28,698,000
Amounts not scheduled for collection during the subsequent year	$ —	$ —	$ 1,650,000	$ —	$ —	$ 1,650,000
Business-type activities:						
Wastewater	$ 3,789,000	$ —	$ —	$ 1,825,000	$ 323,000	$ 5,937,000
Solid waste	1,199,000	—	—	—	—	1,199,000
Other proprietary	435,000	—	—	—	89,000	524,000
Total—business-type activities	$ 5,423,000	$ —	$ —	$ 1,825,000	$ 412,000	$ 7,660,000

Figure 15 Note

① NOTE: This is a different government from Local City and, therefore, this illustration does not tie to the financial statements.

Figure 16: The amount of equipment added for governmental activities during the year ended December 31, 2016, was $1,544,000.

The capital assets note contains four columns of information. The first column presents 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, but *for the end of the year* covered by the financial statements. The totals in the right-hand column are the same as those shown in the 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 to your government's capital assets through purchases, the completion of 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 retirements column, too. Lastly, the column includes "reclassified" amounts—shifting the value of an asset from construction in progress to one of the other lines (such as buildings or infrastructure) generally when the asset is put into operation.

Figure 16. Capital Assets Note Disclosure

Note 2—Disclosure of Information about Capital Assets

Capital asset balances and activity for the year ended December 31, 2016, was as follows (in thousands): ①

	② Primary Government			
	Beginning Balance	Additions	③ Retirements/ Reclassifications	Ending Balance
Governmental activities:				
Capital assets that are *not* depreciated:				
Land	$ 29,484	$ 2,020	$ (4,358)	$ 27,146
Construction in progress	2,881	768	(2,326)	1,323
Total	32,365	2,788	(6,684)	28,469
Capital assets that *are* depreciated: ④				
Buildings and improvements	39,961	734	—	40,695
Equipment	32,110	1,544	⑤ (1,514)	32,140
Infrastructure	92,594	14,378	—	106,972
Total	164,665	16,656	(1,514)	179,807
Less accumulated depreciation:				
Buildings and improvements	(10,358)	(691)	—	(11,049)
Equipment	(9,247)	(2,676)	⑤ 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	129,759	12,269	(474)	141,554
Governmental activities capital assets, net	$ 162,124	$ 15,057	$ (7,158)	$ 170,023 ⑥
Business-type activities:				
Land	$ 3,691	$ 145	$ —	$ 3,836
Distribution and collection systems	35,522	3,838	—	39,360
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: ⑦				
Distribution and collection systems	(7,654)	(897)	—	(8,551)
Buildings and equipment	(11,789)	(808)	32	(12,565)
Total business-type activities capital assets, net	$ 147,595	$ 7,105	$ (3,311)	$ 151,389 ⑧

* Depreciation expense was charged to governmental functions as follows: ⑨

General government	$ 275
Public safety	330
Public works, including 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 City's internal service funds is charged to the various functions based on their usage of the assets	1,708
Total depreciation expense	$ 4,387

Figure 16 Notes

① NOTE: These amounts have been rounded to thousands of dollars, whereas they are shown in whole dollars in Figure 1.

② The amounts in the beginning balance column come from the prior year's financial statements.

③ Additions typically are the cost of assets acquired, constructed, or rebuilt during the year, and the year's depreciation expenses (and new construction not yet completed). 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).

④ Your government may show as much of this detail for governmental activities and BTAs on the face of the statement of net position as it would like.

⑤ Note that not only is the historical cost of the retired equipment removed from the beginning balance but also the accumulated depreciation on that equipment.

⑥ This amount appears in Figure 1 (though not rounded).

⑦ Historical cost and accumulated depreciation also may be shown separately on the statement of net position (Figure 1 shows them already added together).

⑧ This amount (when not rounded), plus restricted cash, equals the total noncurrent assets amount shown for BTAs in Figure 1.

⑨ Depreciation is allocated among the functional and programmatic expenses in the statement of activities. (See Figure 3.)

Because depreciation expense is included in each function or program reported in the statement of activities (Figure 3 in Part Two), you cannot tell how much depreciation was for the year. The additions column includes the depreciation expense for each kind of capital asset and a total. The bottom part of the note then shows how depreciation expense was allocated among the expense categories in the statement of activities.

What Can You Do with Capital Asset Information?

Comparing the overall net value of capital assets shown in the statement of net position with the previous year does not provide a complete or detailed picture of the extent of your government's current and long-term investment in its physical plant, nor of the pace of depreciation. This note disclosure includes information that can help you understand what types of capital assets your government has and the portion of the amount shown in the financial statements that each represents. This note provides information not just about how much capital assets increased or decreased *overall* during the year but also about what caused that change: How much did your government add to its capital assets through construction and other means? Were capital assets removed from your government's inventory? Is your government's physical plant increasing or decreasing in value? Are specific types of capital assets increasing or decreasing faster than others?

The way the information is presented allows you to examine governmental activities and BTAs separately. The capital assets of governmental activities and BTAs may be maintained differently, which might be reflected in the degree to which each has been depreciated. Comparing accumulated

depreciation with the original or historical cost of capital assets can give you a general sense of how old the assets are as a group. For instance, if accumulated depreciation on your government's equipment were greater than half the original cost, then you would know that the equipment, on average, has less than half its useful life left. In this way, you can make broad judgments about the general need to rehabilitate your government's capital assets or to purchase or construct new ones. To know for certain, you would need to obtain additional information, but such a comparison could be a useful signal.

Comparing the ratio of net capital asset value divided by original cost over time may be an indicator of whether your government is investing sufficiently in its capital assets to keep pace with their physical deterioration. (See financial efficiency ratios in Appendix C.) Ideally, this would be done separately for the major classes of capital assets. That ratio for Local City's buildings was 74.1 percent at the start of 2016 and 72.8 percent at the end of the year. In other words, the average life remaining on the city's buildings got shorter. The change in this indicator over a period of 10 years or more would offer significant insight into whether your government is gaining or losing ground in maintaining the useful lives of its capital assets.

WHAT'S AHEAD?

→ SEE WHAT AMOUNTS YOUR GOVERNMENT OWES AND TO WHOM.

→ DETERMINE IF YOUR GOVERNMENT OWES MORE OR LESS THAN IN PRIOR YEARS.

PAYABLES

Sometimes your government pays cash when it receives goods and services, but most of the time payment is made later, once a bill has been received or paperwork has been completed. Until payment is made, your government has payables—amounts it owes suppliers, employees, and even other governments. Payables also may include amounts that one part of a government owes to another (see the discussion of interfund balances, beginning on page 104), such as from one fund to another, or from a component unit to its primary government. As it does with receivables, your government may aggregate its payables on the face of the financial statement and then disclose the significant components of that payables amount in a note. (See Figure 17.) In fact, some governments present a combined disclosure of both receivables and payables.

Figure 17: The general fund owed vendors $3,892,000 as of June 30, 2016.

The table in Figure 17 is arranged like the receivables disclosure in Figure 15. The types of payables—including vendors payable, salaries and benefits payable, accrued interest payable—are shown at the top, with the government's funds shown on the left-hand side. (Alternatively, your government might put the payables in the rows and the funds in the columns.) As with the disclosure of receivables, your government may present the information about payables in a tabular format like this, but it does not have to. A government with fewer types of payables might disclose the information in narrative form instead.

What Can You Do with Information about Payables?

This note to the financial statements allows you to identify, in general terms, who your government owes money to. The organization of the payables by fund may help you to identify the particular activities or services these liabilities are related to. As with receivables, information about payables is important for understanding your government's liquidity. What bills are coming due that your government will need to have resources available to pay? How do these looming payments compare with amounts your government is owed? The additional detail in this note can help you to seek answers to further questions. When is your government expected to make good on these different types of payables? Are some more flexible than others?

Payables also can be tracked over time. If compared with relevant expenses, you can assess whether these payable amounts are growing or shrinking. (See financial efficiency ratios in Appendix C.) Are particular payables growing or shrinking faster than others? Could this mean that your government is paying its bills slower? What does this say about its financial health? In this way, tracking payables may highlight potential issues about which you can seek further clarification from your government.

Figure 17. Payables Note Disclosure

Payables at June 30, 2016, for the Town of Lakeville Green were as follows:

	① Vendors	Salaries and Benefits	Accrued Interest	Other	Total Payables
Governmental activities:					
General	$ 3,892,000	$ 3,651,000	$ —	$ 415,000	$ 7,958,000
Gas tax	536,000	—	—	—	536,000
Community redevelopment	4,328,000	11,000	—	—	4,339,000
Other governmental	561,000	51,000	—	75,000	687,000
Internal service	1,197,000	204,000	2,169,000	—	3,570,000
Reconciliation of balances in fund financial statements to government-wide financial statements	—	—	1,681,000	—	1,681,000
Total—governmental activities	$ 10,514,000	$ 3,917,000	$ 3,850,000	$ 490,000	$ 18,771,000
Business-type activities:					
Wastewater	$ 6,523,000	$ 289,000	$ 3,525,000	$ 65,000	$ 10,402,000
Solid waste	870,000	132,000	—	—	1,002,000
Other proprietary	1,490,000	196,000	523,000	—	2,209,000
Total—business-type activities	$ 8,883,000	$ 617,000	$ 4,048,000	$ 65,000	$ 13,613,000

Figure 17 Note

① NOTE: This is a different government from Local City and, therefore, this illustration does not tie to the financial statements.

WHAT'S AHEAD?

→ DISCOVER THE KINDS OF LONG-TERM LIABILITIES YOUR GOVERNMENT HAS.

→ FIND OUT IF ITS OUTSTANDING DEBT HAS GROWN.

LONG-TERM LIABILITIES

For its long-term liabilities, your government prepares a note disclosure similar to the changes in capital assets note. (See Figure 18.) The note is arranged similarly to the capital assets note: governmental and business-type activities are shown separately, and major categories of long-term liabilities are listed for each. The list of liabilities begins with outstanding bonds, loans, and other long-term debt instruments, and also includes other long-term liabilities such as COMPENSATED ABSENCES and CLAIMS AND JUDGMENTS.

Figure 18: The amount of governmental activities compensated absences paid during the year ended December 31, 2016, was $2,939,000.

The first four columns show (1) how much was owed for each type of liability *at the beginning of the year,* (2) new liabilities incurred during the year (additions), (3) amounts repaid during the year (reductions), and (4) the amounts still outstanding *at the end of the year*. The right-hand column then shows the portion of the total long-term liabilities at the end of the year that is due to be repaid within the next year. The note also identifies the funds in which the repayment of those liabilities has been reported.

What Can You Do with Long-Term Liability Information?

The central point of this disclosure is to tell you whether your government's long-term liabilities increased or decreased over the past year and why. Even if you located the outstanding amount for the end of the previous year, you would not be able to determine what caused the long-term liabilities to be greater or less than before. This note disclosure shows how much new debt was issued and the amount of other long-term liabilities incurred, as well as how much of each kind of liability was repaid. If this note disclosure is examined in several consecutive financial reports, you can compare the amount of new debt issued to see if it is growing or shrinking, or if an unusually large liability has been incurred. The trends you see might lead you to ask further questions about the causes of the changes, such as your government's capital investment activity.

Figure 18. Long-Term Liabilities Note Disclosure

Note 3—Disclosure of Information about Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2016, was as follows (in thousands):

	Beginning Balance ①	Additions ②	Reductions ③	Ending Balance*	Amounts Due within One Year ④
GOVERNMENTAL ACTIVITIES					
Bonds and notes payable:					
General obligation debt	$ 32,670	$ 3,061	$ (4,404)	$ 31,327	$ 2,729
Revenue bonds	14,485	—	(1,000)	13,485	1,040
Redevelopment agency bonds	14,965	19,800	(540)	34,225	1,300
Special assessment bonds	—	3,100	—	3,100	92
Equipment note	1,203	—	(954)	249	249
Less deferred amount on refundings	—	(3,409)	341	(3,068)	—
Total bonds and notes payable	63,323	22,552	(6,557)	79,318	5,410
Other liabilities:					
Compensated absences	5,537	2,744	(2,939)	5,342	2,138
Claims and judgments ⑤	8,070	2,669	(2,864)	7,875	1,688
Total other liabilities	13,607	5,413	(5,803)	13,217	3,826
Governmental activities long-term liabilities	$ 76,930	$ 27,965	$ (12,360)	$ 92,535	$ 9,236

*Payments on the bonds and notes payable that pertain to governmental activities are made by the debt service funds except for the equipment note, which is being repaid directly from the telecommunications internal service fund. (See Notes 20 and 21.) The compensated absences liability attributable to governmental activities will be liquidated by several governmental and internal service funds (Note 19). The claims and judgments liability will generally be liquidated through the casualty insurance internal service fund (Note18).

	Beginning Balance	Additions	Reductions	Ending Balance ⑥	Amounts Due within One Year
BUSINESS-TYPE ACTIVITIES					
Bonds and notes payable:					
Water and sewer debt	$ 56,975	$ 3,600	$ (2,178)	$ 58,397	$ 3,944
Parking facilities debt	21,567	1,029	(410)	22,186	360
Less deferred amount on refundings	(1,207)	(1,329)	254	(2,282)	—
Total bonds and notes payable	77,335	3,300	(2,334)	78,301	4,304
Compensated absences ⑦	572	1,286	(1,250)	608	122
Business-type activities long-term liabilities	$ 77,907	$ 4,586	$ (3,584)	$ 78,909	$ 4,426

Figure 18 Notes

① NOTE: These amounts have been rounded to thousands of dollars, whereas the amounts in Figure 1 are shown in whole dollars.

② Additions predominantly are the issuance of new bonds and notes, and new claims and judgments and additional accruals of compensated absences.

③ Reductions are predominantly repayments of debt and payments against outstanding claims and judgments and compensation of departing employees.

④ The numbers in this column are referred to in the statement of net position as the *current portion of long-term obligations*. These amounts are due to be repaid during fiscal year 2017.

⑤ Claims and judgments might include, for instance, pending insurance claims and court awards.

⑥ The amounts in this column are included in the statement of net position. (See Figure 1.) However, the totals are different because this disclosure generally does not include the net pension liability or net other postemployment benefits liability (see the next section on pensions and other postemployment benefits), but the long-term liability totals in the financial statements do include them.

⑦ Compensated absences are unused vacation and other leave time for which employees will be compensated when they retire or leave the government.

WHAT'S AHEAD?

→ FIND OUT HOW MUCH RETIREMENT BENEFITS COST YOUR GOVERNMENT.

→ SEE THE EXTENT TO WHICH YOUR GOVERNMENT HAS SET ASIDE RESOURCES TO FUND PENSIONS, HEALTH INSURANCE, AND OTHER RETIREMENT BENEFITS.

→ DETERMINE WHETHER YOUR GOVERNMENT IS KEEPING UP WITH ITS ACTUARIALLY DETERMINED OR LEGALLY REQUIRED CONTRIBUTIONS.

PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

Employees of state and local governments may be compensated in a variety of forms in exchange for their services. In addition to a current salary, many employees earn additional compensation over their years of service that will not be received until after their employment with the government ends through retirement or other reason for separation. The most common type of these postemployment benefits is a pension. As the name suggests, **OTHER POSTEMPLOYMENT BENEFITS (OPEB)** are postemployment benefits *other than pensions*. OPEB generally takes the form of health insurance and dental, vision, prescription drugs, or other healthcare benefits provided to eligible retirees, including in some cases their beneficiaries (spouses and children). It also may include some types of life insurance, legal services, and other benefits.

There are two basic forms of postemployment benefit plans—defined contribution and defined benefit. **DEFINED CONTRIBUTION PLANS** stipulate the *amounts a government has to contribute to a plan member's individual account* each year. The amount of benefits employees will receive when they retire depends only on how much was contributed and the earnings on those contributions when invested. The information that is reported by governments with defined contribution plans is discussed further on page 102.

The descriptions that follow relate to the majority of governments that participate in **DEFINED BENEFIT PLANS**. For accounting purposes, a defined benefit plan is one that does not meet the definition of a defined contribution plan. Defined benefit plans generally specify the *amount of benefits* to be provided to the employees after they reach retirement age.

Defined benefit plans also may be distinguished by how many employers participate in them. As their name indicates, a **SINGLE-EMPLOYER PLAN** involves only one government employer (and its component units, if they participate in the same plan). In a **COST-SHARING MULTIPLE-EMPLOYER PLAN,** governments pool (share) (1) the costs of providing benefits and administering the plan and (2) the assets accumulated to pay benefits. A single actuarial valuation (the measurement of the pension or OPEB obligation) is conducted for the employees of all the participating governments *combined*. In **AGENT MULTIPLE-EMPLOYER PLANS,** separate accounts are maintained to ensure that each employer's contributions (and those made by its employees) are used to provide benefits only for the employees of that government. Individual employers in an agent plan are responsible for benefits associated with their own employees only, and separate actuarial calculations are made for each participating government in the plan. It is like a collection of single-employer plans. However, to take advantage of economies of scale, the cost of administering the plan is shared by the participating governments, and the plan assets generally are combined for investment purposes.

Costs and Obligations Related to Pensions and OPEB

Your government discloses important information in the notes about the long-term liabilities for pensions and OPEB that it reports in its statement of net position. You may be able to see the **NET PENSION LIABILITY (NPL)** or **NET OPEB LIABILITY (NOL)** on the face of the statement, but often it is combined with the other long-term liabilities, such as outstanding bonds. Your government discloses the amounts of pension and OPEB liabilities, information about how they are calculated and what caused them to increase or decrease during the year, and much more.

The NPL and NOL are measurements of obligations that your government may satisfy over a very long period. As such, they are very complex measurements that are based on an actuary's estimate or *valuation,* which is the product of many assumptions, based on historical experience, regarding the factors that determine the cost of the benefits that have been earned. These factors may include, but are not limited to, number of employees, average length of employment with the government, trends in compensation levels, life expectancy, trends in healthcare costs, and returns on investments.

In simple terms, the actuary does the following:

- *Projects* the future cash outlays for pensions and OPEB based on the benefit terms and economic and demographic assumptions such as those mentioned above
- *Discounts* the projected cash outflows to their *actuarial present value*—their estimated value today, and
- *Allocates* the actuarial present value generally between past years of service and future years of service.

The portion of the actuarial present value allocated to prior years of employment is called the **TOTAL PENSION LIABILITY (TPL)** or **TOTAL OPEB LIABILITY (TOL)**. This basically is the total amount for pensions and

OPEB that have already been earned. For accounting purposes, any money your government has set aside in a trust to pay pension or OPEB benefits (referred to as the **FIDUCIARY NET POSITION** of the plan) offsets the total liability. (See **Upon further review…criteria for pension and OPEB trusts.**) The excess of the total pension or OPEB liability over the fiduciary net position is the NPL or NOL. (See **Upon further review…costs and obligations for cost-sharing employers** on pages 92 and 93 and **Upon further review…special funding situations** on page 95.)

Although the vast majority of governments provide pensions by putting assets in a trust that meets certain criteria, far fewer do so for OPEB. If your government provides OPEB, but not through such a trust, the amount it reports in the statement of net position will be the TOL instead of the NOL. This is because there are no OPEB plan assets in a trust that meets the criteria to offset the total OPEB liability.

The annual cost for pensions and OPEB is reported as expense in the statement of activities. The amount of expense is based on the change in the NPL or NOL during the year. The items that generally cause the NPL or NOL to increase the most in any given year are included in pension or OPEB expense right away—**SERVICE COST** and interest on the total liability. Service cost essentially is the cost of new benefits earned by your government's employees during the year. If your government changes the benefit terms of its pension or OPEB plan in a way that causes the NPL or NOL to increase or decrease, that change in the liability is reported in pension expense immediately as well. For example, this year your government increases the age at which employees can begin to receive OPEB—consequently, they will have to work longer before they can retire and receive benefits, which would reduce projected benefit payments and, therefore, the OPEB liability. The amount by which the NPL or NOL is reduced would be subtracted from pension expense this year. On the other hand, if your government provides a cost-of-living increase that is not required by the terms of the pension plan, normally the liability would increase and the amount of the increase would be added to pension expense this year.

Other common causes of increases and decreases in the NPL or NOL are initially reported in the statement of net position as deferred outflows of resources or deferred inflows of resources and then added to or subtracted from expense, respectively, over multiple years. There are three such causes—changes in assumptions about economic and demographic factors, differences between assumed and actual economic and demographic factors, and differences between assumed and actual returns on plan investments. (See **Upon further review…deferrals related to pensions and OPEB.**)

Descriptive Information

Your government discloses certain basic information about its pension and OPEB plans regardless of what type of plan it participates in. The note disclosure identifies the plan and describes the types of benefits provided and the authority under which benefit provisions and obligations to contribute to the plan are established or may be amended. (See Figure 19.) For example, the pension note disclosure might reveal that the pension plan provides retirement, disability, and death benefits to plan members and their beneficiaries, and that a specific section of state law regulates the changing of benefit provisions. The

disclosures should tell you if the pension or OPEB plan issues its own financial report or if the plan is included in the report of a public employee retirement system or another entity and, if so, how to obtain the report. The note disclosure also should report the required contribution rates of employees and the government.

If your government has a single-employer pension or OPEB plan or participates in an agent multiple-employer plan, its disclosure of basic descriptive information also includes the number of members of its plan. At a minimum, your government shows the number of (1) inactive employees and their beneficiaries who are receiving benefits, (2) inactive employees not yet receiving benefits (perhaps they have not yet reached the required retirement age), and (3) active employees.

Information about the Measurement of the Liability

The next section of your government's disclosures about pensions and OPEB relates to the measurement of the net pension liability (or net OPEB liability). As noted above, calculating the pension and OPEB liabilities requires making assumptions about what will happen to relevant economic and demographic factors in the future—such as how much salaries will increase, the pace at which healthcare costs rise, and how long former employees will live and collect benefits. This section of the pension and OPEB notes identifies those assumptions. In Figure 20, you can see that this county government assumes that inflation will be 3.5 percent per year and the investments of the pension plan will average 7.75 percent annually. Your government will not disclose detailed information about life expectancy, because it typically comprises extensive tables of mortality data. It will, however, identify the mortality tables that it used.

Upon further review...special funding situations

It may be the case that an entity other than the employer—called a **NONEMPLOYER CONTRIBUTING ENTITY**—such as the state government, is legally responsible for a part of the pension or OPEB benefits of your government's employees. If the state government is the only entity that is legally responsible for making contributions directly to the pension or OPEB plan, the accounting standards call this a **SPECIAL FUNDING SITUATION.** If the state government is just one of the entities responsible for making contributions, it is a special funding situation if the amount of the state's contribution is based only on factors related to pensions or OPEB (for instance, the state provides half of the contributions to the plan). It is not a special funding situation if the state's contribution is based on factors unrelated to pensions or OPEB (such as a certain percentage of the revenue from a sales tax).

For accounting purposes, special funding situations are handled similarly to cost-sharing plans (refer to **Upon further review...costs and obligations for cost-sharing employers** on page 92)—your government reports its proportionate share of the NPL or NOL and deferrals in its financial statements. The nonemployer contributing entity, if it is a government, reports *its* proportionate share in its own financial statements. Your government reports the entire pension or OPEB expense because it reflects the cost of providing services no matter who is paying for it. However, your government also will report revenue for the support provided by the nonemployer contributing entity, so the *net* impact on your government's financial statements reflects only the part of the obligation that it is responsible for.

Figure 19. Descriptive Note Disclosures about Pensions

General Information about the Pension Plan

Plan description. Merritt County's defined benefit pension plan, the Merritt Employee Pension Plan (MEPP), provides pensions for all permanent full-time general and public safety employees of the County. MEPP is a single-employer defined benefit pension plan administered by the Merritt Employee Retirement System (MERS). Article 15 of the Regulations of the State grants the authority to establish and amend the benefit terms to the MERS Board of Trustees (MERS Board). MERS issues a publicly available financial report that can be obtained at www.merritt.mepp.gov.

Benefits provided. MEPP provides retirement, disability, and death benefits. Retirement benefits for general employees are calculated as 2 percent of the employee's final 5-year average salary times the employee's years of service. Benefits for public safety employees are calculated as 3 percent of the employee's final 3-year average salary times the employee's years of service. General employees with 10 years of continuous service are eligible to retire at age 60. Public safety employees with 10 years of continuous service are eligible to retire at age 55. General employees may retire at any age after 30 years of service. Public safety employees may retire at any age after 20 years of service. All employees are eligible for nonduty disability benefits after 10 years of service and for duty-related disability benefits upon hire. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits equal two times the employee's final full-year salary. An employee who leaves County service may withdraw his or her contributions, plus any accumulated interest.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance subsequent to the employee's retirement date. The annual adjustments are one-half of the change in the Consumer Price Index, limited to a maximum increase in retirement allowance of 2 percent for general employees and 3 percent for public safety employees.

Employees covered by benefit terms. At June 30, 2016, the following employees were covered by the benefit terms:

Inactive employees and beneficiaries currently receiving benefits	4,002
Inactive employees entitled to but not yet receiving benefits	1,207
Active employees	5,347
Total plan members	10,556

Contributions. Article 15 of the Regulations of the State grants the authority to establish and amend the contribution requirements of the County and active employees to the MERS Board. 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 employees 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 employees. For the year ended June 30, 2016, the average active employee contribution rate was 7.0 percent of annual pay, and the County's average contribution rate was 17.74 percent of annual payroll.

Figure 19 Notes

① NOTE: This is a different government from Local City and, therefore, this illustration does not tie to the financial statements.

② This illustration of the note disclosure for a government's pension plan would be virtually identical for an OPEB plan.

Figure 20. Pension Liability Measurement Disclosure

Net Pension Liability

The County's net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 percent
Salary increases	4.5 percent, average, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2011–April 30, 2013.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate 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 best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	46%	5.4%
International equity	21	5.5
Fixed income	26	1.3
Real estate	6	4.5
Cash	1	0.0
Total	100%	

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that County contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the County, calculated using the discount rate of 7.75 percent, as well as what it would be if calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
County's net pension liability	$ 826,928	$ 751,753	$ 661,543

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued MERS financial report.

Figure 20 Notes

① NOTE: This is a different government from Local City and, therefore, this illustration does not tie to the financial statements.

② This illustration of the note disclosure for a government's pension plan would be virtually identical for an OPEB plan.

③ The note for an OPEB plan would include the assumption regarding the healthcare cost trend rate here as well.

④ A *real* rate of return does not include inflation. The assumed inflation rate of 3.5 percent is shown above in the note disclosure, and it is included in the assumed overall investment rate of return of 7.75 percent. To convert the real rates of return for each of these asset classes to amounts that are directly comparable to overall investment rate of return, add the inflation rate. For instance, adding 3.5 percent to the expected real rate of return of 1.3 percent for fixed income investments produces an expected rate of return of 4.8 percent.

⑤ A lower discount rate produces a larger present value and, therefore, a larger NPL.

With respect to the assumed rate of return, your government does not simply identify the rate, it also explains how it determined the rate. A key part of the explanation is the presentation of the individual rates of return your government expects on the major types of investments the pension or OPEB plan holds. For instance, the government in Figure 20 expects that 46 percent of its pension plan assets will be investments in U.S. companies that will have a return of 5.4 percent (not including inflation).

The information you receive about the assumed rate of return can help you to consider whether it is reasonable. The implications of that consideration can be significant—if the government's pension plan does not earn as much as it is assuming, it may mean that the government will need to contribute additional money to the plan.

The assumed rate of return also is very important because it serves as the rate for discounting the projected future benefit payments to their value today. Mathematically, the smaller the discount rate your government uses, the larger the present value today. Because that present value is the basis for the amount reported as your government's pension or OPEB liability, this means that the choice of the assumed rate of return also affects how big the liability is. For example, a lower rate would (1) increase the total liability and, ultimately, (2) reduce the plan's fiduciary net position—both of which would serve to increase the NPL or NOL that is reported in the statement of net position.

You can get a sense of the impact that changes in the assumed rate of return could have on your government's NPL or NOL by looking at the disclosure in Figure 20 that shows what the liability would be if the discount rate were 1-percentage-point higher and 1-percentage-point lower than the rate your government actually used. If the illustrative government's discount rate had been 6.75 percent instead of 7.75 percent, its NPL would increase from almost $752 million to nearly $827 million. On the other hand, if its discount rate had been 8.75 percent, the government's NPL would decrease to less than $662 million. Your government presents a similar disclosure of the impact on the NOL of its assumption about how much healthcare costs will rise. (See Figure 21.)

Information about Changes in the Net Liability

The NPL and NOL increase or decrease each year for a variety of reasons. As mentioned previously, service cost and interest add to the liability each year. Other factors—such as changes in the benefits provided by the plan and changes in the assumptions used to measure the liability—may add to or reduce the amount of the liability. If your government participates in a single-employer or agent multiple-employer plan, it provides a note like the one in Figure 22. This note tells you not just how much the NPL or NOL changed from last year, but *what caused the change*. The note shows you the dollar impact of each factor on (1) the total liability, (2) the fiduciary net position of the plan, and (3) the NPL or NOL (the combination of 1 and 2).

Contributions to the plan from your government and its employees increase the plan's fiduciary net position. (See **Upon further review…contributions after the NPL or NOL is measured.**) Investment earnings also increase net position, though a loss on investments would reduce net position. The payment of benefits to retirees reduces both the total liability (those amounts are no longer owed) and net position (those assets are no longer held by the plan).

Figure 21. Disclosure of the Effect of the Healthcare Cost Trend Rate on the Net OPEB Liability

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rate. The healthcare cost trend rate assumed in the calculation of the net OPEB liability is 9.5 percent for 2017, decreasing 0.5 percentage points per year to an ultimate rate of 5.5 percent in 2025. The following presents the net OPEB liability of the County, as well as what the County's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (8.5 percent decreasing to 4.5 percent) or 1-percentage-point higher (10.5 percent decreasing to 6.5 percent) than the current healthcare cost trend rates:

①	1% Decrease (8.5% / 4.5%)	Current Rate (9.5% / 5.5%)	1% Increase (10.5% / 6.5%)
Net OPEB liability (asset)	$ (35,797,841)	$ 24,528,260	$ 97,780,369

Figure 21 Note

① NOTE: This is a different government from Local City and, therefore, this illustration does not tie to the financial statements.

Figure 22 Notes

① NOTE: This is a different government from Local City and, therefore, this illustration does not tie to the financial statements.

② This illustration of the note disclosure for a government's pension plan would be virtually identical for an OPEB plan.

Figure 22. Changes in Net Pension Liability Disclosure

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a – b)**
Balances at 6/30/15	$ 2,853,455	$ 2,052,589	$ 800,866
Changes for the year:			
Service cost	75,864	—	75,864
Interest	216,515	—	216,515
Differences between expected and actual experience	(37,539)	—	(37,539)
Contributions—employer	—	79,713	(79,713)
Contributions—employee	—	31,451	(31,451)
Net investment income	—	196,154	(196,154)
Benefit payments, including refunds of employee contributions	(119,434)	(119,434)	—
Administrative expense	—	(3,373)	3,373
Other changes	—	8	(8)
Net changes	135,406	184,519	(49,113)
Balances at 6/30/16	$ 2,988,861	$ 2,237,108	$ 751,753

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2016, the County recognized pension expense of $158,356. At June 30, 2016, the County reported pension-related deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ 33,329	$ 53,995
Changes of assumptions	62,949	—
Net difference between projected and actual earnings on pension plan investments	133,976	—
Total	$ 230,254	$ 53,995

Figure 22 (continued)

Amounts reported as deferred outflows of resources and deferred inflows of re-sources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	$ 57,966
2018	86,466
2019	43,069
2020	(1,778)
2021	1,465
Thereafter	(10,929)

Governments in Defined Contribution Plans

The requirements discussed above apply to a government participating in a defined benefit plan. If your government participates in a defined contribution plan, the note disclosures are limited to basic information about the plan, contribution requirements, expense for the year, and the government's liability to the plan, if any.

What Can You Do with Pension and OPEB Information?

These notes offer insight into the process of *determining how much your government is obligated for and how much it needs to contribute each year to fund that obligation.* First of all, the notes inform you about the basics of your government's pension and OPEB plans: What benefits are provided and to what types of employees? How long do employees have to work to become eligible to receive benefits? How is the amount of benefits determined?

You can question *whether the underlying assumptions that went into measuring the NPL and NOL are reasonable.* All things being equal, a higher assumed rate of return—and thus a higher discount rate—will result in a lower NPL or NOL. However, if the investment earnings turn out to be less than assumed, the plan's fiduciary net position will be less than expected, which will increase the NPL or NOL and may ultimately require your government to make larger annual contributions to the plan. The amounts your government is reporting for the NPL and NOL are sensitive to the assumptions your government made when measuring them—the disclosure of the impacts of increasing and decreasing the discount rate and the healthcare cost rate helps you to understand *how sensitive those measurements are* to two of the most significant factors that go into them.

If your government participates in a single-employer or agent multiple-employer plan, the disclosures will help you to *understand what caused the NPL or NOL to increase or decrease.* If you see that the net liability has changed significantly as a result of a change in assumptions, you may want to seek further information about the nature of those changes. The notes on pensions and OPEB highlight the nature of significant changes your government has made to its methods and assumptions for measuring the pension and OPEB liabilities. One benefit of being able to distinguish the causes of increases in the

NPL or NOL is that you can assess how much of the increase relates to factors within your government's control versus those that it has little or no control over. For instance, the dollar amount by which the NPL or NOL increases or decreases because of changes in the benefits promised to employees is shown separately. You may be interested in how much the liability decreased as a result of benefit changes made by your government as cost-saving measures.

CONTINGENT LIABILITIES

Each year, claims may be submitted and judgments rendered against your government, such as lawsuits for personal injury on public property. Such claims and judgments often take several years to be resolved. An accident may occur in one year, but final payment may not be made to the victim until after investigations or legal actions have run their course. These uncertainties regarding claims and judgments mean that it may not always be possible to accurately reflect the losses related to them in the financial statements. If information is not available at the time the financial statements are prepared that a payment will probably have to be made, and unless the amount to be paid can be reasonably estimated, your government cannot report the claim or judgment as a cost or an amount owed in the financial statements.

This is where note disclosure comes in. If it is *probable* that a loss has occurred, but the amount cannot be reasonably estimated, or if the amount can be estimated but the loss is only *reasonably possible,* not probable, your government will disclose the nature of the **CONTINGENT LIABILITY** and an estimate of the potential loss or range of potential loss (or it will state that an estimate cannot be made). (See **Upon further review...the vocabulary of contingencies.**) If the government is exposed to the risk of further loss beyond what is reported in the financial statements, it will make a similar disclosure.

What Can You Do with Information about Contingent Liabilities?

If there is a chance that your government may be facing additional losses that are not reflected in the statements, it could affect your assessment of its financial outlook. You may want to consider the costs or liabilities related to such contingencies in your analysis of financial position or debt burden if estimates are available, or at least be able to note that the results of these calculations might worsen because the contingency may become reality.

WHAT'S AHEAD?

→ WHAT FINANCIAL ACTIVITY TAKES PLACE AMONG YOUR GOVERNMENT'S FUNDS?

→ HOW MUCH DO YOUR GOVERNMENT'S FUNDS OWE TO OTHER FUNDS?

INTERFUND BALANCES AND TRANSFERS

During the course of a normal year, resources often are moved from one fund to another. For instance, revenues collected in the general fund may be transferred to a debt service fund to be used to repay debt, or to a capital projects fund to finance construction. Likewise, amounts left over in one fund after debt has been repaid or a capital project has been completed may be transferred back to the general fund to finance other activities, if allowable. At the end of the fiscal year, some funds may owe resources to other funds. It is difficult to conceive of the volume and nature of these "interfund" activities, however, because they generally are added together and shown in one or two lines in the fund financial statements.

In order to help you understand this financial activity, your government presents note disclosures regarding **INTERFUND TRANSFERS** during the fiscal year and **INTERFUND BALANCES** as of the end of the fiscal year. The latter disclosure shows the amounts *due from* each of the columns in the fund financial statements (except for the total columns) to each of the other columns. (See Figure 23.) These columns include:

- Each major governmental and enterprise fund individually
- Nonmajor governmental funds in the aggregate
- Nonmajor enterprise funds in the aggregate
- Internal service funds in the aggregate
- Each class of fiduciary fund.

The note also discloses the purposes for the interfund balances and identifies any that are not expected to be repaid within a year.

Figure 23. Interfund Balances Note Disclosure

Interfund balances at September 30, 2016, consisted of the following (amounts in thousands):

①

		Due from					
		General Fund	Highway	Redevelopment Agency	Internal Service	All Others	Total
Due to	General fund	$ —	$ 6,000	$ 6,145	$ 8,815	$ 1,777	$ 22,737
	Nonmajor governmental	7,181	—	2,867	—	—	10,048
	Internal service	5,000	7,415	3,834	32	1,104	17,385
	All others	311	—	—	1,113	—	1,424
	Total	$ 12,492	$ 13,415	$ 12,846	$ 9,960	$ 2,881	$ 51,594

The balance of $8,815,000 due to the general fund from the internal service funds resulted from loans made to establish working capital when each internal service fund was first created; $7,285,000 of the balance is not scheduled to be collected in the subsequent year.

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Figure 23 Note

① NOTE: This is a different government from Local City and, therefore, this illustration does not tie to the financial statements.

Figure 24. Interfund Transfers Note Disclosure

Interfund transfers for the year ended December 31, 2016, consisted of the following (amounts in thousands):

①

		Transfer from					
		General Fund	Community Development	Nonmajor Governmental	Water and Sewer	All Others	Total
Transfer to	General fund	$ —	$ —	$ 15,942	$ 3,500	$ 1,933	$ 21,375
	Nonmajor governmental	41,203	4,227	—	—	—	45,430
	Water and sewer	—	—	4,836	—	—	4,836
	All others	2,105	—	9,800	—	—	11,905
	Total	$ 43,308	$ 4,227	$ 30,578	$ 3,500	$ 1,933	$ 83,546

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting them to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

The City made two one-time transfers: (1) $3,500 from the water and sewer fund to the general fund to subsidize, in part, the City's share of the Hayley Valley Regional Fire Protection District's capital program; and (2) the residual equity of $4,227 of the community development fund to the debt service fund.

Figure 24 Note

① NOTE: This is a different government from Local City and, therefore, this illustration does not tie to the financial statements.

The interfund transfers note shows the amounts transferred between those fund columns during the fiscal year. (See Figure 24.) The note also describes the general reasons why your government makes those transfers. Your government will pay particular attention to the intended purpose and amount of a significant transfer if it meets one or both of these conditions: It is a transfer that does not occur on a routine basis, or it is inconsistent with the activities of the fund making the transfer.

What Can You Do with Information about Interfund Balances and Transfers?

The additional detail provided by these disclosures is valuable for helping you to understand how a government's funds interact and the nature of the financial activity that occurs among them. You should be able to obtain a basic appreciation for how resources flow from one fund to another and the reasons they move. Furthermore, if financial activity that is out of the ordinary occurs between funds, you should be able to tell from these notes.

DETAILED RECONCILIATIONS

The governmental funds statements contain "reconciliations" to the information in the government-wide statements. The balance sheet reconciliation explains why the amount of fund balance differs from the net position of the governmental activities. The reconciliation in the statement of revenues, expenditures, and changes in fund balances explains why the amount of net change in fund balances is different from the change in net position of governmental activities.

Because of the inherent space limitations of including the reconciliation on the statement itself, the various adjustments are categorized and aggregated. However, aggregation may obscure individual adjustments within a broader category, and the use of succinct language may result in descriptions that are insufficiently specific. Consequently, you will find notes to these financial statements if they are necessary to clearly explain the differences between the governmental funds and government-wide statements. (See Figures 25 and 26, and **Upon further review...variety, thy name is reconciliation note.**)

If your government presents its reconciliation on the page following the statement, it has more room for detail and, consequently, may not need to present this note.

Figure 25. Note Disclosure Reconciling the Governmental Funds Balance Sheet with the Government-Wide Statement of Net Position

Note 5—Explanation of Differences between Governmental Funds Balance Sheet and the Statement of Net Position

"Total fund balances" of the City's governmental funds ($34,893,106) differs from "net position" of governmental activities ($123,558,874) reported in the statement of net position. This difference primarily results from the long-term economic focus of the statement of net position versus the current financial resources focus of the governmental fund balance sheets.

	Balance Sheet/Statement of Net Position				
	① Total Governmental Funds	② Long-Term Assets, Liabilities [a]	③ Internal Service Funds [b]	④ Reclassifications and Eliminations ⑤	⑥ Statement of Net Position Totals
ASSETS					
Cash and cash equivalents	$ 10,261,800	$ —	$ 3,336,099	$ —	$ 13,597,899
Investments	27,214,984	—	150,237	—	27,365,221
Receivables, net	6,972,560	—	157,804	3,987,671	11,118,035
Due from other funds	1,370,757	—	—	(1,195,757)	175,000
Due from other governments	1,715,097	—	—	—	1,715,097
Liens receivable	3,987,671	—	—	(3,987,671)	—
Inventories	182,821	—	139,328	—	322,149
Capital assets	—	161,082,708	8,940,052	—	170,022,760
Total assets	$ 51,705,690	$ 161,082,708	$ 12,723,520	$ (1,195,757)	$ 224,316,161
DEFERRED OUTFLOWS OF RESOURCES					
Pensions	$ —	$ 8,365,521	$ —	$ —	$ 8,365,521
Retiree health insurance	—	6,686,417	—	—	6,686,417
Hedging derivatives	—	1,754,896	—	—	1,754,896
Total deferred outflows of resources	$ —	$ 16,806,834	$ —	$ —	$ 16,806,834
LIABILITIES					
Accounts payable	$ 5,908,666	$ 319,297	$ 780,570	$ 94,074	$ 7,102,607
Due to other funds	25,369	—	1,170,388	(1,195,757)	—
Due to other governments	94,074	—	—	(94,074)	—
Matured bonds and interest payable	—	—	—	—	—
Advances on grants	1,435,599	—	—	—	1,435,599
Long-term liabilities	—	185,056,759	7,777,871	—	192,834,630
Total liabilities	$ 7,463,708	$ 185,376,056	$ 9,728,829	$ (1,195,757)	$ 201,372,836
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue—taxes	$ 4,250,430	$ —	$ —	$ (4,250,430)	$ —
Unavailable revenue—grants	1,902,701	—	—	(1,902,701)	—
Pensions	—	3,903,910	—	—	3,903,910
Retiree health insurance	—	3,120,328	—	—	3,120,328
Total deferred inflows of resources	$ 6,153,131	$ 7,024,238	$ —	$ (6,153,131)	$ 7,024,238
FUND BALANCES/NET POSITION					
Net investment in capital assets	$ —	$ 95,020,640	$ 8,690,746	$ —	$ 103,711,386
Restricted	14,839,891	7,912,026	—	—	22,751,917
Unrestricted	23,194,960	(117,170,418)	(5,696,055)	6,153,131	(93,737,382)
Total fund balances/net position	$ 38,088,851	$ (14,237,752)	$ 2,994,691	$ 6,153,131	$ 32,725,921

Figure 25 (continued)

[a] The costs of building and acquiring capital assets (land, infrastructure, buildings, equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net position includes those capital assets among the assets of the City as a whole, and their original costs are expensed annually over their useful lives.

Original cost of capital assets	$ 199,336,115
Accumulated depreciation	(38,253,407)
	$ 161,082,708

Because the governmental funds focus on short-term financing, some assets will not be available to pay for our current-period expenditures. Those assets (for example, receivables) are reported with a deferred inflow of resources in the governmental funds and, thus, are not included in fund balance. They are, however, included in the net position of the governmental activities.

Adjustment of deferred inflow of resources	$ 6,153,131

Long-term liabilities are reported in the statement of net position but not in the governmental funds because they are not due and payable in the current period. Balances at December 31, 2016, were:

Bonds and notes payable	$ 82,139,924
Less deferred interest from refunding	(3,068,230)
Net pension liability	55,720,140
Net OPEB liability	44,576,112
Compensated absences	5,104,433
Litigation settlement—general fund	584,380
Subtotal, long-term liabilities	$ 185,056,759

[b] Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds of the government. The assets and liabilities of the internal service funds, which are reported in the proprietary funds rather than the governmental funds, are included in governmental activities in the statement of net position.

Figure 25 Notes

① The first column is taken almost as is from the right-hand total column of the balance sheet (see Figure 4).

② Governmental funds do not contain capital assets or long-term liabilities, so they must be added in.

③ Internal service funds are in proprietary, not governmental, funds and must be added to reach governmental activities.

④ Reclassifications shift activities from governmental funds to BTAs and from proprietary funds to governmental activities.

⑤ Eliminations avoid double-counting of transfers and certain other financial activity among the funds.

⑥ This column is the governmental activities information found in the statement of net position (see Figure 1).

Figure 26. Note Disclosure Reconciling the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances with the Government-Wide Statement of Activities

Note 6—Explanation of Differences between Governmental Fund Operating Statements and the Statement of Activities ①

Total revenues and other financing sources ($121,225,813) in the governmental funds differs from total governmental activities revenues and transfers ($102,692,727) in the statement of activities. The differences result primarily from the long-term economic focus of the statement of activities versus the current financial resources focus of the governmental funds. The main components of the difference are described below.

Total revenues, other financing sources, and special item of the governmental funds consist of: ②

Revenues		$ 97,482,467
Proceeds of long-term capital debt		19,590,416
Proceeds from sale of park land		3,476,488
Transfers in (net)		676,442
Total revenues and other sources—governmental funds	③	121,225,813

Because some property taxes ($566,189) will not be collected for several months after the City's fiscal year ends, they are not considered "available" revenues in the governmental funds. Similarly, certain license and permit revenues ($1,354,441) are not currently available at year-end and are not reported as revenue in the governmental funds. 1,920,630

The proceeds from the sale of land ($3,476,488) are reported as revenue (as a special item) in the governmental funds. However, the cost of the land sold ($823,000) is removed from the capital assets account in the statement of net position and offset against the sale proceeds resulting in a "gain on sale of land" in the statement of activities. Thus, the revenue reported in the governmental funds is greater than the gain in the statement of activities. (823,000)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The investment earnings ($134,733) of the internal service funds and the net interfund transfers (–$175,033) are reported with governmental activities. ④ (40,300)

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balances. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net position and does not affect the statement of activities. Total proceeds were $19,590,416. (19,590,416)

Total revenues of governmental activities in the statement of activities consist of: ⑤

Charges for services	$ 15,720,525		
Operating grants and contributions	5,176,310	⑥	
Capital grants and contributions	4,894,915		
General revenues, special items, and transfers	76,900,977		
Total revenues of governmental activities		⑦	$ 102,692,727

Total expenditures ($121,332,470) of the governmental funds differ from total expenses of governmental activities ($105,807,013) reported in the statement of activities. The difference is attributable primarily to the economic focus of governmental activities versus the current financial resources focus of governmental funds. The main components of the differences are described below. ③ $ 121,332,470

Some expenses reported in the statement of activities do not require the use of current financial resources ($437,684) and, therefore, are not reported as expenditures in governmental funds. 437,684

When the purchase or construction of capital assets is financed through the governmental funds, the resources expended for those assets are reported as expenditures in the years they are incurred. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital expenditures (capital outlay of $16,718,649 plus $718,508 included in current expenditures) exceeded depreciation ($2,679,128) in the current period. (12,513,141)

Internal service funds are eliminated by charging additional amounts to participating governmental activities to completely cover the internal service funds' costs for the year. (See the revenue adjustment [$40,300], above.)

Repayment of bond principal is reported as an expenditure in governmental funds. For the City as a whole, however, the principal payments reduce the liabilities in the statement of net position and do not result in an expense in the statement of activities. The City's bonded debt was reduced by principal payments made to bond holders ($3,450,000). (3,450,000)

Total expenses of governmental activities ⑦ $ 105,807,013

Figure 26 Notes

① Comparison of Figures 5 and 3.

② Information from Figure 5.

③ Subtract the expenditures amount from the revenues to get the governmental funds change in fund balances of ($106,657).

④ See Figures 8 and B-12–B-14 for more information about internal service funds.

⑤ Information from Figure 3.

⑥ The information on the left provides a proof for the adjustments in the column above—both add up to the total below.

⑦ Subtract the expenses amount from the revenues amount to get the statement of activities' change in net position of ($3,114,286).

What Can You Do with Reconciliation Information?

The reconciliation is an extremely valuable tool for learning about the relationship between the government-wide and governmental funds statements and their respective accounting methods. It is informative both about differences in the scope of your government that each encompasses and about how the accounting assumptions of the two kinds of statements differ. For instance, in addition to encompassing the activities of the governmental funds, governmental activities also include the internal service fund activities. The list of adjustments also tells you that the methods used in governmental funds statements do not account for capital assets and long-term liabilities, unlike the approach of the government-wide statements.

WHAT'S AHEAD?

→ FIND OUT WHY YOUR GOVERNMENT IS PROVIDING TAX BREAKS TO INDIVIDUALS AND BUSINESSES.

→ LEARN HOW MUCH YOUR GOVERNMENT'S TAXES ARE REDUCED AS A RESULT.

TAX ABATEMENTS

Governments use a variety of tools to encourage individuals and businesses to do things that are beneficial to the public (or to *not* do things that are detrimental). For example:

- Income tax deductions are provided for charitable donations.
- Senior citizens may be exempt from some or all property taxes.
- Sales taxes on certain purchases may be fully or partially refunded to businesses.
- Businesses that employ local residents may receive credits that reduce their corporation taxes.

Such reductions of taxes are referred to in the aggregate as "tax expenditures." One of the most common forms of tax expenditure is called a tax abatement. (See **Keep in mind...an abatement by any other name.**) Tax abatements are agreements between one or more governments and an individual or business

in which (1) the governments forgo taxes to which they otherwise would have been entitled and (2) the individual or business promises to subsequently do something that will benefit the public. Most often, those beneficial actions take the form of economic development. For example, a business agrees to relocate to the city providing the tax abatement, or to remain in the city, or to expand within the city.

If your government enters into a tax abatement agreement—or if its taxes are reduced by a tax abatement agreement entered into by another government—it discloses information about the abatement and its financial impact on your government. (See Figure 27.) The note begins with descriptive information about your government's own tax abatement agreements, including (1) the name and purpose of the program or programs under which tax abatements are provided, (2) the tax or taxes that are being abated, (3) the law that authorizes your government to abate taxes, (4) the types of actions the recipients promise to take, (5) eligibility requirements for receiving an abatement, and (6) provisions for getting abated taxes back if the recipient does not perform the promised action. For other governments' tax abatements that affect your government's taxes, your government discloses the names of the governments and the tax or taxes being abated.

Your government helps you to understand the financial impact of all tax abatements that reduce its taxes by disclosing the dollar amount of taxes forgone during the fiscal year. It also reports any other commitments it has made as part of its own tax abatement agreement. For instance, your government may agree to improve surrounding highways as part of a tax abatement agreement to entice a company to build a new headquarters.

Figure 27. Tax Abatement Disclosure

As of December 31, 2016, the County provides tax abatements through six programs—the Residential Improvement Program, Film and Television Production Incentives, the Economic Assistance Initiative, the High-Tech Investment Program, the Competitive County Credit, and the Renewable Energy Incentive:

- The Residential Improvement Program provides property tax abatements to encourage improvements to single-family and multiple-unit dwellings, under State Law, Code 14, Section 201.1. Abatements are obtained through application by the property owner, including proof that the improvements have been made, and equal 100 percent of the additional property tax resulting from the increase in assessed value as a result of the improvements. The amount of the abatement is deducted from the recipient's tax bill.
- Under the County Economic Development Act of 2003, two divisions of the County government administer tax abatements:
  - The Office of Film and Television Production incentives provide abatements of the County's sales and corporate income tax to attract television, movie, and commercial productions. Production companies apply to the Office for admittance into the program in advance of commencing production. Production companies can apply for a refund of sales taxes on qualifying spending in the County within three years of the date of admittance. Production companies' County corporate income tax liabilities also are reduced by the amount of qualifying spending, up to 100 percent of the taxes owed.
  - The Department of Economic Assistance administers three tax abatement programs: the Economic Assistance Initiative (EAI), the High-Tech Investment Program (HTIP), and the Competitive County Credit (3C). The agreements entered into by the Department include clawback provisions should the recipient of the tax abatement fail to fully meet its commitments, such as employment levels and timelines for relocation.
    - EAI offers individual incentive packages to attract new business to the County. Abatements may be granted to any company agreeing to relocate to the County or to establish a new business in the County. The Department abates up to 75 percent of the property tax bills through a reduction in the assessed value of the facilities that the new or relocating businesses construct or purchase. The Department also arranges for the county to construct certain infrastructure features that are ancillary to newly constructed facilities. One agreement involving the construction of a new office building for the central headquarters of a major corporation included a substantial commitment from the County to construct a new exit on County Highway 84 and connecting roadways and ancillary features between the highway and the building.
    - HTIP offers reductions in business income taxes to attract businesses in technology industries to move to the County High-Tech Industry Park (CHIP). Abatements may be granted to any technology company agreeing to move into CHIP. The abatement is administered as a credit on a company's County income tax return and equals 25 percent of the company's corporate income tax liability. The abatement begins in the year when the company begins its relocation to CHIP.
    - 3C offers reductions in business income taxes to attract and retain jobs. Abatements may be granted to any business agreeing to remain in the County or to relocate to the County. The abatement is a credit on a company's County income tax return and is effective beginning in the year of the agreement (for job retention) or the year when the business begins its relocation to the County (for job attraction). The amount of the abatement is based on the number of jobs retained or attracted.
- The Environmental Conservation Department administers the Renewable Energy Incentive to encourage businesses to invest in solar, wind, and other sources of clean, efficient energy. The program also covers investments in energy-efficient vehicles such as hybrid, electric, and alternative-fuel cars and ancillary facilities, such as charging stations. These abatements are provided under the authority of the State's Environmental Protection Division. After their application and acceptance into the program, companies can file for two types of tax abatements: a refund of sales taxes on spending related to renewable energy and a credit against their County corporate income tax liability for eligible spending, up to a maximum of $100,000.

Figure 27 (continued)

Tax Abatement Program	Amount of Taxes Abated (in thousands)
Residential Improvement Program	$ 32,912
Film and Television Production Incentives	
Sales Tax	13,435
Corporate Income Tax	12,479
Economic Assistance Initiative	18,566
High-Tech Investment Program	9,578
Competitive County Credit	11,159
Renewable Energy Incentive	
Sales Tax	8,157
Corporate Income Tax	4,619

State Tax Abatements

County property tax revenues were reduced by $28,346,000 under agreements entered into by the State. Under the State's biennial budget for fiscal years 2015–2016, the State reimburses the County for one-third of the reduction in tax revenues. The County recognized $9,449,000 from the State in County fiscal year 2016.

Figure 27 Note

① NOTE: This is a different government from Local City and, therefore, this illustration does not tie to the financial statements.

What Can You Do with Tax Abatement Information?

Tax abatement agreements are significant transactions both in terms of the tax dollars forgone and the number of governments that are affected by them. In most cases, the taxes that are abated are never billed to the individual or business. That means these transactions are not recorded in your government's accounting system and, therefore, are not reflected in its financial statements. Without this note disclosure, you might not know anything about these agreements that lower the amount of resources available to your government.

First and foremost, the disclosures can help you to *understand the amount of taxes that were abated during the year*. This note disclosure also tells you why your government is abating taxes and what it expects to accomplish by doing so. Because your government reports both its own tax abatements and those of other governments that reduce its taxes, you can distinguish between the impacts of your government's policy choices and those that are imposed upon it.

The information in the note will not answer the questions, "Are my government's tax abatements a good deal? How am I or my government benefiting from these agreements?" It will, however, give you a jumping off point to seek more information from your government to explore those issues further.

By the numbers... selected disclosures in the summary of significant accounting policies

① Brief description of component units and their relationships to the primary government, including the criteria for including them and how they are reported, and information about how to obtain component units' separately issued statements

② Description of government-wide statements, noting exclusion of fiduciary activities

③ Description of types of transactions included in program revenues and policy for allocating INDIRECT EXPENSES to functions in the statement of activities (if applicable)

④ Policy for defining operating and nonoperating revenues of the proprietary funds

⑤ Measurement focus and basis of accounting used in the government-wide and funds financial statements

⑥ Government's policy regarding whether first to apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available

⑦ Definition of cash and cash equivalents used in the statement of cash flows

⑧ Policy for capitalizing assets and for estimating the useful lives of those assets (used to calculate depreciation expense), and description of modified approach, if used

⑨ Policies and procedures for classifying fund balance

Upon further review...amortized cost

Amortization, like depreciation (see p. E-14 and the capital assets section beginning on page 81), allocates costs over the life of an asset. In the case of certain qualifying investments not reported at fair value, amortization involves allocating associated discounts and premiums in installments over the years between when your government acquired the investments and when they mature. Amortized cost, then, is the original cost of acquiring the investment plus the annual amortized discount or premium amounts accumulated thus far.

Upon further review...costs and obligations for cost-sharing employers

The actuarial valuation for a cost-sharing multiple-employer plan generally is conducted for all of the members of the plan combined. That produces an overall NPL or NOL, expense, and deferrals for all of the participating governments in the

aggregate. If your government participates in a cost-sharing plan, it has to determine its proportionate share of those aggregate amounts and report it in the financial statements.

The proportion is based on contributions made to the plan. In other words, your government compares the money it contributes to the plan with the contributions made by all participating governments and other entities. For instance, your government might total its contributions to the plan for the past year ($5 million) and divide them by the total contributions of all participating governments and other entities ($100 million) to determine that its proportion is 5 percent.

To determine the amounts it should report in its financial statements, your government multiplies its proportion by the aggregate NPL or NOL, pension or OPEB expense, and pension- or OPEB-related deferrals. For example, if the aggregate NPL for all participants in a pension plan is $500 million and your government's proportion is 5 percent, your government will report a $25 million NPL in its own statement of net position ($500 million times 0.05). In the notes to its financial statements, your government discloses its proportion and its proportionate share of the NPL or NOL, pension or OPEB expense, and pension- or OPEB-related deferrals. It also describes how it determined its proportion.

Upon further review…criteria for pension and OPEB trusts

To be considered a part of the plan's fiduciary net position that is subtracted from the total liability to obtain the NPL or NOL, assets are required to be held in a trust or equivalent arrangement that meets all three of the following criteria:

- Contributions to the trust from the government and nonemployer contributing entities are irrevocable. In other words, assets contributed to the plan cannot be taken back (with the exception of certain refunds).
- The assets in the plan can be used only to provide benefits to plan members (or for administrative costs).
- The assets are protected from creditors.

Upon further review…deferrals related to pensions and OPEB

As explained on this page, certain parts of the changes in the NPL or NOL are initially reported as deferred outflows or deferred inflows of resources and included in pension or OPEB expense over multiple years. **Upon further review…contributions after the NPL or NOL is measured** on page 99 describes another circumstance under which a deferred outflow of resources related to pensions and OPEB is reported.

If you look at the government-wide statement of net position, you are likely to see a single line among the deferred outflows for those related to pensions and a single line for OPEB; likewise, there would be a single line among the deferred inflows for those related to pensions and a single line for OPEB. It also is possible that your government reports a single amount for total deferred outflows and a single amount for total deferred inflows, as explained in **Upon further review…level of detail for reporting deferrals** on page 17.

Figure 22 includes a note disclosure that identifies the specific sources of the deferrals related to pensions/OPEB. The disclosure also tells you the net impact of those deferrals on pension or OPEB expense for each of the next five years and in the aggregate for all years beyond that. (Deferred outflows related to contributions made after the measurement date are not included here—they reduce the next year's NPL or NOL, as described in **Upon further review…contributions after the NPL or NOL is measured.**) For example, the deferrals in Figure 22 will add a net $86.5 million to pension expense in 2018, but will reduce pension expense by $1.8 million in 2020.

By the numbers…freestanding pension plan statements

If your government's pension or OPEB plan produces its own publicly available annual report containing the required information, your government's reporting requirements are reduced, as explained in the text. Your government also is required in this situation to explain in its note disclosures how you can obtain a copy of the pension (or OPEB) plan's report.

Upon further review…selecting a discount rate

In general, your government discounts its projected benefit payments to their value today using a discount rate equal to what it expects the long-term rate of return on the investments of the plan to be. This is true as long as your government projects that there will be enough assets in the plan to make long-term investments and cover the projected benefit payments. However, if your government projects that a time will come in the future when the assets in the plan related to existing plan members will *not* be enough to cover the projected benefit payments, it will begin to discount using a different rate—one for a 20-year, tax-

exempt general obligation municipal bond that is rated AA or higher (or its equivalent) by a bond rating agency. If this is the case, your government will tell you which years' projected benefit payments were discounted using the expected long-term rate of return and which years were discounted using the general obligation bond rate.

Upon further review…contributions after the NPL or NOL is measured

The NPL or NOL reported in your government's statement of net position often is calculated on a date (called the **MEASUREMENT DATE**) earlier than the date of the financial statements—as early as one year prior. In other words, the NPL or NOL in your government's financial statements for June 30, 2016, may be measured as early as June 30, 2015. This is allowed for practical reasons, most notably because of the need for your government to coordinate with its pension plan, which may have a different fiscal year-end. Your government discloses the measurement date as part of its pension and OPEB notes. (Look at the first sentence in Figure 20.)

If your government's NPL or NOL is measured as of a date one year prior to the date of the financial statements, any contributions your government made during the fiscal year to its pension or OPEB plan are not reflected in the NPL or NOL amounts reported in the statement of net position because they occurred *after* the NPL or NOL was measured. Those contributions will be subtracted from the measurement of *next year's* NPL or NOL. This means the contributions made after the measurement date (but before the end of the fiscal year) relate to a future year, so your government reports a deferred outflow of resources equal to the amount of the contributions. In the next fiscal year, when the amount of the contributions is subtracted from the NPL or NOL, the deferred outflow from the prior year is eliminated.

Keep in mind…implementation dates for OPEB reporting

The sample statement of net position in Figure 1, for the fiscal year ending December 31, 2016, includes an NOL. However, if you are looking at your own government's financial statements for that date or any fiscal year ending prior to June 30, 2018, you may not see an NOL. This is because the standards for reporting OPEB in the same manner as pensions were issued later (in June 2015) and are required to be implemented beginning with fiscal years ending June 30, 2018, and later (September 30, 2018; December 31, 2018; March 31, 2019). In order to present all retirement benefits using the same approach, as ultimately intended by the accounting standards, this guide presumes that the OPEB standards already have been implemented by the illustrative governments depicted in the financial statements and notes.

The most significant difference between the new and old OPEB standards is the reporting of the NOL in the financial statements. Previously, the difference between the total obligation for OPEB—called the **ACTUARIAL ACCRUED LIABILITY (AAL)**—and the assets set aside in a trust—called the **ACTUARIAL VALUE OF ASSETS (AVA)**—was disclosed in the notes, not reported in the financial statements. This difference was called the **UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL).** The OPEB-related liability that appeared in the financial statements was called the **NET OPEB OBLIGATION,** and was equal to the difference between (1) the *required contributions* to the OPEB plan, as determined by an actuary (the **ANNUAL REQUIRED CONTRIBUTION** or **ARC**), and (2) the amounts *actually contributed* by your government or paid for retiree health benefits and other OPEB.

The ARC comprised two parts—the service cost and a portion of the UAAL (which could be divided over a period of up to 30 years). The amount reported as OPEB expense was based on the ARC rather than on the annual change in the OPEB liability.

The same basic approach of the actuary to measuring the OPEB liability is used in both the old and new OPEB standards. However, the new standards are more limiting in terms of the assumptions that your government may employ, with the intention of making the resulting liability more comparable across governments. Although the amounts reported under the new standards are not directly comparable to those under the old standards, it can be said that the AAL is analogous to the TOL, the AVA to the fiduciary net position of the plan, and the UAAL to the NOL.

Upon further review… the vocabulary of contingencies

The determination of how to report contingent liabilities rests on two terms: *probable* and *reasonably possible.* Broadly, those terms mean the following:

- Probable: likely to occur
- Reasonably possible: less than likely, but the chances of occurrence are more than remote or slight.

Probable amounts are reported in the financial statements and reasonably possible amounts are disclosed in the notes.

Upon further review… variety, thy name is reconciliation note

Governments have leeway in deciding how to structure and present the detailed notes regarding the reconciliations, as long as the notes succeed in adequately explaining the nature of the adjustments made in the reconciliations. Figures 25 and 26 present two of the more common formats for the notes.

Figure 25 arranges the reconciliation of the balance sheet and the statement of net position in columns; it looks similar to the illustrative balance sheet in Figure 4. Annotations have been added to the sample note in Figure 25 to help you understand how it works.

The format in Figure 26 essentially expands on the arrangement of the reconciliation in Figure 6 by looking more closely at how the *individual* changes in fund balance and net position differ (revenue, expenses/expenditures), rather than contrasting the *aggregate* change.

Keep in mind…an abatement by any other name

The labels that are used to describe the various types of tax expenditures are often interchangeable from government to government. Consequently, there are some transactions that are called abatements but that do not meet the definition of a tax abatement that should be disclosed by your government. On the other hand, there are transactions with other names—credits, refunds, exemptions, and so on—that *do* meet the definition of a tax abatement and should be included in your government's note disclosure. The point is to focus on whether the substance of the transaction meets the definition rather than on how your government titles the transaction.

PART FIVE

SUPPORTING INFORMATION PROVIDED BY YOUR GOVERNMENT

Accounting standards require governments to provide certain *required supplementary information* (RSI) with their basic financial statements. RSI offers a context for examining the information contained in the financial statements and notes, and understanding what the information says about your government's financial health. RSI generally is presented in greater detail and for more fiscal years than is practical in a financial statement or note disclosure. Consequently, some RSI helps you to understand both how your government is doing now and how that compares with prior years. Other RSI relates financial statement information to your government's budgeting practices. And some RSI begins the process of synthesizing and analyzing financial statement information.

Where applicable, you will normally find four kinds of RSI with your government's annual financial statements:

- Management's discussion and analysis (MD&A)
- Budgetary comparisons
- Pension and OPEB information, and
- Modified approach infrastructure information.

MD&A precedes the financial statements, whereas all other RSI is presented *following* the statements and the notes. Occasionally you also may find RSI relating to **PUBLIC ENTITY RISK POOLS.** Because it is relatively rare for a local government to manage a risk pool, the relevant RSI disclosures required for risk pools are not covered in this guide.

WHAT'S AHEAD?

→ PREPARE TO USE YOUR GOVERNMENT'S FINANCIAL STATEMENTS MORE KNOWLEDGEABLY.

→ GET AN OVERALL SENSE OF YOUR GOVERNMENT'S FINANCIAL HEALTH AND LEARN ABOUT SIGNIFICANT FINANCIAL ISSUES.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MD&A precedes the financial statements. It is prepared by the officials of your government who are knowledgeable about financial management and is intended to be a readable, objective analysis of your government's financial activity during the year. MD&A serves several purposes:

- It introduces you to your government's financial statements and provides a framework and context for understanding the information they contain. Upon reading MD&A, you should be better prepared to obtain meaning from the information in the statements and to better understand them.

- MD&A also gives officials the opportunity to highlight issues they believe are important to you and other financial statement users and which you might otherwise miss when examining the statements unaided.

Keep in mind...first things first

When you first approach a set of financial statements, you may want to read the auditor's report before plunging into MD&A.

The **AUDITOR'S REPORT** is a letter presented in front of the financial statements reflecting the results of a CPA firm's or state government auditor's audit of the statements in accordance with current standards of auditing practice. Essentially, the auditor is required to determine if your government's financial statements are presented fairly in conformity with **GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP),** the body of standards established by the GASB. The language is generally the same in all auditor's reports, unless the auditor has found that the statements are not presented entirely in conformity with GAAP. If the auditor has identified a problem, you should be aware of it before reading the statements. There are generally four kinds of reports (a sample is included in Appendix B, Figure B-1):

"Unqualified" opinion—the auditor finds the financial statements are presented fairly in conformity with GAAP; sometimes called a "clean" opinion

"Qualified" opinion—the financial statements are presented fairly in conformity with GAAP, with the exception of any issue(s) identified in the opinion

"Adverse" opinion—significant items were not in compliance with accounting standards and, therefore, the financial statements are NOT presented fairly in conformity with GAAP

"Disclaimer" of opinion—the auditor does not express an opinion on the statements.

Note, however, that *the auditor's report is not an opinion on the financial health of a government.* A government in poor financial shape can receive a clean opinion, just as a government in good condition can get an adverse opinion, because the auditor is reviewing whether the government followed the rules of accounting and financial reporting, not whether the government managed its finances properly.

One thing MD&A is *not* intended to do, however, is take the place of your own review and analysis of the financial statements. Rather, it is meant to direct your attention to important occurrences during the period covered by the statements and to offer the benefit of the uniquely informed opinions of your government's finance officers. While MD&A not only can answer some of your most basic questions about your government's finances, it can prepare you to ask more knowledgeable questions and to find the answers in the statements.

Be aware, though, that MD&A, the financial statements, and other information presented with the statements are designed and prepared with a knowledgeable user in mind; they require some prior familiarity with financial statements and governmental accounting, and a willingness to take the time necessary to understand the statements.

MD&A covers five topics:

- Conceptual information about your government's financial statements (identified in Appendix A with a ①)
- An analysis of the information in the financial statements (②)
- Activities during the year regarding capital assets and long-term debts (③)

- Physical condition of infrastructure and efforts to maintain it, if your government employs the modified approach, and
- Currently known facts bearing on the future finances of the government (④).

Starting with the Basics

MD&A begins with an introduction to the individual financial statements that follow, similar to section ① on pages A-1 to A-4 of Appendix A. This overview covers the functions of the statements and the types of information they contain. MD&A also discusses how the financial statements relate to one another. This entails explaining the differences between the information presented in the government-wide and fund-based statements, as well as the ways in which the information is connected.

Revealing What the Financial Information Means

One of MD&A's clearest benefits to you is its potential for insightful and knowledgeable commentary about your government's finances. No one is more intimately aware of your government's financial status than its own finance officers, and these officials are responsible for preparing MD&A. This part of MD&A (section ② on pages A-4 to A-10) presents summarized data from the financial statements and an overview of what the data say about your government's finances. The data are accompanied by explanations of how and why the data changed from the previous year.

The financial analysis in MD&A covers at least two issues: your government's *overall* financial position and *changes* in financial position. The section on page A-4 discussing net position as of the end of 2016 addresses financial position and includes a table summarizing information from the statement of net position (Table A-1). Data are presented for 2016, the primary year of concern in these statements, and for 2015, the immediately prior year. By doing so, MD&A gives you not only a sense of where your government stands right now but also how that status has changed. Overall net position of Local City was virtually unchanged, but the text of the illustrative MD&A explains that financial position was very different for the city's governmental activities and BTAs. MD&A also explains major factors leading to the financial position reported in the statements.

The sample MD&A discusses changes in financial position under the heading "changes in net position." This section describes your government's revenues and expenses, and other changes that affected net position and, therefore, financial position. (See Table A-2.) The section approaches this information separately for governmental activities and BTAs because the results of each were noticeably different. Appropriate explanations are included here as well. This part of MD&A also provides statement of activities information about the net cost of government services. (See page A-8 and Table A-3.)

In addition to an analysis of the overall financial health of your government, MD&A also analyzes and explains significant changes that occurred during the year in:

- The individual funds of your government; MD&A also identifies any significant restrictions or commitments imposed on the balances of your government's funds (see page A-9), and
- The annual operating budget (along the lines of the section on page A-10).

Your Government's Capital Assets and Long-Term Liabilities

MD&A describes briefly what happened during the year to capital assets and long-term liabilities (see section ③ on pages A-10 and A-11), including summarized information about:

- The general types of capital assets your government owns, the total dollar amount of each type, and how that amount changed from the previous year (Table A-4 on page A-11)
- Major additions to (deletions from) capital assets (inset box on page A-11), and
- Significant commitments your government has made to construct or acquire capital assets in the future. (The sample MD&A cites the Route 7 reconstruction and a community housing program.)

MD&A's long-term debt information includes:

- Amounts and general types of debt owed at the end of the year, and how they changed from the prior year (Table A-5 on page A-12)
- Significant amounts borrowed during the year and significant repayments of debt, and
- Major events or circumstances that affect the amount and cost of debt your government may incur, such as changes in its CREDIT RATING or laws restricting the total amount it is allowed to owe at any given time.

The Condition of Capital Assets

Governments that follow the "modified" approach to reporting their infrastructure assets (see Part Two) present additional information among their RSI pertaining to the physical condition of infrastructure and their efforts to maintain it (this information is described later in this section); they also discuss this extra information in MD&A. (For an example of what this section of MD&A might look like, see Appendix A of *An Analyst's Guide to Government Financial Statements,* another volume in the GASB's User Guide Series.)

This section of MD&A briefly explains the concepts of the modified approach and the system your government uses to evaluate road conditions. It then summarizes the data your government is required to present in RSI (described later in this section).

Currently Known Facts Bearing on the Future

MD&A concludes with a discussion of any circumstances of which the finance officials are aware, at the time the financial statements are prepared and audited, that are likely to have a significant impact on your government's finances in the future. Your government should discuss only discernable, verifiable facts and not make conjectures about what might be. (See section ④ starting on page A-12.)

For instance, there may be an outstanding lawsuit against a town that, if the town lost, potentially would result in a large monetary judgment. Or perhaps municipal tax rates have changed since the previous year, or a limit has been placed by a state law or voter referendum on the amount of taxes a village may levy. Another example might be a large local employer's announcement of plans to move out of a county, taking with it a substantial amount of tax revenue—both from the company and from the employees

who will have to relocate. On the other hand, a city might have reached an economic incentive deal with a major corporation that is expected to bring a large number of new jobs to the city's economy.

No such dramatic changes are identified in Local City's MD&A. (The presumption should be that none occurred, or that the city's finance officials were unaware of any.) The discussion in this section points out the major economic factors Local City considered in its projections of future finances (as embodied by its budget for the following year). The sample MD&A also mentions labor agreements Local City signed with several employee groups and rate increases that will go into effect in its BTAs.

WHAT'S AHEAD?

- → REVIEW HOW YOUR GOVERNMENT'S BUDGET CHANGED DURING THE YEAR.
- → COMPARE YOUR GOVERNMENT'S BUDGET TO ACTUAL RESULTS FOR THE YEAR.
- → OBTAIN INFORMATION TO HELP ASSESS YOUR GOVERNMENT'S FISCAL MANAGEMENT SKILLS.

BUDGETARY COMPARISONS

Your government prepares a budgetary comparison for the general fund and each major special revenue fund for which it legally adopts an annual budget. If your government legally adopts a budget for any of its other funds, it may present a budgetary comparison for those funds as supplementary information in its financial report. Local City prepares a budgetary comparison schedule for its general fund and its "HUD Programs" special revenue fund. (See Figures 28 and B-7, respectively.) The left-hand side of the schedule lists categories of resource inflows (such as taxes and grants) and outflows (engineering services, for instance). At a minimum, you will see three columns in the schedule: original budget, final budget, and actual amounts.

Original Budget

The amounts in this column come from the budget originally adopted for the year. The **ORIGINAL BUDGET** numbers also may reflect legally authorized adjustments your government made to its adopted budget subsequent to adoption but prior to the beginning of the fiscal year (such as reserves, transfers, allocations, and supplemental appropriations). If your government is required by law to carry over **APPROPRIATIONS** from one year to the next, these amounts also are included within the original budget numbers.

Final Budget

Budgets are revised over the course of a year to take into account *external factors* (such as differences between actual economic performance and the assumptions made in the adopted budget) and *changes in policy* (such as a decision to reduce staffing). The **FINAL BUDGET** reflects the sum of all legal adjustments made to the budget by your government since the start of the fiscal year. (Some changes may even have been made *after* the end of the year.)

Actual Amounts

The third column contains the amounts that actually flowed in and out during the year. The amounts are stated on the same basis as the budget figures. (This basis often is *cash* inflows and outflows.)

How Does This Schedule Work?

When *actual inflow amounts fall below budgeted amounts,* the number in the optional variance column is shown in parentheses; the same is true when *actual outflows exceed budgeted amounts.* It works the same way for the column comparing the final and original budgets. If final budget revenues are lower than the original budget or if expenditures are higher, the variances are placed in parentheses.

Variance figures in parentheses are sometimes called *negative* variances. They are not necessarily negative in the sense that they are bad but, rather, that they indicate an adverse impact on the bottom line—the difference between inflows and outflows. Higher-than-expected spending and lower-than-expected revenues can lead to a deficit. However, the extra spending might have been the result of meeting additional, unexpected needs, which might be considered a good thing to do. By the same token, *positive* variances (actual revenues higher than budgeted or actual expenditures lower than budgeted) are not necessarily desirable. For instance, lower-than-expected spending could be the result of not delivering necessary services. *The variance column is most valuable as a red flag to potential problems;* variances can be investigated further for explanation. The discussion in MD&A of budget variances may be your jumping-off point for this line of inquiry.

Figure 28. Budgetary Comparison Schedule

Local City
Budgetary Comparison Schedule for the General Fund
For the Year Ended December 31, 2016

①	② Budgeted Amounts			③ Variances—Positive (Negative)		④	
	Original	Final	Actual Amounts—Budgetary Basis	Original to Final	Final to Actual	Budget-to-GAAP Reconciliation	Actual Amounts—GAAP Basis
REVENUES							
Property taxes	$ 52,017,833	$ 51,853,018	$ 51,173,436	$ (164,815)	$ (679,582)	$ —	$ 51,173,436
Other taxes—franchise and public service	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 government (including contingencies and miscellaneous)	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—payment to school district	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 (deficiency) of revenues over expenditures	103,254	(2,962,979)	(2,752,598)	(3,066,233)	210,381	57,590	(2,695,008)
OTHER FINANCING SOURCES (USES)							
Transfers in	939,525	130,000	129,323	(809,525)	(677)	—	129,323
Transfers out	(2,970,256)	(2,163,759)	(2,163,759)	806,497	—	—	(2,163,759)
Total other financing sources and uses	(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
Total other financing sources (uses) and special items							
Net change in fund balance	(572,227)	(1,496,738)	(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 City 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

Net increase in fund balance—budget to GAAP $ 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 City's budget. (See Note 1 for a description of the City's budgetary accounting method.) 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.

Figure 28 Notes

① Local City presents its schedule using the format, terminology, and classifications of the statement of revenues, expenditures, and changes in fund balances. Your government may do so as well, or it may use those of its own budget document.

② Budgeted amounts include the originally adopted budget (including legal adjustments made prior to the start of the year) and the final budget (with all changes made to the budget subsequent to the start of the year).

③ Some governments refer to this as *favorable (unfavorable)*.

④ This is the reconciliation of the government's budgetary basis with the modified accrual basis of the general fund. Adjustments appear in the column below and explanations are at the bottom of the schedule.

⑤ Variance columns are not required; your government may include one, both, or neither.

⑥ If expenditures exceeded *appropriations* in any individual fund, your government should disclose that fact in a note to the schedule.

⑦ Your government has some leeway to decide how best to present the reconciliation, just as it does for the reconciliations in the governmental funds statements. Appendix B contains a fairly detailed reconciliation that would be presented on the page following the comparison schedule. (See Figure B-8.) Some governments present a more succinct reconciliation than that, while others like Local City place the reconciling adjustments in columns on the face of the schedule.

The budgetary comparison also reconciles the actual budget results with the figures in the governmental funds statement of revenues, expenditures, and changes in fund balances. (See Figure B-8 for another example.) The numbers in the budgetary comparison and the governmental funds statement may be different mainly because the governmental funds financial statements are prepared following GAAP, while most budgets are not. Governments most often budget on a cash or near-cash basis, or include **ENCUMBRANCES** and other items that would not be considered revenues or expenditures in the financial statement.

What Can You Do with Budgetary Comparison Information?

The budgetary comparison is a vital tool for achieving an important goal of financial reporting—*judging your government's compliance with its budget.* But, as just mentioned, it is only a first step in that process. It can be likened to a submarine's sonar system—it identifies potential "situations," but nonetheless requires that you look for yourself to determine how much of a problem the situation may be, if a problem at all. The column showing variances between the final budget and actual amounts is your sonar; if your government does not include one, you can construct your own by subtracting the final budget amount for each line from its companion actual amount. The explanations of budget variances in MD&A should help you to *understand what caused the budget variances* you observe in this schedule, although you still may want to delve deeper.

There almost always are variances between the original and final budgets. Governments are rarely exactly on the mark when predicting inflow and outflow amounts before a fiscal year begins. There are many underlying assumptions involved in budgeting and thus many opportunities for actual experience to differ from expectations. Taking into account what you have learned from MD&A about changes in the

economy and a government's policies, the variance between the original and final budgets may give you a sense of *your government's capacity to budget accurately* in the first place and *its ability to enforce the budget and control finances* during the course of the year.

An analyst from a legislative oversight committee might use the schedule to identify any instance in which a government did not follow its legally adopted budget. It could be the mission of that committee to ensure that the government does not violate applicable laws governing its financial activities. Variances identified in the schedule could be investigated further to determine their causes—perhaps faulty estimates, policy changes, unforeseen economic shifts, or fiscal mismanagement.

The budget-to-GAAP reconciliation (especially the more detailed version in Figure B-8) could be very valuable to legislative staff, agency officials, advocacy organizations, or anyone who deals primarily with budget numbers. The reconciliation may help you connect recent and current budget figures to the valuable analyses of past trends you can perform with financial statement information.

WHAT'S AHEAD?

→ DETERMINE THE SUFFICIENCY OF A PENSION PLAN'S ASSETS TO COVER PROJECTED RETIREMENT BENEFITS.
→ COMPARE PENSION REQUIREMENTS CALCULATED BY AN ACTUARY OR REQUIRED BY LAW WITH YOUR GOVERNMENT'S ACTUAL CONTRIBUTIONS.

PENSIONS AND OPEB

There are four sets of RSI that your government may present regarding its defined benefit pension and OPEB plans, depending on the type of plan:

- Changes in the NPL or NOL
- Pension or OPEB ratios
- Employer contributions, and
- Notes to the schedules.

Changes in the Liability and Related Ratios

If your government participates in a single-employer or agent multiple-employer pension or OPEB plan, it presents a schedule with information very similar to the note disclosure of changes in the NPL or NOL. (See Figure 29.) In fact, the schedule essentially presents the right-hand column of Figure 22 for the past 10 years. (See **Keep in mind...the number of years in pension and OPEB RSI schedules.**)

Typically, this schedule also includes two ratios calculated using information from the explanation of the changes in the NPL or NOL. (This information may, however, be presented in a separate schedule.) The first ratio divides the fiduciary net position of the pension or OPEB plan by the TPL or TOL, respectively. This ratio—which may be called an ASSET SUFFICIENCY RATIO—is a measurement of the sufficiency of the assets already held by the plan to cover the existing pension or OPEB liability. The

government illustrated in Figure 29 has a ratio of 74.85 percent, meaning the resources in the plan that can be used to make benefit payments equal roughly three-quarters of the value of those benefit payments (the TPL or TOL). Conversely, it means that there are no resources in the plan for one-quarter of the liability.

Your government next presents **COVERED PAYROLL** and a second ratio: the NPL or NOL divided by covered payroll. Covered payroll is the total pay on which contributions to the plan are based. The intention of this ratio is to give you a sense of the magnitude of the net liability and to enable you to compare your government with other governments. For instance, is the NPL of almost $752 million for the government in Figure 29 a big liability or a small one? The ratio of 167 percent helps you by showing that the NPL is the equivalent of the government payroll for 20 months (1.67 years). (See **By the numbers...OPEB and covered-employee payroll.**)

Figure 29. Schedule of Changes in the Net Pension Liability and Related Ratios

Merritt County
Schedule of Changes in the Net Pension Liability and Related Ratios
Past 10 Fiscal Years
(Dollars in thousands)

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Total pension liability										
Service cost	$ 75,864	$ 74,276	$ 71,157	$ 69,344	$ 66,875	$ 62,784	$ 59,463	$ 52,111	$ 49,258	$ 40,577
Interest	216,515	205,038	188,845	174,694	162,509	147,973	136,457	127,251	106,311	97,756
Changes of benefit terms	-	-	-	-	-	-	-	-	119,513	-
Differences between expected and actual experience	(37,539)	(15,211)	(3,562)	38,438	19,927	(28,228)	34,335	13,464	30,981	35,780
Changes of assumptions	-	-	61,011	-	-	92,500	-	-	32,979	-
Benefit payments, including refunds of employee contributions	(119,434)	(112,603)	(104,403)	(95,376)	(88,790)	(86,139)	(77,185)	(70,907)	(66,789)	(60,653)
Net change in total pension liability	135,406	151,500	213,048	187,100	160,521	188,890	153,070	121,919	272,253	113,460
Total pension liability—beginning	2,853,455	2,701,955	2,488,907	2,301,807	2,141,286	1,952,396	1,799,326	1,677,407	1,405,154	1,291,694
Total pension liability—ending (a)	$ 2,988,861	$ 2,853,455	$ 2,701,955	$ 2,488,907	$ 2,301,807	$ 2,141,286	$ 1,952,396	$ 1,799,326	$ 1,677,407	$ 1,405,154
Plan fiduciary net position										
Contributions—employer	$ 79,713	$ 86,607	$ 89,828	$ 91,963	$ 93,541	$ 85,681	$ 68,866	$ 29,849	$ 25,086	$ 22,826
Contributions—employee	31,451	30,550	29,137	28,547	27,743	26,709	25,577	22,673	21,132	19,202
Net investment income	196,154	(44,099)	(16,138)	298,260	166,826	140,132	193,107	39,142	(22,410)	(5,750)
Benefit payments, including refunds of employee contributions	(119,434)	(112,603)	(104,403)	(95,376)	(88,790)	(86,139)	(77,185)	(70,907)	(66,789)	(60,653)
Administrative expense	(3,373)	(3,287)	(2,774)	(2,582)	(2,086)	(2,235)	(1,912)	(1,887)	(1,509)	(1,491)
Other	8	(83)	173	(175)	9	75	(493)	8	-	-
Net change in plan fiduciary net position	184,519	(42,915)	(4,177)	320,637	197,243	164,223	207,960	18,878	(44,490)	(25,866)
Plan fiduciary net position—beginning	2,052,589	2,095,504	2,099,681	1,779,044	1,581,801	1,417,578	1,209,618	1,190,740	1,235,230	1,261,096
Plan fiduciary net position—ending (b)	$ 2,237,108	$ 2,052,589	$ 2,095,504	$ 2,099,681	$ 1,779,044	$ 1,581,801	$ 1,417,578	$ 1,209,618	$ 1,190,740	$ 1,235,230
County's net pension liability—ending (a – b)	$ 751,753	$ 800,866	$ 606,451	$ 389,226	$ 522,763	$ 559,485	$ 534,818	$ 589,708	$ 486,667	$ 169,924
Plan fiduciary net position as a percentage of the total pension liability	74.85%	71.93%	77.56%	84.36%	77.29%	73.87%	72.61%	67.23%	70.99%	87.91%
Covered payroll	$ 449,293	$ 436,424	$ 416,243	$ 407,812	$ 396,332	$ 381,554	$ 365,385	$ 323,896	$ 301,891	$ 274,318
County's net pension liability as a percentage of covered payroll	167.32%	183.51%	145.70%	95.44%	131.90%	146.63%	146.37%	182.07%	161.21%	61.94%

Notes to Schedule:

Benefit changes. In 20X1, benefit terms were modified to base public safety employee pensions on a final three-year average salary instead of a final five-year average salary.

Changes of assumptions. In 20X7, amounts reported as changes of assumptions resulted primarily from adjustments to expected retirement ages of general employees. In 20X4, amounts reported as changes of assumptions resulted primarily from adjustments to expected retirement ages of public safety employees. In 20X1, amounts reported as changes of assumptions resulted primarily from adjustments to assumed life expectancies as a result of adopting the RP-2000 Healthy Annuitant Mortality Table for purposes of developing mortality rates.

Figure 29 Notes

① NOTE: This is a different government from Local City and, therefore, this illustration does not tie to the financial statements.

② If your government participates in an OPEB plan administered through a trust that meets the required criteria, it would present a schedule like this for OPEB as well.

③ This sample schedule presents a full 10 years for illustrative purposes. However, your government will build this schedule prospectively and, therefore, may present only a few years at this time.

④ Dollar amounts have been rounded to the nearest thousand.

⑤ These amounts are the same as those presented in the current-year note disclosure in Figure 22.

⑥ As explained later in this section, your government will add notes to the schedule to explain any changes during the 10-year period that affect the trends in the information.

⑦ If your government presents this schedule for OPEB and the amount of OPEB is not determined based on a measure of pay, this ratio is not presented. (See **By the numbers…OPEB and covered-employee payroll.**)

Governments in cost-sharing plans

If your government participates in a cost-sharing plan, the information about changes in the NPL or NOL is available only for all of the governments in the plan combined, not for your government alone. Therefore, your government presents a schedule for the past 10 fiscal years containing the following information (see Figure 30):

- Your government's proportion (the percentage) of the plan's NPL or NOL
- Your government's proportionate share (the dollar amount) of the NPL or NOL
- Covered payroll
- A ratio of the NPL or NOL divided by covered payroll, and
- A ratio of plan fiduciary net position divided by the total liability for the plan as a whole.

What can you do with this information?

The information in your government's RSI schedule can be used to answer the same questions as the pension and OPEB note disclosures—but for the past decade rather than just the past year. You can see what is driving longer run trends in the NPL or NOL. The changes in the liability shown in any given year's note may be a one-time occurrence or could be part of a continuing trend; this schedule helps you to determine which.

The ratios help you to determine if your government has set aside sufficient resources to finance the retirement benefit promises it has made to its employees. If the resources are not sufficient, you can see the size of the shortfall. The NPL or NOL is compared with the covered payroll to give you a sense of the magnitude of the liability—to catch up with its obligations, the illustrative government in Figure 29 would need to contribute an amount equivalent to 20 months of its payroll. If your government were allowed to contribute more to the plan (many governments in cost-sharing plans are not), how long would it take to catch up with a liability of that size?

The value of the 10-year trend is that it shows you not only where your government stands now, but how it got there and where it is headed. It may be difficult to judge the asset sufficiency ratio of 74.85 percent for 2016 in Figure 29. If you compare it with other governments, however, you begin to comprehend the status that amount conveys. Is your government better or worse off than other governments? Is the ratio trending upward (more of the liability is covered by plan resources) or downward over time?

Employer Contributions

Another schedule compares your government's actual contributions over the past 10 years to its pension or OPEB plan with (1) the contribution amounts that its actuary calculated or (2) the amounts it is required to contribute by law or contract. If your government participates in a single-employer or agent multiple-employer plan, it most likely compares its actual annual contributions with amounts an actuary determined should be put in the plan each year (called an actuarially determined contribution). (See Figure 31.) To provide context for understanding the size of the contributions, your government also presents a ratio that divides its actual contribution with covered payroll.

If your government participates in a cost-sharing multiple-employer pension or OPEB plan, its annual contribution amount is probably determined by (1) law or statute or (2) the terms of its contract with the plan. Therefore, its RSI schedule compares the contribution it actually made to the plan with its statutory or contractual contribution requirement. (See Figure B-9.) This schedule, too, contains a ratio of actual contributions divided by covered payroll.

Figure 30. Schedule of Net Pension Liability Information for a Government in a Cost-Sharing Plan

Himalaya Village
Schedule of Proportionate Share of the Net Pension Liability ①②
Past 10 Fiscal Years ③
(Dollars in thousands) ④

	⑤ 20Y7	20Y6	20Y5	20Y4	20Y3	20Y2	20Y1	20Y0	20X9	20X8
Village's proportion of the net pension liability (asset)	0.20%	0.19%	0.19%	0.19%	0.20%	0.20%	0.20%	0.21%	0.21%	0.21%
Village's proportionate share of the net pension liability (asset)	$ 14,910	$ 11,738	$ 12,972	$ 13,495	$ 14,892	$ 11,605	$ 4,372	$ (2,355)	$ (1,264)	$ (926)
Village's covered payroll ⑥	$ 11,512	$ 10,412	$ 9,715	$ 9,553	$ 9,522	$ 9,299	$ 8,709	$ 8,175	$ 7,909	$ 7,659
Village's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	129.52%	112.74%	133.53%	141.26%	156.40%	124.80%	50.20%	(28.81%)	(15.98%)	(12.09%)
Plan fiduciary net position as a percentage of the total pension liability	81.38%	83.20%	80.41%	78.53%	75.79%	79.74%	91.78%	104.52%	102.63%	102.10%

*The amounts presented for each fiscal year were determined as of 12/31.

Figure 30 Notes

① NOTE: This is a different government from Local City and, therefore, this illustration does not tie to the financial statements.

② If your government participates in a cost-sharing OPEB plan administered through a trust that meets the required criteria, it would present a schedule like this for OPEB as well.

③ This sample schedule presents a full 10 years for illustrative purposes. However, your government will build this schedule prospectively and, therefore, may present only a few years at this time.

④ Dollar amounts have been rounded off to the nearest thousand.

⑤ These amounts will be the same as those presented in the government's current-year note disclosure.

⑥ If your government presents this schedule for OPEB and the amount of OPEB is not determined based on a measure of pay, this ratio is not presented. (See **By the numbers…OPEB and covered-employee payroll** on page 128.)

Figure 31. Schedule of Actuarially Determined Employer Contributions

Merritt County
① Schedule of Pension Plan Contributions ②
③ Past 10 Fiscal Years
(Dollars in thousands) ④

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Actuarially determined contribution	$ 79,713	$ 86,607	$ 89,828	$ 91,963	$ 93,541	$ 85,681	$ 68,866	$ 29,849	$ 25,086	$ 22,826
Contributions in relation to the actuarially determined contribution	79,713	86,607	89,828	91,963	93,541	85,681	68,866	29,849	25,086	22,826
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$449,293	$436,424	$416,243	$407,812	$396,332	$381,554	$365,385	$323,896	$301,891	$274,318
Contributions as a percentage of covered payroll ⑤	17.74%	19.84%	21.58%	22.55%	23.60%	22.46%	18.85%	9.22%	8.31%	8.32%

Figure 31 Notes

① NOTE: This is a different government from Local City and, therefore, this illustration does not tie to the financial statements.

② If your government has an actuarially determined contribution amount for its OPEB plan, it would present a schedule like this for OPEB as well.

③ This sample schedule presents a full 10 years for illustrative purposes. Your government should have all of the information necessary to present all 10 years. However, it may build this schedule prospectively under certain circumstances and, therefore, may present only a few years at this time.

④ Dollar amounts have been rounded to the nearest thousand.

⑤ As explained later in this section, your government will add notes to the schedule to explain how its actuarially determined contributions are established. (See Figure 32.) The note may appear here or on the next page.

⑥ If your government presents this schedule for OPEB and the amount of OPEB is not determined based on a measure of pay, actual contributions are divided by covered-employee payroll. (See **By the numbers...OPEB and covered-employee payroll** on page 128.)

What can you do with employer contribution information?

A local legislator, government official, or outside observer might use the information in these two schedules to determine if additional resources need to be devoted to improving the funding of the pension plan. Alternatively, they might determine that the local government should explore a reduction of contributions to an overfunded pension plan if the funding situation has been improving without providing additional contributions beyond those actuarially required.

Union officials or individual employees might look at these schedules to find out if their future retirement benefits are secure, or if there are any potential threats. This could be information they would use when negotiating a new labor contract with the city.

Notes to the Schedules

Figure 32 shows a note that your government will add if it presents the schedule of actuarially determined contributions. It discloses the methodology and assumptions used to determine the contribution amounts. The methods and assumptions your government uses to calculate its contributions to the pension or OPEB plan likely are different in some respects from the methods and assumptions it uses to measure the liability (and discloses in the notes).

If your government is aware of any factors that have a significant effect on the trend information in any of the RSI schedules—such as improvements or reductions to benefit provisions, expansion or reduction of the eligible population, or changes in the actuarial methods—it should describe the factors in a note to the schedules. This note is absent from Figure 32 because no such changes occurred in Local City during the years covered in the schedules.

Figure 32. Note to Pension Schedules

Notes to Schedule

Valuation date: ①

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	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Inflation	3.5%
Salary increases	4.5%, average, including inflation
Investment rate of return	7.5%
Retirement age	In the 20X7 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience. In the 20X4 actuarial valuation, expected retirement ages of public safety employees were adjusted to more closely reflect actual experience.
Mortality	In the 20X1 actuarial valuation, assumed life expectancies were adjusted as a result of adopting the RP-2000 Healthy Annuitant Mortality Table. In prior years, those assumptions were based on the 1994 Group Annuity Mortality Table.

Other information:

In 20X1, benefit terms were modified to base public safety employy pensions on a final three-year average salary instead of a final five-year average salary.

Figure 32 Notes

① NOTE: This is a different government from Local City and, therefore, this illustration does not tie to the financial statements.

WHAT'S AHEAD?

→ FIND OUT THE PHYSICAL CONDITION OF YOUR BRIDGES, ROADS, AND OTHER INFRASTRUCTURE.
→ DETERMINE WHAT YOUR GOVERNMENT IS DOING TO CARE FOR ITS INFRASTRUCTURE.
→ OBTAIN USEFUL INFORMATION FOR MAKING CAPITAL INVESTMENT DECISIONS.

MODIFIED APPROACH FOR INFRASTRUCTURE

If your government qualifies to use and actually employs the modified approach for some or all of its infrastructure assets in the government-wide statement of net position (as described in Part Two), you will find documentation of its qualifications in RSI (Figure 33):

- A schedule showing the physical condition of infrastructure for at least the three most recent condition assessments; according to governmental accounting standards, assessments must be performed at least every three years
- A schedule comparing for the past five years:
  - The annual amount *estimated* at the start of each year that would be necessary to maintain the infrastructure assets and preserve them at or above your government's chosen condition level

    with

  - The *actual* maintenance and preservation expenses for those assets
  - Notes to the schedules disclosing:
  - How the physical condition of the assets is assessed and measured (in other words, the factors your government takes into account, such as cracks in bridge supports, rust and corrosion, and so on)
  - The measurement scale employed (for instance, if it is a 1–10 scale, what 1 means versus what 10 means)
  - The condition level your government has established as its benchmark for the assets
  - Any factors that had a significant effect on the trends in the schedule information, such as changes in the assessment methods, the measurement scale, or your government's established condition level, and
  - The effect on the estimated maintenance and preservation amounts of any changes in your government's established condition level.

What Can You Do with Modified Approach Infrastructure Information?

There are a lot of things you can learn from your government's modified approach schedules and notes. For one thing, you can *determine the overall physical status of major groups of infrastructure assets and how conditions have changed over time*. What you discover may *inform decisions about how much to allocate to maintain and preserve infrastructure* such as bridges and water mains, and the priority of that allocation relative to other spending needs. This is useful information for legislators and legislative staff, service advocates, lobbyists, and anyone else who plays a role in the budget process. Furthermore, a careful crosswalk between the maintenance and preservation spending comparisons and the trend information about asset conditions

may help you *understand how differences between needed and actual spending relate to the improvement or deterioration of the physical state of infrastructure.*

You may *obtain cues about allocating resources within a particular infrastructure maintenance program.* For instance, if the condition of main arterial highways is improving while arterial and secondary streets are deteriorating, you might advocate devoting some of the former category's resources to restoring the condition of the latter two categories.

This supplemental information helps you *monitor whether your government is meeting targets for necessary spending.* It also *alerts you to changes your government makes* in its assessment methodology, measurement scale, and chosen level at which to maintain condition, and helps you to *determine the impact those changes had* on the trends in financial and asset condition information. For instance, if you were on a citizen advisory panel to a public transit system and were concerned that infrastructure was being neglected and repair work deferred, you might be able to answer your questions with this information.

Figure 33. Modified Approach Information

Condition Rating of the City's Street System

①	Percentage of Lane-Miles in Good or Better Condition			Percentage of Lane-Miles in Substandard Condition		
	2016	2015	2014	2016	2015	2014
Main arterial	93.2%	91.5%	92.0%	1.7%	2.6%	3.1%
Arterial	85.2%	81.6%	84.3%	3.5%	6.4%	5.9%
Secondary	87.2%	②4.5%	86.8%	2.1%	3.4%	3.8%
Overall system	88.2%	85.5%	87.3%	2.2%	3.6%	3.9%

Comparison of Needed-to-Actual Maintenance/Preservation (in thousands)

	2016	2015	2014	2013	2012
Main arterial:					
Needed	$2,476	$2,342	$2,558	$2,401	$2,145
Actual	2,601	2,552	2,432	2,279	2,271
Arterial:					
Needed	1,485	1,405	1,535	1,441	1,287
Actual	1,560	1,531	1,459	1,367	1,362
Secondary:					
Needed	990	937	1,023	960	858
Actual	1,040	1,021	972	911	908
Overall system:					
Needed	$4,951	$4,684	$5,116	$4,802	$4,290
Actual	$5,201	$5,104	$4,863	$4,557	$4,541
Difference	$250	$420	($253)	($245)	$251

Note: The condition of road pavement is measured using the XYZ pavement management system, which is based on a weighted average of six distress factors found in pavement surfaces. The XYZ pavement management system uses a measurement scale that is based on a condition index ranging from zero for a failed pavement to 100 for a pavement in perfect condition. The condition index is used to classify roads in good or better condition (70–100), fair condition (50–69), and substandard condition (less than 50). It is the City's policy to maintain at least 85 percent of its street system at a good or better condition level. No more than 10 percent should be in a substandard condition. Condition assessments are conducted every year.

Figure 33 Notes

① NOTE: This is a different government from Local City and, therefore, this illustration does not tie to the financial statements.

② In all three years, this City met its goal of keeping at least 85 percent of streets at good or better condition (see the note to the schedule).

Keep in mind...the illustrative MD&A

A sample MD&A, based on the illustrative statements presented in this guide, can be found in Appendix A. It is provided for your reference as you proceed through the description of MD&A in this section. You also are encouraged to read through it as a whole, because it offers an example of how one might assess a complete set of government financial statements.

MD&A is a fairly individualistic presentation—although particular topics are required to be addressed and specific information needs to be included, each government's MD&A is written by different people about a different government in different circumstances. In other words, they are different. The sample MD&A in Appendix A is an example of how one *might* be organized, though your government's may look (dare we say?) different. Your government has the flexibility to design its MD&A in the way it believes best meets the needs of its constituents, as long as it meets the information requirements of the prevailing accounting standards. **The sample MD&A surpasses the minimum standards** and should be viewed as an example of what *could* be done, rather than what *must* be done, by your government.

By the numbers...statement or schedule?

This guide presents the budgetary comparison as an RSI schedule, the recommended approach in the accounting standards. However, your government may choose to include the comparison among the basic financial statements—as a *statement* rather than a *schedule*—if it considers doing so to be essential to your understanding of the government's financial health. Such may be the case, for instance, if a government's budgetary basis is the same as or similar to the basis used in the governmental funds statements.

Upon further review...analyzing variances

The variance figures may be more useful if converted to percentage changes. (You can do this by dividing the budget-to-actual variances by the final budget amounts, and dividing the original-to-final budget variances by the original budget.) Doing so gives you a sense of the magnitude of the variance, which may be more meaningful to you than the aggregate dollar amount.

An example: The variances for outflows for planning and economic development ($141,739) and police ($121,421) are roughly equal for a city. However, the percentage change for planning and economic development (7.9 percent) is 13 times greater than that for police (0.6 percent).

Keep in mind...the number of years in pension and OPEB RSI schedules

Ultimately, the RSI schedules for pensions and OPEB will cover the past 10 fiscal years. However, the information about changes in the NPL or NOL and related ratios is not available for the years prior to when governments implemented the existing standards—principally fiscal year 2015 for pensions and (as explained in **Keep in mind...implementation dates for OPEB reporting** on page 102) fiscal year 2018 for OPEB. Consequently, your government will build its schedules prospectively each year until they eventually contain a full 10 years. Your government may be able to present a full 10 years from the start for the employer contributions schedules because that information likely was collected and reported previously.

By the numbers...OPEB and covered-employee payroll

If your government presents the schedules described on pages 127 and 130 for OPEB, the ratios in the schedules may utilize covered payroll. However, if the OPEB your government provides to its employees is *not* determined based on a measure of pay (for instance, the benefit equals a flat dollar amount per retiree instead of, say, 3 percent of pay), there are two differences in the OPEB schedules:

- There is no ratio of the NOL divided by covered payroll in the schedule of changes in the NOL and related ratios.
- In the schedule of employer contributions, actual contributions are divided by **COVERED-EMPLOYEE PAYROLL** rather than covered payroll. Covered-employee payroll is defined as *total* pay.

PART SIX

OTHER INFORMATION YOU MAY GET WITH THE FINANCIAL STATEMENTS

Rather than publishing MD&A, the basic financial statements, and RSI as a stand-alone document, many governments publish them as part of a larger comprehensive annual financial report (CAFR). Because there is a chance that a CAFR is what you will get if you ask for your government's financial statements, this section of the guide provides an overview of what you will find in it.

CAFRs can provide a wealth of information. As mentioned in previous sections, a lot of additional financial, economic, and demographic information that you might want to use when analyzing your government's financial statements can be found in other parts of the CAFR. (If your government does not publish a CAFR, you may yet be able to obtain some of the information described here, either by requesting it from your government or from other sources. For instance, see **Tools of the Trade...sources of other data** in Appendix C.)

A CAFR for a general purpose government (such as a city, town, or county) follows the three-part format laid out in **By the numbers...the contents of a CAFR.** (Special-purpose governments, such as utilities and pension plans, may follow different requirements.) The first or INTRODUCTORY SECTION contains your government's LETTER OF TRANSMITTAL and other materials. The heart of a CAFR is its FINANCIAL SECTION, which begins with the auditor's report, followed by the information discussed in Parts Two through Five of this guide—MD&A, the basic financial statements, and RSI. The financial section also contains additional information in a variety of statements and schedules. This part of the guide describes those statements and schedules, as well as the information presented in a CAFR's concluding statistical section.

WHAT'S AHEAD?

- → GET TO KNOW YOUR GOVERNMENT.
- → FIND OUT WHO'S IN CHARGE.
- → READ A WELCOME FROM THE CHIEF EXECUTIVE OR FINANCE OFFICER.

INTRODUCTORY SECTION OF A CAFR

The introductory section of a CAFR is unaudited supplementary information (SI). That is, it is provided voluntarily by your government and generally only if your government presents its financial statements in a CAFR. As the name suggests, it is the first part of the CAFR, introducing you to the government itself—how it is structured, how it operates, what services it provides, and so on. This kind of information is valuable for understanding the environment in which your government's financial activity—as reported in the financial statements, notes, and RSI—took place. It also is important for

understanding the context of the other SI your government may present, such as combining financial statements and the statistical section.

The standards that govern how and what information your government includes in its financial reports specify very little about the contents of an introductory section, other than a table of contents, letter of transmittal, and other items your government considers appropriate. Nonetheless, because of guidelines set forth by professional associations such as the Government Finance Officers Association (GFOA), the contents are fairly consistent from government to government. A government's introductory section is likely to include the following, often in this general order:

- Title page
- Table of contents
- Letter of transmittal
- Financial report awards, if applicable
- List of principal officials
- Organizational chart, and
- Audit committee letter.

Financial Report Awards

The GFOA conducts a program to encourage and recognize excellence in financial reporting. Governments submit their CAFRs to that program, which reviews the reports to determine if they meet a lengthy list of requirements for content and presentation. Governments that are awarded a Certificate of Achievement for Excellence in Financial Reporting often include a facsimile of the certificate in their introductory section. They do so to make you aware of their achievement and to acknowledge a certain level of financial management competence on the part of your government. Governments also frequently mention how many times they have won a certificate or the number of years in a row they have been recognized.

Principal Officials and Organizational Chart

Who is in charge in your government? The introductory section presents a list of the major elected and appointed officials of the government. This list sometimes is combined with the organizational chart, which may show the departments, agencies, or divisions of your government, how responsibilities for services and operations are apportioned among them, and the lines of responsibility and accountability. The principal officials alternatively may be found on the title page.

Audit Committee Letter

Your government's audit committee, if it has one, is composed of persons knowledgeable about accounting, financial reporting, and auditing, who serve in an advisory capacity to your government. It oversees the process of auditing your government's financial report, fosters communication between the government and its independent auditor, and helps to resolve any issues that are raised during the audit; audit committees usually select the auditor as well.

Letter of Transmittal

The centerpiece of the introductory section is the letter of transmittal. The letter is addressed to you, the reader of the CAFR, from the government's chief financial officer and chief executive or operating officer, such as the mayor or city manager. Its principal purpose is to formally *transmit* the CAFR to you by explaining why it has been prepared (perhaps your government is legally required to do so) and the systems of control that your government uses to ensure the accuracy of its financial information. The letter of transmittal acknowledges that *the management of the government is responsible for the contents of the financial report*. In other words, even though the auditor, audit committee, or others may be involved in the preparation of the financial report, it is nevertheless the *government's* financial report.

The GFOA suggests several types of information that your government should consider including in its letter of transmittal. For instance, the letter of transmittal may contain a profile of the government that briefly describes how it is organized, the types of services it provides, its history, and the population it serves. That profile also may explain in broad terms the government's budgetary process and practices. If your government has received an award for its CAFR or other external recognition of its financial and managerial practices, it may identify those as well.

Your government's letter of transmittal also may include other information that it believes would be helpful to you in assessing the government's financial health. The letter of transmittal may refer to information elsewhere in the financial report but should not be duplicative. Rather, the letter of transmittal tends to include information that is more subjective in nature and, therefore, not appropriate to be included in the other sections of the CAFR. The GFOA identifies examples of pertinent issues that your government might address, such as the state of the local economy, pensions and other benefits promised to its employees and retirees, and its financial management practices, including long-term planning, capital investment strategies, and management of cash and investments.

WHAT'S AHEAD?

→ ANALYZE DETAILED, MULTIYEAR INFORMATION RELATED TO THE FINANCIAL STATEMENTS.

→ ANSWER QUESTIONS RAISED BY YOUR EXAMINATION OF THE FINANCIAL STATEMENTS.

COMBINING STATEMENTS AND SCHEDULES

Part Four discusses the combining statements of major component units that governments present with their annual financial statements. A CAFR contains a variety of other combining statements and other schedules intended to enhance your understanding of the information in the basic financial statements. You are likely to find six groups of statements; they are listed in **By the numbers...supplemental statements in the CAFR,** along with the specific statements required for each group.

By the numbers…supplemental statements in the CAFR		
Category	**Statements**	**Figures**
Nonmajor governmental funds (aggregated in a single column in the governmental funds statements)	Combining balance sheet; combining statement of revenues, expenditures, and changes in fund balances	B-10, B-11
Nonmajor enterprise funds (aggregated in a single column in the proprietary funds statements)	Combining statement of net position; combining statement of revenues, expenses, and changes in fund net position; combining statement of cash flows	Not illustrated
Internal service funds (aggregated in a single column in the proprietary funds statements)	Combining statement of net position; combining statement of revenues, expenses, and changes in fund net position; combining statement of cash flows	B-12, B-13, B-14
Fiduciary funds (aggregated by class of fund in the fiduciary funds statements)	For each fund classification (if a government has more than one fund of that class): combining statement of fiduciary net position; combining statement of changes in fiduciary net position	Not illustrated
Governmental funds (statements for individual funds to present information from multiple years for the purpose of comparison)	For each year (generally two years): balance sheet; statement of revenues, expenditures, and changes in fund balances (each may be combined in a single comparative statement)	Not illustrated
Proprietary funds (statements for individual funds to present information from multiple years for the purpose of comparison)	For each year (generally two years): statement of net position; statement of revenues, expenses, and changes in fund net position; statement of cash flows (each may be combined in a single comparative statement)	Not illustrated

Your government also may include *schedules* in its CAFR. These schedules may have any of these three purposes:

1. *To present additional detail*—for example:
   - Revenues by source in greater detail—for instance, liquor licenses, health inspection fees, parking permits, and parade permits, rather than the overall category "licenses and permits"
   - Expenses/expenditures by object of spending—for example, salaries, employee health insurance, rent, supplies, utilities
   - Expenses/expenditures by department—police, fire, jails, ambulance, and juvenile justice, rather than the overarching functional category "public safety"
2. *To bring together similar information from various parts of the statements and display it in greater detail*—perhaps done for grants receivable from other governments, long-term debt, investments
3. *To provide further proof of compliance* with finance-related legal and contractual requirements.

The information in the CAFR schedules and combining statements may be useful to you if you want to *delve deeper into a particular area* than the data in the basic financial statements allow. Your area of interest

could be a specific fund or program, or a particular revenue source or expense over multiple units, and so on. The data are no different from what we have encountered thus far—just more detailed.

Unless you are very familiar with your government's statements, you should not dive right into the combining statements and schedules. Analyzing financial statements is an iterative process of asking questions, massaging basic financial statement data, examining results, asking more specific questions based on what you find, massaging more detailed data in the notes or RSI, and so on. The combining statements and schedules might be one place you end up looking for the data you need as you investigate financial statement information that piqued your interest.

WHAT'S AHEAD?

→ LEARN ABOUT THE FINANCIAL, ECONOMIC, AND DEMOGRAPHIC ENVIRONMENT IN WHICH YOUR GOVERNMENT OPERATES.

→ OBTAIN THE FINANCIAL AND NONFINANCIAL DATA YOU NEED.

THE STATISTICAL SECTION

The statistical section of the CAFR contains trend tables of financial, economic, and demographic data. The typical schedule presents information for the most recent 10 years. It should be noted that, unlike the information in the financial statements and notes, statistical section information usually is not audited.

Accounting standards require governments to include as many as 18 separate schedules or types of schedules in the statistical section; they are listed in **By the numbers...required statistical schedules.** You may not always see the full complement of schedules, because some schedules are not appropriate to particular governments. A locality without a property tax, for example, would not present the schedule of property tax levies and collections (8).

The schedules can be collated into five groups: financial trends (1–4); revenue capacity (5–8); debt capacity (9–13); demographic and economic information (14 and 15); and operating information (16–18).

Financial Trends

These schedules are essentially like 10 years' worth of financial statements lined up side-by-side, presenting historical trends in the components of net position, revenues and expenses, categories of fund balance, and revenue and expenditures. (See Figures B-15 to B-18.) This information can help you to understand how your government's finances have changed over time. Is the portion of the government's assets represented by its infrastructure and other long-lived assets larger or smaller over time? Can more or less of its fund balance be used for any purpose, or are they restricted or committed to specific uses? Which functions or programs have experienced the most growth in expenses? As with other trend information, you can compute percentage change ratios for each year, and for multiple years (such as the first and last 5 years or the entire 10-year period).

Revenue Capacity

The next three schedules in the statistical section present information about your government's most significant OWN-SOURCE REVENUE—sources like taxes and fees, which are imposed by your government itself, as opposed to sources like intergovernmental aid. These schedules present detail about the two factors that directly influence the amount of revenue that will be received—the rate that the government levies (or charges, in the case of fees) and the base that the rate is applied to. (See Figures B-19 and B-20.) For the majority of local governments, the most significant own-source revenue is the property tax. These schedules would therefore include property tax rates and property values. The tax rates will be both those of your government and the rates of other governments levying taxes on the same properties—OVERLAPPING RATES. The third schedule lists your government's largest tax (revenue) payers. (See Figure B-21.) A fourth schedule of property tax levies and collections is presented only if your government's most significant own-source revenue is a property tax. (See Figure B-22.)

The information in the revenue capacity schedules is intended to help you understand and assess the factors that affect your government's ability to raise its most significant own-source revenue. Is the economic base or activity underlying the revenue growing or declining? Are particular parts of the base—such as residential property versus commercial, or certain kinds of retail sales—growing faster or slower than the total revenue base? (See **Keep in mind...comparing assessed property values and tax rates in multiple jurisdictions.**) Has your government been raising rates or lowering them over the past 10 years? The number of rate increases and their magnitude would certainly bear on your judgments about your government's ability to raise rates further. What other governments are taxing the same base? How dependent is your government on the largest payers, and what could potentially happen if one of them went out of business or moved away? The information about property tax levies and collections is useful in at least two ways. First, it may be an indicator of the financial management capabilities of your government. How good a job does it do in collecting its taxes? Second, it may be an early warning sign of economic problems on the horizon.

Debt Capacity

Following the revenue capacity schedules are as many as five schedules addressing your government's debt burden and ability to issue additional debt. The first two debt schedules present (1) all of your government's outstanding long-term debt and (2) just the debt repaid with general resources. The total amounts are converted into ratios that help you to understand the magnitude of your government's indebtedness, such as DEBT PER CAPITA and debt as a percentage of property value. (See Figures B-23 and B-24.) The third schedule adds OVERLAPPING DEBT into the mix—the proportionate share of the debt of overlapping governments that is applicable to the taxpayers of your government. (See Figure B-25.) The fourth debt schedule shows how the legal limit on how much debt your government can have outstanding is calculated (most governments operate under such a limit). (See Figure B-26.) The last debt schedule compares the debt service on debt that is pledged to be repaid with a specific revenue source (such as revenue bonds to be repaid with charges for water consumption) with the amount of that revenue actually generated. (See Figure B-27.) The resulting ratio—a coverage ratio (see Appendix

C)—provides a sense of the margin of comfort a holder of such bonds can have that sufficient revenue will be raised by your government to make interest and principal payments.

The ratios of debt to personal income and property values speak to the burden the outstanding debt load places on the local economy. How much of the relevant economic activity would be necessary to repay your government's debt? Even if your government can afford to issue more long-term debt, would it be legally allowed to? Which kinds of debt are legally capped and which are not? How diverse is your government's debt portfolio; in other words, does it issue various kinds of debt?

Demographic and Economic Indicators

Your government's statistical section includes at least two schedules that contain demographic and economic information about the government's geographic area. One schedule should include, at a minimum, four pieces of information for the last 10 years (see Figure B-28):

- Population
- Total personal income (although this may be presented in the ratios of outstanding debt schedule, which includes a ratio of debt divided by personal income)
- Per capita personal income (total personal income divided by population), and
- Unemployment rate.

Your government also may present other indicators, such as median age of the population, average educational attainment, employment, school enrollment, and so on. Your government also presents a schedule of the 10 largest employers in its jurisdiction (or fewer than 10 employers if they amount to half or more of total employment). In addition to identifying the largest employers, the schedule presents the number of persons each employs and the number of employees divided by total employment. (See Figure B-29.)

There are two basic reasons why a government includes this information in the statistical section. First, it helps you to understand the economic environment the government operates in. The financial well-being of the citizens and businesses affects how much economic activity they engage in, how much and what they buy, where they live and work, how much they earn, and so on. How will your government's revenues be affected? How will service costs change because of rising costs for labor, capital, supplies, and such? How reliant is the economy on a few large employers? The second reason this information is presented is because you need this kind of raw data to produce financial ratios. With these indicators you can construct your own ratios from the information in the financial statements, notes, RSI, and other SI.

Operating Information

The last three schedules provide information about your government's operations and resources to help you place the financial statements and notes in context—numbers of government employees, operating indicators, and capital asset indicators. The first schedule (Figure B-30) includes the number of persons your government employs, typically arranged by the expense categories of the statement of activities. This information can be very valuable for understanding trends in the cost of services. For most

governments, the lion's share of the cost of many services is employee compensation. Therefore, if you have information about how the number of employees has changed over time, you have an important insight into *why costs have risen or fallen* for particular functions, programs, activities, or services.

The second schedule includes indicators of demand or level of service for each of the expense categories reported in the statement of activities. The illustrative schedule in Figure B-31 contains a variety of measures for each function and program, but your government may present a single indicator as long as it offers a clear sense of *how much service a government provides*.

The third operating schedule shows indicators of the volume, usage, or nature of the capital assets related to the functions and programs reported in the government-wide statement of activities. The illustrative schedule in Figure B-32 includes indicators such as the number of miles of streets, water mains, and sewers, the acreage of parks and number of athletic fields, and the number of garbage trucks and minibuses. Those indicators add an important layer of meaning to the financial statements and notes, telling you much more about *what those capital assets actually are*—not just a category such as "infrastructure," but specifically X,XXX miles of streets and highways and YY bridges and a sewage treatment capacity of ZZZ millions of gallons a day. You can also get a sense of *your government's priorities for capital investment* (and how those priorities may have changed) by calculating which indicators have increased by the largest percentages.

a **COMPREHENSIVE ANNUAL FINANCIAL REPORT** is a government's official annual financial report, containing the basic financial statements, notes, and RSI, as well as introductory material and additional statements and schedules with financial, economic, and demographic information

a **LETTER OF TRANSMITTAL** is a welcome message to the user of the CAFR from a government's chief executive or finance officer

OVERLAPPING RATES are tax or revenue rates imposed on your government's tax or revenue base by other governments that geographically coincide, at least partially, with your government

OVERLAPPING DEBT is a portion of the outstanding debt of other governments that geographically coincide, at least partially, with your government

By the numbers...the contents of a CAFR

- **Introductory section,** including a letter of transmittal
- **Financial section:**
  - Auditor's report
  - MD&A, basic financial statements, and RSI
  - Combining and individual fund statements and schedules
- **Statistical section**

By the numbers...required statistical schedules

Unless otherwise noted, these schedules contain information for the past 10 years.

1. Net position by component
2. Changes in net position
3. Fund balance by category—general fund and all other governmental funds
4. Changes in fund balance—general fund and all other governmental funds
5. Tax/revenue base information—most significant own-source revenue
6. Direct and overlapping tax/revenue rates—most significant own-source revenue
7. Principal tax/revenue payers—most significant own-source revenue (for the first and last years of the 10-year period)

8. Property tax levies and collections (if your government is reporting a property tax in schedules 5–7)
9. Ratios of outstanding debt
10. Ratios of general bonded debt
11. Computation of overlapping debt for the current year
12. Computation of **LEGAL DEBT MARGIN**
13. Pledged-revenue coverage
14. Demographic and economic indicators
15. Principal employers (for the first and last years of the 10-year period)
16. Government employees by function or program
17. Capital asset indicators (of their volume, usage, or nature) by function or program
18. Operating indicators (of demand or level of service) by function or program

Keep in mind...comparing assessed property values and tax rates in multiple jurisdictions

Assessed value is usually a fraction of market value, and a product of your government's particular system for assessing property values. Care must be taken to be certain that the assessed value information for the governments you are comparing actually is equivalent and comparable; otherwise, the tax rates may not be comparable. Consider, for example, two governments that apply the same tax rate to assessed value: one government assesses property at full market value, but the other assesses at just 25 percent of market value. Without knowing anything about their assessment policies, you might think their rates were comparable. However, despite having the same tax rate, the tax burden actually is four times greater in the government that assesses at full value.

APPENDIX A

FIGURE A. MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Local City's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year that ended on December 31, 2016. Please read it in conjunction with the transmittal letter at the front of this report and the City's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The City's total net position remained virtually unchanged over the course of this year's operations. However, whereas the net position of our business-type activities *increased* $3.2 million (4 percent), this was offset by a *decrease* of $3.1 million (almost 9 percent) in the net position of our governmental activities.
- The City's assets grew nearly 4 percent, but the increase in liabilities was 3 times greater due to significant issuances of new bonds (12 percent increase) and growth in the net liabilities for pensions and retiree health insurance (13 percent).
- During the year, the City's expenses were $6.3 million more than the $99.5 million generated in taxes and other revenues for governmental programs (before special items). This is better than last year, when expenses exceeded revenues by $8.9 million.
- In the City's business-type activities, revenues increased close to 6 percent to $15 million, while expenses decreased almost 2 percent.
- The general fund reported a deficit this year of $1.3 million despite one-time proceeds of $3.5 million from the sale of some of our park land.
- The resources available for appropriation were $1.1 million less than budgeted for the general fund. However, we kept expenditures within spending limits primarily through a midyear hiring and overtime freeze and our staff restructuring efforts.

OVERVIEW OF THE FINANCIAL STATEMENTS ①

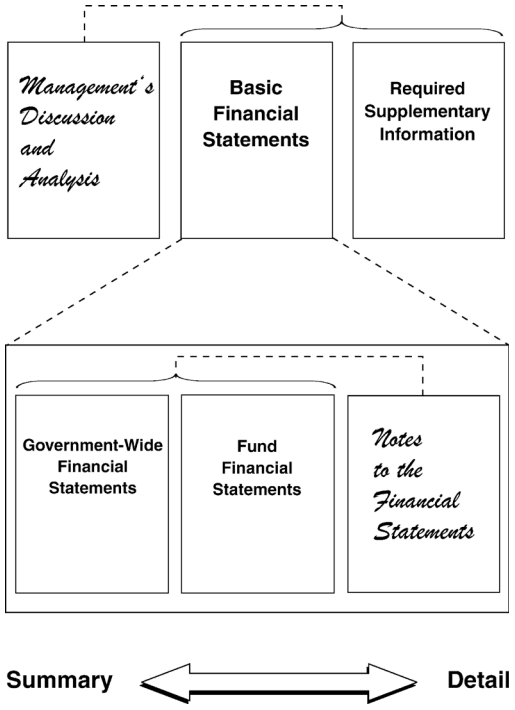
This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's *overall* financial status, including its component units.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the City government, reporting the City's operations *in more detail* than the government-wide statements.

– The *governmental funds* statements tell how *general government* services such as police and parks were financed in the *short term* as well as what remains for future spending.
– *Proprietary funds* statements offer *short-* and *long-term* financial information about the activities for which the City charges a fee to customers, such as the water and sewer system.
– *Fiduciary funds* statements provide information about the financial relationships in which the City acts solely as a *trustee* or *agent* for the benefit of those outside of the government, to whom the resources in question belong.

Figure A-1

Required Components of Local City's Annual Financial Report



The financial statements also include *notes* that explain some of the information in the financial statements and provide more detail. The notes are followed by a section of *required supplementary information* that further explains and supports certain information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and are related to one another. In addition to these required elements, we have included a section with combining statements that provide details about our nonmajor governmental funds and internal service funds, each of which are added together and presented in single columns in the basic financial statements.

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-Wide Statements

The government-wide statements report information about the City as a whole, using an accrual basis of accounting and economic resources measurement focus. Consequently, the statement of net position includes *all* of the government's assets and liabilities, as well as deferred inflows of resources and deferred outflows of resources (deferrals). All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how it has changed. Net position—

essentially the difference between the City's assets and liabilities—is one way to measure the City's financial health.

- Over time, increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, you need to consider additional factors such as changes in the City's property tax base and the condition of the City's roads.

In the government-wide financial statements, the City's activities are divided into three categories:

- *Governmental activities*—Most of the City's basic services are included here, such as the police, fire, public works, and parks departments, and general administration. Property taxes and state and federal grants finance most of these activities.
- *Business-type activities*—The City charges fees to customers to help cover the costs of certain services it provides. The City's water and sewer system and parking facilities are included here.
- *Component units*—The City includes two other entities in its report—the Local Public School District and the Local City Landfill Authority. Although legally separate, these "component units" are important because the City is financially accountable for them.

Figure A-2
Major Features of Local City's Government-wide and Fund Financial Statements

		Funds Statements		
	Government-Wide	**Governmental Funds**	**Proprietary Funds**	**Fiduciary Funds**
Scope	Entire City government (except fiduciary activities such as the employee retirement plan)	The activities of the City that are not proprietary or fiduciary, such as police, fire, and parks	Activities for which the City charges a fee to customers: the water and sewer system and the parking facilities	Instances in which the City is the trustee or agent for resources belonging to others, such as the employee retirement plan
Required financial statements	• Statement of net position • Statement of activities	• Balance sheet • Statement of revenues, expenditures, and changes in fund balances	• Statement of net position • Statement of revenues, expenses, and changes in fund net position • Statement of cash flows	• Statement of fiduciary net position • Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources measurement focus	Modified accrual accounting and current financial resources measurement focus	Accrual accounting and economic resources measurement focus	Accrual accounting and economic resources measurement focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both financial and capital, short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which transactions have occurred and cash is received during or soon after the end of the year; expenditures when goods or services have been received and the required liability is normally due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions to and and deductions from fiduciary net position during the year, regardless of when cash is received or paid

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes (like the Route 7 reconstruction project) or to show that it is properly using certain taxes and grants (like aid from the U.S. Department of Housing and Urban Development).

The City has three kinds of funds:

- *Governmental funds*—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements that explains the relationship (or differences) between them.

- *Proprietary funds*—Services for which the City charges customers a fee generally are reported in proprietary funds. Proprietary funds report the same types of information as the government-wide statements.
  - In fact, the City's *enterprise funds* (one type of proprietary fund) are the same as its business-type activities, but they provide more detail and additional information, such as cash flows.
  - We use *internal service funds* (the other kind of proprietary fund) to report activities that provide supplies and services for the City's other programs and activities—such as the City's Telecommunications Fund.
- *Fiduciary funds*—The City is the trustee, or *fiduciary,* for its employees' pension plan. It also is responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE ②

Net position. The City's *combined* net position was virtually unchanged between fiscal years 2015 and 2016—increasing slightly to $116.8 million. (See Table A-1.) In contrast, net position *decreased* $6.2 million last year. Looking at the net position and net expenses of governmental and business-type activities separately, however, two very different stories emerge.

Net position of the City's governmental activities decreased 8.6 percent to $32.7 million. However, all of the resources represented by that net position either are restricted to specific purposes or are invested in capital assets (buildings, roads, bridges, and so on). Consequently, *unrestricted* net position had a $93.7 million *deficit* at the end of this year. This deficit does not mean that the City does not have resources available to pay its bills next year. Rather, it is the result of having *long-term* commitments that are greater than currently available resources. Specifically, the City's net pension liability and net other postemployment benefit (OPEB) liability—the difference between the total amount owed to employees and retirees and the value of assets set aside in trusts that meet specific criteria in the accounting standards—amounted to $100.3 million this year, a 13.1 percent increase over 2015. These two liabilities represent virtually half of all liabilities. Furthermore, the City did not include in past annual budgets the full amounts needed to finance future liabilities arising from property and casualty claims and to pay for unused employee vacation and sick days. The City will include those amounts in future years' budgets as they come due.

In addition, the deficit in unrestricted governmental net position was adversely affected by two particular features of the City's recent financial activity:

- During the past two years, tax revenues and State grants fell short of expectations.
- The City Council used accumulated cash balances to avoid tax increases.

Although the net position of our business-type activities increased by 4.0 percent to $84.1 million, these resources cannot be used to make up for the net position deficit in governmental activities. The City

generally can use business-type activities resources only to finance the continuing operations of the water and sewer and parking operations.

Table A-1
Local's Net Position
(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2015	2016	2015	2016	2015	2016	2015–2016
Current and other assets	$ 50.4	$ 54.3	$ 61.9	$ 62.9	$ 112.3	$ 117.2	4.4%
Capital assets	162.1	170.0	147.6	151.4	309.7	321.4	3.8%
Total assets	**212.5**	**224.3**	**209.5**	**214.3**	**422.0**	**438.6**	**3.9%**
Total deferred outflows	**4.8**	**16.8**	**2.2**	**8.0**	**7.0**	**24.8**	**254.4%**
Long-term debt outstanding	63.3	79.3	77.3	78.3	140.6	157.6	12.1%
Net pension & OPEB liabilities	90.6	100.3	45.2	53.3	135.8	153.6	13.1%
Other liabilities	22.6	21.8	1.7	1.4	24.3	23.2	(4.7)%
Total liabilities	**176.5**	**201.4**	**124.2**	**133.0**	**300.7**	**334.4**	**11.2%**
Total deferred inflows	**5.0**	**7.0**	**9.0**	**5.2**	**14.0**	**12.2**	**(12.9)%**
Net position							
Net investment in capital assets	100.3	103.7	71.6	73.1	171.9	176.8	2.9%
Restricted	27.1	22.8	2.8	1.5	29.9	24.2	(18.9)%
Unrestricted	(91.6)	(93.7)	6.5	9.6	(89.5)	(84.1)	(6.0)%
Total net position	**$ 35.8**	**$ 32.7**	**$ 80.9**	**$ 84.1**	**$ 116.7**	**$ 116.8**	**0.1%**

Note: Totals may not add due to rounding.

Changes in net position. The City's total revenues (excluding special items) increased by 4 percent to $114.5 million. (See Table A-2.) Virtually half of the City's revenue comes from property taxes, and 60 cents of every dollar raised comes from some type of tax. (See Figure A-3.) Another quarter comes from fees charged for services, and most of the rest is State and federal aid.

The total cost of all programs and services was virtually unchanged (increasing $800,000, or less than 1 percent). The City's expenses cover a range of services, with about half related to public safety and education. (See Figure A-4.)

Figure A-3

Sources of Local's Revenues for Fiscal Year 2016

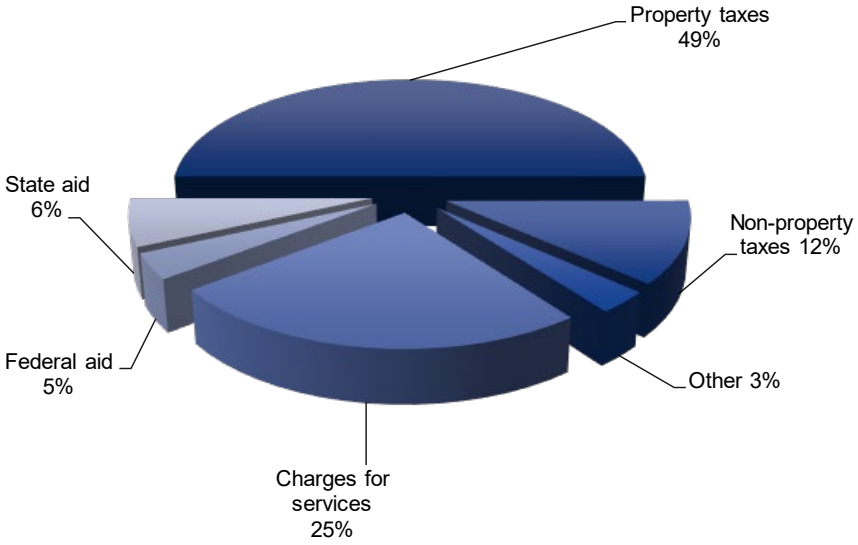
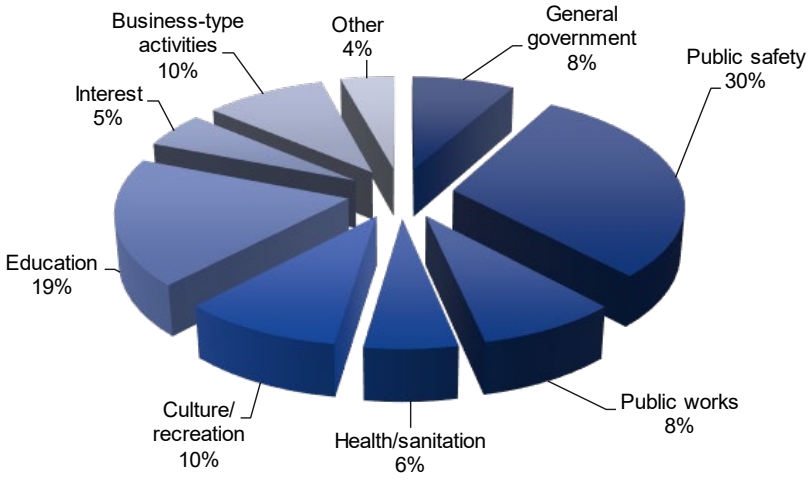


Figure A-4

Local's Expenses for Fiscal Year 2016



Even with this low growth in expenses and the sale of 1,170 acres of park land on the City's south side for a gain of $2.7 million, the City still did not cover this year's costs for governmental activities. The factors that led to the accumulated net position deficit also were the primary reasons for this year's shortfall. Table A-2 and the narrative that follows consider the operations of governmental and business-type activities separately.

Table A-2
Changes in Local's Net Position
(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2015	2016	2015	2016	2015	2016	2015–2016
Revenues							
Program revenues							
Charges for services	$ 14.6	$ 15.8	$ 11.9	$ 12.7	$ 26.5	$ 28.4	7.2%
Federal grants	2.4	2.5	1.5	1.6	3.9	4.1	5.1%
State grants and entitlements	8.3	7.5	-	-	8.3	7.5	(9.6)%
General revenues							
Property taxes	53.6	56.4	-	-	53.6	56.4	5.2%
Other taxes	13.0	13.0	-	-	13.0	13.0	0.0%
Federal entitlements	1.4	1.5	-	-	1.4	1.5	7.1%
Other	2.6	2.8	0.8	0.7	3.4	3.5	2.9%
Total revenues	**95.9**	**99.5**	**14.2**	**15.0**	**110.1**	**114.5**	**4.0%**
Expenses							
General government	9.3	9.6	-	-	9.3	9.6	3.2%
Public safety	33.8	34.9	-	-	33.8	34.9	3.3%
Public works	10.5	10.1	-	-	10.5	10.1	(3.8)%
Engineering services	1.4	1.3	-	-	1.4	1.3	(7.1)%
Health and sanitation	6.5	6.7	-	-	6.5	6.7	3.1%
Cemetery	0.5	0.7	-	-	0.5	0.7	40.0%
Culture and recreation	11.9	11.5	-	-	11.9	11.5	(3.4)%
Community development	3.3	3.0	-	-	3.3	3.0	(9.1)%
Education	21.3	21.9	-	-	21.3	21.9	2.8%
Interest on long-term debt	6.3	6.1	-	-	6.3	6.1	(3.2)%
Water	-	-	3.7	3.6	3.7	3.6	(2.7)%
Sewer	-	-	4.8	4.9	4.8	4.9	2.1%
Parking facilities	-	-	3.0	2.8	3.0	2.8	(6.7)%
Total expenses	**104.8**	**105.8**	**11.5**	**11.3**	**116.3**	**117.1**	**0.7%**
Excess (deficiency) before special items and transfers	(8.9)	(6.3)	2.7	3.7	(6.2)	(2.6)	(58.1)%
Special item: park land sale	-	2.7	-	-	-	2.7	-
Transfers	(0.4)	0.5	0.4	(0.5)	-	-	-
Increase (decrease) in net position	**$ (9.3)**	**$ (3.1)**	**$ 3.1**	**$ 3.2**	**$ (6.2)**	**$ 0.1**	(101.6)%

Note: Totals may not add due to rounding.

Governmental Activities

Revenues for the City's governmental activities (excluding the sale of park land) increased 3.8 percent, while total expenses increased less than 1 percent. The gain on the sale of the park land narrowed the decrease in net position for governmental activities to $3.1 million in 2016. This compares to a $9.3 million decrease in 2015.

- The City's management took three major actions this year to avoid the level of deficit reported last year. Two of these actions increased revenues and a third reduced expenses:

- The City increased property tax rates an average of 5 percent. This increase, the first in 4 years, raised tax revenues $2.8 million in 2016. Based on increases in property values, tax revenues are budgeted to increase an additional $2.8 million next year.
- The City sold 3 parcels of park land for $3.5 million, for a gain (net of the $823,000 originally paid) of $2.7 million. This was a one-time special item. Although this property has been added back to the tax rolls, the tax revenues it may generate in the future are not expected to be at the same level that the City received this year by selling the land.
- The City imposed a hiring and overtime freeze (excluding the City's police, fire, and sanitation departments) in midyear that resulted in a $2.2 million savings in wages and related benefit expenses in 2016 compared to 2015. This freeze, plus cost savings of $500,000 from our continuing staff restructuring efforts, held down the increase in expenses.

Despite the rate increase, property tax revenues lagged by $844,000 compared to the originally enacted budget because delays in several major commercial and residential developments precluded adding them to this year's tax rolls. More than half of the City's other revenue sources also fell short of final budget estimates. The fire at the State Street Mall affected many retail businesses in the City. In addition, grant revenues were lower than expected because of midyear State cutbacks.

Table A-3 presents the cost of each of the City's five largest programs—police, fire, public works, education, and culture and recreation—as well as each program's *net cost* (total cost less fees generated by the activities and intergovernmental aid). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

- The cost of all governmental activities this year was $105.8 million.
- Some of that cost was paid by:
  - Those who directly benefited from the programs ($15.8 million)
  - Other governments and organizations that subsidized certain programs with grants and contributions ($10.0 million).
- The City paid for the $80 million "public benefit" portion of governmental activities with $69.4 million in taxes, and with other revenues such as interest and unrestricted State aid.

Table A-3
Net Cost of Local's Governmental Activities
(in millions of dollars)

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2015	2016	2015–2016	2015	2016	2015–2016
Police department	$ 19.7	$ 20.3	3.0%	$ 19.1	$ 19.5	2.1%
Fire department	9.2	9.4	2.2%	8.4	8.7	3.6%
Public works	10.5	10.1	(3.8)%	7.3	7.0	(4.1)%
Education	21.3	21.9	2.8%	21.3	21.9	2.8%
Culture and recreation	11.3	11.5	1.8%	5.3	5.1	(3.8)%
Other	32.8	32.6	(0.6)%	17.6	17.8	1.1%
Total	**$ 104.8**	**$ 105.8**	**1.0%**	**$ 79.0**	**$ 80.0**	**1.3%**

Note: Totals may not add due to rounding.

Business-Type Activities

Revenues of the City's business-type activities *increased* 5.6 percent to $15 million and expenses *decreased* 1.7 percent to $11.3 million. (Refer to Table A-2.) Factors contributing to those results included the following:

- Water and sewer operating revenues increased 10 percent (driven by growth in hook-ups of residential customers converting from septic systems); operating expenses rose only 4 percent. The high maintenance costs caused by the harsh winter months of 2015 did not recur this year.
- Continued operating deficits at City parking facilities were $1.4 million this year versus $1.3 million in 2015. In both years, the deficit was attributable primarily to the largest of the three City-owned garages, located on State Street. This year, the garage had to be closed for two extended periods due to ruptured gas lines beneath nearby streets, which now have been repaired, and a fire at the State Street Mall.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed the year, its governmental funds reported a *combined* fund balance of $38.1 million, slightly below last year. Included in this year's total change in fund balance, however, is a deficit of $1.3 million in the City's general fund. Furthermore, without the cash from the sale of park land, fund balances would be $3.5 million lower. The primary reasons for the general fund's deficit mirror those highlighted in the analysis of governmental activities. In addition, these other changes in fund balances should be noted:

- The City spent $11.3 million this year on the Route 7 reconstruction project, reducing the beginning fund balance in that capital projects fund by the same amount. This reduction was expected because capital fund balances at the beginning of this year included the proceeds of general obligation bonds issued last year to finance that project. Although those and other capital expenditures reduce

available fund balances, they create new assets for the City in the statement of net position (as discussed in Note 1 to the financial statements).

- In the same way, the fund balance of the community redevelopment fund increased $17.5 million this year when community redevelopment housing bonds were issued. By year-end, only $2.2 million of the debt proceeds had been used for constructing housing units, and $2.3 million was transferred to the debt service fund. Overall, fund balance grew $13.1 million.
- Each year, the state provides the City with a portion of the gasoline tax revenues it collects. This money can only be used to replace, maintain, or improve the City's roads. This year $3 million (including $1.7 million accumulated previously) was used for 10 major repaving projects.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the City budget several times. Those budget amendments fall into three categories:

- Amendments and supplemental appropriations approved shortly after the beginning of the year to reflect the actual beginning account balances (correcting the estimated amounts in the budget adopted in October 2015).
- Changes made in the third quarter to account for the midyear hiring and overtime freeze, some of the City's staff restructuring efforts, and the sale of an additional parcel of park land.
- Increases in appropriations to prevent budget overruns.

Even with those adjustments, actual expenditures were $2.2 million below original budget amounts. The most significant positive variance ($3.2 million) resulted from a 10 percent reduction of the general administration workforce due to the staff restructuring and hiring freeze.

On the other hand, resources available for appropriation were $5.0 million below the originally budgeted amount. As noted earlier:

- Property and other tax collections were less than expected.
- Reductions in State funding also affected grant resources available for appropriation.

Those shortfalls were partially offset by a 15 percent increase in utility and cable television taxes approved by the City Council in the third quarter.

The City's general fund balance of $1.7 million differs from the general fund's *budgetary* fund balance of $1.4 million reported in the budgetary comparison schedule principally because *budgetary* fund balance excludes:

- Supplies inventories of $182,821 that are reported as expenditures for budgetary purposes when they are purchased, and
- Encumbrances of $40,292 reported as expenditures for budgetary purposes.

CAPITAL ASSET AND DEBT ADMINISTRATION ③

Capital Assets

At the end of 2016, the City had invested $321 million in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, bridges, and water and sewer lines. (See Table A-4.) That amount represents a net increase (including additions and deductions) of $12 million (3.8 percent) over last year.

Table A-4
Local's Capital Assets
(net of depreciation, in millions of dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2015	2016	2015	2016	2015	2016	2015–2016
Land	$ 29.5	$ 27.1	$ 3.7	$ 3.8	$ 33.1	$ 30.9	(6.6)%
Buildings and improvements	29.6	29.6	110.1	112.9	139.7	142.5	2.0%
Equipment	22.9	21.3	1.0	1.2	23.9	22.5	(5.9)%
Infrastructure	77.3	90.7	27.9	30.8	105.2	121.5	15.5%
Construction in progress	2.9	1.3	5.0	2.6	7.9	3.9	(50.6)%
Total	**$ 162.1**	**$ 170.0**	**$ 147.6**	**$ 151.4**	**$ 309.7**	**$ 321.4**	**3.8%**

Note: Totals may not add due to rounding.

The City's fiscal year 2017 capital budget calls for spending another $16 million for capital projects, principally for the completion of the Route 7 reconstruction project and to create housing units in the City's new community redevelopment housing program. The City has no plans to issue additional debt to finance these projects. Rather, we will use bond proceeds from the community redevelopment bonds issued this year and resources on hand in the City's gas tax fund. More detailed information about the City's capital assets is presented in Note 1 to the financial statements.

This year's major capital asset additions included (dollars in millions):

- Route 7 reconstruction project, paid for with proceeds of general obligation bonds issued last year—$11.3
- Replacement of older segments of the wastewater collection system and treatment facilities, paid for with proceeds from a revenue note issued last year—$3.2
- Redevelopment housing construction, paid for with revenue bonds issued this year—$2.2
- Land acquired through the City's power of eminent domain, paid for with general fund resources—$2.0
- Water distribution mains, hydrants, and meters, paid for with water and sewer revenue bonds issued this year—$1.6.

Long-Term Debt

At year-end, the City had $158 million in bonds and notes outstanding—an increase of 12 percent over last year—as shown in Table A-5. More detailed information about the City's long-term liabilities is presented in Note 2 to the financial statements. New debt resulted mainly from issuing revenue bonds for two new projects—$19.8 million of community redevelopment housing bonds and $3.6 million of water system improvement bonds.

Limitations on debt

The State limits the amount of general obligation debt the City can issue to 3 percent of the assessed value of all taxable property within the City's corporate limits. Our outstanding debt is significantly below that limit, which currently is $134 million.

Bond ratings

Since 2005, the City's general obligation bonds have been rated Q-2 (the fourth highest rating possible). The City's other debt—principally, revenue bonds and notes—carries the fifth highest rating, Q-3+.

Table A-5
Local's Outstanding Debt
(in millions of dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2015	2016	2015	2016	2015	2016	2015–2016
General obligation bonds (backed by the City)	$ 32.7	$ 31.3	-	-	$ 32.7	$ 31.3	(4.3)%
Revenue bonds and notes (backed by specific fee revenues)	30.7	48.0	$ 77.3	$ 78.3	108.0	126.3	16.9%
Total	**$ 63.4**	**$ 79.3**	**$ 77.3**	**$ 78.3**	**$ 140.7**	**$ 157.6**	**12.0%**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES ④

- Nonagricultural employment increased 6.2 percent overall during 2012–2016.

- Unemployment now stands at 4.4 percent versus 4.6 percent a year ago. This compares favorably with the state's rate of 5.4 percent and the national rate of 5.0 percent.
- Inflation in the metropolitan area continues to be somewhat higher than the national consumer price index due in part to residential housing market and energy price increases.
  - City inflation was 2.0 percent for fiscal year 2016.
  - The average U.S. city rate was 1.7 percent.
  - The national rate was 1.5 percent.

Those indicators were taken into account when adopting the general fund budget for 2017. Amounts available for appropriation in the general fund budget are $96.4 million, an increase of 4 percent over the final 2016 budget of $92.7 million. Property taxes (benefiting from the 2016 rate increases and growth in assessed valuations), public service taxes (with the 15 percent rate increase discussed above), and grant revenue (boosted by increased state funding in several of our current programs) are expected to lead this increase. The City will use those increases in revenues to finance programs we currently offer and the expected impact of inflation on program costs.

Budgeted expenditures are expected to rise nearly 4 percent to $95.9 million. The largest increments are increased wage and cost-of-living adjustments of $800,000 based on agreements reached with the police, fire, and sanitation department unions in 2014. The City has added no major new programs or initiatives to the 2017 budget.

If those estimates are realized, the City's budgetary general fund balance is expected to increase modestly by the close of 2017. More important, however, it will have been accomplished without repeating the selling of capital assets or restructuring of the workforce to alleviate cash flow pressures that occurred this year. In addition, the City recently purchased commercial insurance for all property and casualty claims incurred after December 31, 2016.

As for the City's business-type activities, we expect that the 2017 results also will improve based on these recent rate decisions:

- The Public Service Commission approved a 2 percent rate increase for all water customers effective January 1. Sewer charges will not change.
- The City Council authorized a 15 percent increase in parking fees at the City-owned garages and on-street meters.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Local City Controller's Office, 38 Tompkins Place, Local, ST 00000.

APPENDIX B
ADDITIONAL ILLUSTRATIONS

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Figure B-1. Auditor's Report

READUM & WEAPE LLP
5 SOBBING ROAD, SUITE 400
Tearful, WX 00000

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Big City, Some State, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City'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 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 audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 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 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

At this point, the auditor states its opinion regarding whether the financial statements are presented in conformity with the accounting standards. If everything is in order, the auditor may present a single overall unqualified opinion. However, if the auditor has identified issues, it will describe the issues and present a qualified or adverse opinion for the specific parts of the financial report that are affected, and present an unmodified opinion for the remainder.

Sample Unqualified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Big City, Some State, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Sample Qualified Opinion

In our opinion, except for the possible effects of the matter described in the [description of the issue] paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate discretely presented component units of Big City, Some State, as of June 30, 2016, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Sample Adverse Opinion

In our opinion, because of the significance of the matter described in the [description of the issue] paragraph, the financial statements referred to above do not present fairly the financial position of the governmental activities of Big City, Some State, as of June 30, 2016, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information, other employee postemployment benefits information, and employee retirement pension benefits information (collectively, the required supplementary information) on pages XX—XX and XX—XX, respectively, 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 to be 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 the required supplementary information in accordance with auditing standards generally accepted 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.

If a government has not presented all of the RSI, the preceding paragraph is modified with language identifying the RSI that was omitted.

If a government presents SI with its financial statements, the auditor's report contains paragraphs similar to the following.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Big City's basic financial statements. The combining and individual nonmajor fund financial statements and budgetary schedules on pages XX—XX and XX—XX, respectively, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

This supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Big City's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

[Signature of the auditor]

[City and state of the auditor]

[Date]

Figure B-2. Summary of Significant Accounting Policies

Note 1—Summary of Significant Accounting Policies

A. Reporting Entity

The accompanying financial statements present the activities of the City (the primary government) and its three component units, entities for which the City is financially accountable. Local Public School District and Local City Landfill Authority are displayed in a separate, discrete column in the financial statements (to emphasize their legal separateness from the primary government). Local City Redevelopment Agency, although legally separate, is so intertwined with the City that it is, in substance, one and the same. Accordingly, it is blended with the primary government. The following table describes the City's component units:

Component Unit	Description; Criteria for Inclusion	Reporting Method	For Separate Financial Statements
Local City Redevelopment Agency	Tax increment district redevelopment; Council members comprised the board, and City has operational responsibility for the Agency.	Blended	Not available
Local Public School District	Kindergarten through high school system; separate board appointed by Council; City finances a substantial portion of operations and guarantees payment of debt.	Discrete	Local Public School District 789 Milligan Lane Local City, ST
Local City Landfill Authority	Operation of landfill within City; separate board appointed by Council; rates approved by Council.	Discrete	Landfill Authority 456 Galloway Drive Local City, ST

In addition, the City participates in a joint venture with Sample County for operation of the Metro Zoo. The City Council is responsible for other related organization board appointments to the Local Fine Arts League and the Local Historical Society. See Notes 20 and 21 for more detailed financial information regarding these relationships.

B. Basis of Presentation, Basis of Accounting

Basis of Presentation

Government-Wide Statements: The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the overall government, except for fiduciary activities. The government-wide statements provide information about the primary government (the City) and its component units without displaying funds. These statements also distinguish between the *governmental*

and *business-type activities* of the City and between the City and its discretely presented component units. Eliminations have been made to minimize the double counting of internal activities.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities.

- Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.
- Indirect expenses—expenses of the general government related to the administration and support of the City's programs, such as personnel and accounting (but not interest on long-term debt)—are allocated to programs based on their percentage of total primary government expenses. Interest expenses are allocated to the programs that manage the capital assets financed with long-term debt.
- Program revenues include charges paid by the recipients of goods or services offered by the programs and grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for each fund category—*governmental, proprietary,* and *fiduciary*—are presented. The emphasis of governmental and enterprise fund reporting (enterprise funds are a type of proprietary fund) is on major funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Internal service funds and fiduciary funds are aggregated and reported by fund type and fund classification, respectively.

The City has the following major governmental funds:

- *General fund*. This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- *HUD programs*. This special revenue fund accounts for grants received from the U.S. Department of Housing and Urban Development. Grants are restricted for accomplishing objectives of the Community Development Block Grant Program, rental rehabilitation and related loan activities, and residential redevelopment.
- *Community redevelopment*. This fund accounts for revenue received from tax increment financing. Those revenues are restricted to carrying out redevelopment in the designated area.
- *Route 7 construction*. This fund accounts for grants and bond proceeds restricted to the improvement and construction of Route 7.

Proprietary fund *operating* revenues and expenses are related to providing water and sewer services to the residents and businesses of Local City, operating the City's parking garages, and providing the following services to other parts of the City government: casualty, health, and life insurance; fleet management; telecommunications; and data processing. Revenues

and expenses arising from capital and noncapital financing activities and from investing activities are presented as nonoperating revenues or expenses.

The City has the following major proprietary funds:

- *Water and sewer fund*. This fund accounts for the activities of the City's water and sewer utility.
- *Parking facilities fund*. This fund accounts for the activities of the City's parking facilities.

Additionally, the City reports the following funds:

- *Internal service funds.* These funds account for the financing of goods and services provided by one department to other departments on a cost-reimbursement basis, including casualty, health, and life insurance; fleet management; telecommunications; and data processing.
- *Pension trust fund.* This fund reports the trust arrangement for the City employee pension plan.
- *Private-purpose trust fund.* This fund reports a trust arrangement under which principal and income benefit individuals and private organizations.
- *Agency fund.* This fund reports resources held for other governments on a short-term basis in a purely custodial capacity.

Basis of Accounting

The basis of accounting determines when transactions are reported on the financial statements. The government-wide, proprietary funds, and fiduciary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured principal and interest on general long-term debt, which is recognized when due. Claims, judgments, and compensated absences are recognized as expenditures only to the extent they are normally expected to be paid from existing unrestricted fund balance. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term liabilities and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position

available to finance the program. It is the City's policy to first apply cost-reimbursement grant (restricted) resources to such programs, followed by general revenues (unrestricted).

C. Budgetary Data

Annual budgets are adopted for the general fund and the HUD fund. The budgetary basis of accounting is modified accrual with the following exceptions:

- Claims and compensated absences are budgeted on the cash basis.
- Encumbrances are budgeted as expenditures in the year the order is placed.

All unencumbered appropriation balances lapse at year-end.

The preceding budgetary disclosure appears in the notes if the budgetary comparison is presented as a basic financial statement. If the budgetary comparison is presented as RSI (as it is for Local City), the disclosure is included in notes to RSI.

D. Assets and Liabilities

Cash and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. All short-term cash surpluses are maintained in a cash and investments pool, the earnings from which are allocated to each fund based on month-end deposit and investment balances.

Investments are reported at fair value, based on quoted market prices, except for money market investments, which are reported at amortized cost.

Inventories

Inventories are valued at cost using the first in/first out (FIFO) method. Inventories in the general fund are accounted for using the "consumption" method in the governmental fund financial statements.

Capital Assets

Capital assets purchased or constructed are recorded as expenditures in the governmental funds but are capitalized at historical cost or estimated historical cost in the government-wide statements and proprietary funds. Capitalization of infrastructure assets acquired or constructed prior to 2002, the year the City implemented GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* is limited to major capital assets acquired or constructed since 1980. Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed assets are reported at estimated fair value at the time received. The City does not capitalize works of art, historical treasures, and similar assets that are held for public exhibition, are preserved, and are subject to a City policy that requires

the proceeds of sales of collection items to be used to acquire other items for the collection. Net interest expense incurred during construction is capitalized when it can be attributed to a specific project.

Depreciation methods and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Depreciation Method	Estimated Useful Life
Buildings and improvements	Straight-line	20–50 years
Equipment	Declining-balance	7–10
Bridges	Straight-line	40–75
Distribution and collection systems	Straight-line	30–40

Depreciation is used to allocate the actual or estimated historical cost of all capital assets (except roads) over their estimated useful lives. For roads and highways the City uses the modified approach, under which the City reports the annual expenses for maintaining and preserving infrastructure assets at a predetermined condition level selected by the City, in lieu of depreciating the assets' historical cost.

Compensated Absences

The City uses the vesting method to compute compensated absences for sick leave.

E. Fund Balance

The City reports fund balance in five categories—nonspendable, restricted, committed, assigned, and unassigned. Restricted fund balance has been limited to specific uses by external parties or individuals, such as the State and federal governments. Committed fund balance has been limited to specific uses by ordinance, the City's highest level of decision-making authority. Assigned fund balance has been identified as intended for specific uses by the City's commissioner of finance, under the authority of the City Council.

When resources are available from more than one category for spending on a particular purpose, it is the City's policy to spend resources in this order: restricted, committed, assigned, and unassigned.

Figure B-3. Calculations to Determine Local City's Major Funds

*Numbers **in blue** show where funds qualify as major because they represent at least 10 percent of all governmental funds AND 5 percent of all government and enterprise funds combined.*

Fund	Assets plus Deferred Outflows	Total Governmental Assets plus Deferred Outflows	Percentage	Liabilities plus Deferred Inflows	Total Governmental Liabilities plus Deferred Inflows	Percentage
General	$ 9,408,550	$51,705,690	18.20%	$7,753,184	$16,812,584	**46.12%**
HUD	7,504,765	51,705,690	14.51%	6,428,389	16,812,584	**38.24%**
Comm. redev.	13,616,035	51,705,690	**26.33%**	440,548	16,812,584	2.62%
Route 7	10,478,037	51,705,690	20.26%	1,115,632	16,812,584	6.64%

Fund	Assets plus Deferred Outflows	Total Governmental and Enterprise Assets plus Deferred Outflows	Percentage	Liabilities plus Deferred Inflows	Total Governmental and Enterprise Liabilities plus Deferred Inflows	Percentage
General	$9,408,550	$266,141,717	3.54%	$7,753,184	$155,149,158	**5.00%**
HUD	7,504,765	266,141,717	2.82%	6,428,389	98,083,172	**6.55%**
Comm. redev.	13,616,035	266,141,717	**5.12%**	440,548	98,083,172	0.45%
Route 7	10,478,037	266,141,717	3.94%	1,115,632	98,083,172	1.14%

Fund	Revenues	Total Governmental Revenues	Percentage	Expenditures	Total Governmental Expenditures	Percentage
General	$86,022,165	$97,482,467	**88.24%**	$88,717,173	$121,332,470	**73.12%**
HUD	2,731,473	97,482,467	2.80%	2,954,389	121,332,470	2.43%
Comm. redev.	549,489	97,482,467	0.56%	2,664,485	121,332,470	2.20%
Route 7	273,100	97,482,467	0.28%	11,298,469	121,332,470	9.31%

Fund	Revenues	Total Governmental and Enterprise Revenues	Percentage	Expenditures	Total Governmental and Enterprise Expenditures/ Expenses	Percentage
General	$86,022,165	$113,960,980	**75.48%**	$88,717,173	$138,413,546	**64.10%**
HUD	2,731,473	113,960,980	2.40%	2,954,389	138,413,546	2.13%
Comm. redev.	549,489	113,960,980	0.48%	2,664,485	138,413,546	1.93%
Route 7	273,100	113,960,980	0.24%	11,298,469	138,413,546	8.16%

Figure B-4. Combining Statement of Net Position, Major Component Units

Local City
Combining Statement of Net Position ①
Component Units
As of December 31, 2016

	Local Public School District ②	Local City Landfill Authority	Total
ASSETS			
Cash and cash equivalents	$ 303,485	$ 450	$ 303,935
Investments	3,658,520	1,770,432	5,428,952
Receivables, net	3,717,026	325,264	4,042,290
Inventories	83,697	—	83,697
Restricted assets—landfill closure ③	—	2,000,000	2,000,000
Capital assets, net	34,759,986	2,984,800	37,744,786
Total assets	42,522,714	7,080,946	49,603,660
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	1,339,299	148,811	1,488,110
Retiree health insurance	803,579	89,287	892,866
Accumulated decrease in fair value of hedging derivatives	—	2,987,635	2,987,635
Total deferred outflows of resources	2,142,878	3,225,733	5,368,611
LIABILITIES			
Accounts payable	4,311,870	479,097	4,790,967
Long-term liabilities:			
Due within one year	1,426,639	—	1,426,639
Due in more than one year	36,810,520	6,168,802	42,979,322
Total liabilities	42,549,029	6,647,899	49,196,928
DEFERRED INFLOWS OF RESOURCES			
Pensions	625,006	69,445	694,451
Retiree health insurance	375,004	41,667	416,671
Total deferred inflows of resources	1,000,010	111,112	1,111,122
NET POSITION			
Net investment in capital assets	12,921,592	2,984,800	15,906,392
Restricted for capital projects	492,445	—	492,445
Unrestricted	(12,297,484)	562,868	(11,734,616)
Total net position	$ 1,116,553	$ 3,547,668	$ 4,664,221

Figure B-4 Notes

① In addition to the information in the combining statements or notes (see Figures B-5 and B-6), your government discloses in the notes the nature and amount of significant transactions between each major component unit and the primary government or other component units.

② This combining statement presents the major component units. See the discussion on page 64 regarding what qualifies as "major."

③ These investments may only be used under state law for the purpose of closing the landfill and caring for it afterward. That is why they are labeled as restricted.

Figure B-5. Combining Statement of Activities, Major Component Units

Local City
Combining Statement of Activities ①
Component Units
For the Year Ended December 31, 2016

		Program Revenues			Net (Expense) Revenue		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	School District	Landfill Authority	Total
Local Public School District							
Instructional	$ 16,924,321	$ 147,739	$ 2,825,109	$ —	$ (13,951,473)	$ —	$ (13,951,473)
Support services	7,972,559	300	751,711	—	(7,220,548)	—	(7,220,548)
Operation of noninstructional services	1,523,340	557,726	359,092	—	(606,522)	—	(606,522)
Facilities acquisition and construction services	48,136	—	1,171	—	(46,965)	—	(46,965)
Interest on long-term debt	546,382	—	—	—	(546,382)	—	(546,382)
Unallocated depreciation	4,171,760	—	—	—	(4,171,760)	—	(4,171,760)
Total—Local Public School District	31,186,498	705,765	3,937,083	—	(26,543,650)	—	—
Local City Landfill Authority							
Landfill operations	3,382,157	3,857,858	—	11,397	—	487,098	487,098
Total component units	$ 34,568,655	$ 4,563,623	$ 3,937,083	$ 11,397			(26,056,552)
							②
	General revenues:						
	Payment from Local City				21,893,273	—	21,893,273
	Grants, entitlements, and contributions not restricted to specific programs				6,461,708	—	6,461,708
	Investment earnings				674,036	207,727	881,763
	Miscellaneous				19,950	2,514	22,464
③	Total general revenues				29,048,967	210,241	29,259,208
	Change in net position				2,505,317	697,339	3,202,656
	Net position—beginning				(1,388,764)	2,850,329	1,461,565
	Net position—ending				$ 1,116,553	$ 3,547,668	$ 4,664,221

Figure B-5 Notes

① More information about the workings of a statement of activities can be found in Figure 3 and Part Two.

② This section of the total column is identical to the component units column in the government-wide statement of activities (Figure 3).

③ In addition to the information in the combining statements or notes (see Figures B-4 and B-6), your government discloses in the notes the nature and amount of significant transactions between each major component unit and the primary government or other component units.

Figure B-6. Condensed Statements of Net Position and Activities, Major Component Units

Note 4—Major Component Unit Information ①

Condensed Statement of Net Position

	Local Public School District	Local City Landfill Authority	Total Component Units
Assets:			
Cash, investments, and other assets	$ 7,762,728	$ 4,096,146	$ 11,858,874
Capital assets, net	34,759,986	2,984,800	37,744,786
Total assets	42,522,714	7,080,946	49,603,660
Deferred outflows of resources	2,142,878	3,225,733	5,368,611
Liabilities:			
Accounts payable	4,311,870	479,097	4,790,967
Long-term liabilities	38,237,159	6,168,802	44,405,961
Total liabilities	42,549,029	6,647,899	49,196,928
Deferred inflows of resources	1,000,010	111,112	1,111,122
Net position:			
Net investment in capital assets	12,921,592	2,984,800	15,906,392
Restricted	492,445	—	492,445
Unrestricted (deficit)	(12,297,484)	562,868	(11,734,616)
Total net position	$ 1,116,553	$ 3,547,668	$ 4,664,221

② **Condensed Statement of Activities**

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants Contributions	School District	Landfill Authority	Total
Local Public School District							
Instructional	$ 16,924,321	$ 147,739	$ 2,825,109	$ —	$ (13,951,473)	$ —	$ (13,951,473)
Support services	7,972,559	300	751,711	—	(7,220,548)	—	(7,220,548)
Operation of noninstructional services	1,523,340	557,726	359,092	—	(606,522)	—	(606,522)
Facilities acquisition and construction services	48,136	—	1,171	—	(46,965)	—	(46,965)
Interest on long-term debt	546,382	—	—	—	(546,382)	—	(546,382)
Unallocated depreciation	4,171,760	—	—	—	(4,171,760)	—	(4,171,760)
Total—Local Public School District	31,186,498	705,765	3,937,083	—	(26,543,650)		
Local City Landfill Authority							
Landfill operations	3,382,157	3,857,858	—	11,397	—	487,098	487,098
Total component units	$ 34,568,655	$ 4,563,623	$ 3,937,083	$ 11,397			(26,056,552)
General revenues:							
Payment from Local City					21,893,273	—	21,893,273
③ Grants, entitlements and contributions not restricted to specific programs					6,461,708	—	6,461,708
Other general revenues					693,986	210,241	904,227
Total general revenues					29,048,967	210,241	29,259,208
Change in net assets					2,505,317	697,339	3,202,656
Net position—beginning					(1,388,764)	2,850,329	1,461,565
Net position—ending					$ 1,116,553	$3,547,668	$ 4,664,221

Figure B-6 Notes

① If your government does not display major component units in separate columns in the government-wide statements or prepare combining statements (Figures B-4 and B-5) for them, it prepares this note disclosure instead.

② This illustration presents the minimum information required by accounting standards; your government may provide additional detail.

③ In addition to the information in the combining statements or notes (see Figures B-4 and B-5), your government discloses in the notes the nature and amount of significant transactions between each major component unit and the primary government or other component units.

Figure B-7. Budgetary Comparison Schedule, Local City HUD Fund

Local City
① **Budgetary Comparison Schedule for the HUD Programs Fund** ②
For the Year Ended December 31, 2016

	Budgeted Amounts		③ Actual Amounts (Budgetary Basis) (See Note A)	④ Variance with Final Budget—Positive (Negative)
	Original	Final		
Budgetary fund balances, January 1	$ 1,600,000	$ 1,618,441	$ 1,618,441	$ —
Resources (inflows):				
Federal grants	2,000,000	2,000,000	1,963,526	(36,474)
State grants	—	600,000	614,665	14,665
Interest on investments	85,000	85,000	87,106	2,106
Miscellaneous	50,000	50,000	66,176	16,176
Amounts available for appropriation	3,735,000	4,353,441	4,349,914	(3,527)
Charges to appropriations (outflows):				
Community development:				
Ombudsman office	1,725,000	1,725,000	1,687,422	37,578
Weatherization program	700,000	1,300,000	1,279,104	20,896
Transfers to other funds	350,000	350,000	348,046	1,954
Total	2,775,000	3,375,000	3,314,572	60,428
Budgetary fund balances, December 31	$ 960,000	$ 978,441	$ 1,035,342	$ 56,901

⑤

Figure B-7 Notes

① Your government prepares a budgetary comparison for its main operating fund (usually the general fund) and every major special revenue fund for which it has a legally adopted budget.

② Your government has the option to present this as a part of the basic financial statements instead of as a schedule in RSI.

③ The explanation of the difference between the numbers shown here and those in the governmental funds balance sheet is contained in Note A (Figure B-8).

④ Variance columns are optional: Your government may include an original-to-final and/or a final-to-actual column, or neither.

⑤ See Figures 28 and B-8 for other options your government has for presenting the reconciliation of the budgetary basis with GAAP.

Figure B-8. Budgetary Comparison Reconciliation

Note A—Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

	General Fund	HUD Programs Fund
Sources/inflows of resources		
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	$ 92,370,775	$ 4,349,914
Differences—budget to GAAP:		
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes.	(2,742,799)	(1,618,441)
Transfers from other funds are inflows of budgetary resources but are not *revenues* for financial reporting purposes.	(129,323)	—
The proceeds from the sale of the park land are budgetary resources but are regarded as a *special item,* rather than revenue, for financial reporting purposes.	(3,476,488)	—
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	$ 86,022,165	$ 2,731,473
Uses/outflows of resources		
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	$ 90,938,522	$ 3,314,572
Differences—budget to GAAP:		
The city budgets for claims and compensated absences only to the extent expected to be paid, rather than on the modified accrual basis.	129,100	3,900
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes but are reported in the year the supplies are received for financial reporting purposes.	(186,690)	(16,037)
Transfers to other funds are outflows of budgetary resources but are not *expenditures* for financial reporting purposes.	(2,163,759)	(348,046)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances—governmental funds	$ 88,717,173	$ 2,954,389

Figure B-9. Schedule of Contractually Required Employer Pension Contributions

① **Himalaya Village**
Schedule of Pension Contributions ②
③ **Past 10 Fiscal Years**
(Dollars in thousands) ④

	20X9	20X8	20X7	20X6	20X5	20X4	20X3	20X2	20X1	20X0
Contractually required contribution ⑤	$ 2,095	$ 2,057	$ 1,969	$ 1,649	$ 1,176	$ 898	$ 820	$ 769	$ 880	$ 1,082
Contributions in relation to the contractually required contribution	(2,095)	(2,057)	(1,969)	(1,649)	(1,176)	(898)	(820)	(769)	(880)	(1,082)
Contribution deficiency (excess)	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Village's covered payroll	$ 12,097	$ 10,962	$ 10,063	$ 9,634	$ 9,538	$ 9,410	$ 9,004	$ 8,442	$ 8,042	$ 7,784
Contributions as a percentage of covered payroll ⑥	17.32%	18.76%	19.57%	17.11%	12.33%	9.54%	9.10%	9.11%	10.94%	13.90%

Figure B-9 Notes

① NOTE: This is a different government from Local City and, therefore, this illustration does not tie to the financial statements.

② If your government has a contractually or statutorily required contribution amount for its OPEB plan, it would present a schedule like this for OPEB as well.

③ This sample schedule presents a full 10 years for illustrative purposes. Your government should have all of the information necessary to present all 10 years. However, it may build this schedule prospectively under certain circumstances and, therefore, may present only a few years at this time.

④ Dollar amounts have been rounded to the nearest thousand.

⑤ Alternatively, your government's contribution requirement may be established in statute instead of via contract.

⑥ If your government presents this schedule for OPEB and the amount of OPEB is not determined based on a measure of pay, actual contributions are divided by covered-employee payroll. (See **By the numbers...OPEB and covered-employee payroll** on page 128.)

Figure B-10. Combining Balance Sheet, Nonmajor Governmental Funds

Local City
Combining Balance Sheet for Nonmajor Governmental Funds
As of December 31, 2016

	① Special Revenue Funds				Debt Service Funds			Capital Projects Fund	Permanent Fund	② Total Nonmajor Governmental Funds
	Parks	Tax Surcharge	Historic District	Total	Central City Development	Community Redevelopment	Total	Bridge	Cemetery Care	
ASSETS										
Cash and cash equivalents	$ 371,413	$1,999,819	$ 189,880	$ 2,561,112	$ 677,143	$ 164,861	$ 842,004	$1,141,648	$1,062,028	$ 5,606,792
Investments	—	—	—	—	941,510	2,200,470	3,141,980	—	343,272	3,485,252
Receivables, net	—	10,221	—	10,221	—	—	—	—	—	10,221
Receivable from other governments	—	129,883	4,836	134,719	—	—	—	1,461,319	—	1,596,038
Total assets	$ 371,413	$2,139,923	$ 194,716	$ 2,706,052	$ 1,618,653	$ 2,365,331	$ 3,983,984	$2,602,967	$1,405,300	$ 10,698,303
LIABILITIES AND FUND BALANCES										
Liabilities:										
Accounts payable	$ 61,165	$ 170,615	$ 4,836	$ 236,616	$ 151,922	$ —	$ 151,922	$ 686,293	$ —	$ 1,074,831
Total liabilities	61,165	170,615	4,836	236,616	151,922	—	151,922	686,293	—	1,074,831
Fund balances:										
Nonspendable	—	—	—	—	—	—	—	—	1,405,300	1,405,300
Restricted for:										
Capital projects	—	—	—	—	—	—	—	675,404	—	675,404
Debt service	—	—	—	—	1,466,731	2,365,331	3,832,062	—	—	3,832,062
Committed to:										
Playground equipment	176,487	—	—	176,487	—	—	—	—	—	176,487
Recreation programs	—	962,231	—	962,231	—	—	—	—	—	962,231
Assigned to:										
Capital projects	—	—	—	—	—	—	—	1,241,270	—	1,241,270
Recreation programs	—	1,007,077	—	1,007,077	—	—	—	—	—	1,007,077
Other purposes	133,761	—	189,880	323,641	—	—	—	—	—	323,641
Total fund balances	310,248	1,969,308	189,880	2,469,436	1,466,731	2,365,331	3,832,062	1,916,674	1,405,300	9,623,472
Total liabilities and fund balances	$ 371,413	$2,139,923	$ 194,716	$ 2,706,052	$ 1,618,653	$ 2,365,331	$ 3,983,984	$2,602,967	$1,405,300	$ 10,698,303

Figure B-10 Notes

① This illustration shows all nonmajor governmental funds in a single statement but still grouped (including subtotals) by fund type. Your government may opt instead for separate combining statements for each fund type if it has numerous nonmajor funds.

② The totals in this column feed into the nonmajor funds column in the balance sheet (Figure 4).

Figure B-11. Combining Statement of Revenues, Expenditures, and Changes in Fund Balances, Nonmajor Governmental Funds

Local City
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended December 31, 2016

① ②

	Special Revenue Funds				Debt Service Funds			Capital Projects Fund	Permanent Fund	Total Nonmajor Governmental Funds
	Parks	Tax Surcharge	Historic District	Total	Central City Development	Community Redevelopment	Total	Bridge	Cemetery Care	
REVENUES										
Property taxes	$ —	$ —	$ —	$ —	$ 4,680,192	$ —	$ 4,680,192	$ —	$ —	$ 4,680,192
Intergovernmental	—	1,312,670	60,426	1,373,096	—	—	—	1,457,820	—	2,830,916
Charges for services	30,708	—	—	30,708	—	—	—	—	—	30,708
Investment earnings	4,543	123,329	226	128,098	103,631	42,973	146,604	16,939	72,689	364,330
Miscellaneous	—	94	—	94	—	—	—	—	—	94
Total revenues	35,251	1,436,093	60,652	1,531,996	4,783,823	42,973	4,826,796	1,474,759	72,689	7,906,240
EXPENDITURES										
Current:										
General government	50,000	3,622	—	53,622	8,920	2,900	11,820	55,610	—	121,052
Public works	705,487	2,968,283	47,772	3,721,542	—	—	—	—	—	3,721,542
Debt service:										
Principal	—	—	—	—	2,910,000	540,000	3,450,000	—	—	3,450,000
Interest and other charges	—	—	—	—	3,885,191	1,329,960	5,215,151	—	—	5,215,151
Capital outlay	—	—	—	—	—	—	—	3,190,209	—	3,190,209
Total expenditures	755,487	2,971,905	47,772	3,775,164	6,804,111	1,872,860	8,676,971	3,245,819	—	15,697,954
Excess (deficiency) of revenues over expenditures	(720,236)	(1,535,812)	12,880	(2,243,168)	(2,020,288)	(1,829,887)	(3,850,175)	(1,771,060)	72,689	(7,791,714)
OTHER FINANCING SOURCES (USES)										
Proceeds of long-term debt	—	—	—	—	760,856	—	760,856	1,300,000	—	2,060,856
Transfers in	—	—	177,000	177,000	1,604,149	2,387,149	3,991,298	1,382,889	—	5,551,187
Transfers out	—	(42,500)	—	(42,500)	—	—	—	(113,167)	(63,409)	(219,076)
Total other financing sources and uses	—	(42,500)	177,000	134,500	2,365,005	2,387,149	4,752,154	2,569,722	(63,409)	7,392,967
Net change in fund balances	(720,236)	(1,578,312)	189,880	(2,108,668)	344,717	557,262	901,979	798,662	9,280	(398,747)
Fund balances—beginning	1,030,484	3,547,620	—	4,578,104	1,122,014	1,808,069	2,930,083	1,118,012	1,396,020	10,022,219
Fund balances—ending	$ 310,248	$ 1,969,308	$ 189,880	$ 2,469,436	$ 1,466,731	$ 2,365,331	$ 3,832,062	$ 1,916,674	$ 1,405,300	$ 9,623,472

Figure B-11 Notes

① This illustration shows all nonmajor governmental funds in a single statement, but still grouped (including subtotals) by fund type. Your government may opt instead for separate combining statements for each fund type if it has numerous nonmajor funds.

② The totals in this column feed into the nonmajor funds column in the statement of revenues, expenditures, and changes in fund balances (Figure 5).

Figure B-12 Note

① The totals in this column feed into the internal service funds column in the proprietary funds statement of net position (Figure 7).

Figure B-13 Note

① The totals in this column feed into the internal service funds column in the proprietary funds statement of revenues, expenses, and changes in fund net position (Figure 8).

Figure B-14 Notes

① The totals in this column feed into the internal service funds column in the proprietary funds statement of cash flows (Figure 9).

② The required reconciliation of change in cash to **CHANGE IN FUND NET POSITION** is not illustrated here. (See Figure 9 for more details.) The note regarding noncash activities likewise is not illustrated.

Figure B-12. Combining Statement of Net Position, Internal Service Funds

Local City
Combining Statement of Net Position for Internal Service Funds
As of December 31, 2016

	Casualty Insurance	Fleet Management	Health/Life Insurance	Telecom-munications	Data Processing	① Total
ASSETS						
Current assets:						
Cash and cash equivalents	$ 632,008	$ 1,845,325	$ 428,398	$ 6,645	$ 423,723	$ 3,336,099
Investments	—	—	—	—	150,237	150,237
Receivables, net	9,837	11,363	114,930	203	21,471	157,804
Inventories	—	127,140	—	—	12,188	139,328
Total current assets	641,845	1,983,828	543,328	6,848	607,619	3,783,468
Capital assets:						
Buildings and equipment, net	21,383	2,821,024	—	5,526,642	571,003	8,940,052
Total assets	663,228	4,804,852	543,328	5,533,490	1,178,622	12,723,520
LIABILITIES						
Current liabilities:						
Accounts payable	195,988	77,931	312,622	144,840	49,189	780,570
Due to other funds	—	—	—	970,252	200,136	1,170,388
Compensated absences	11,123	69,714	—	97,449	59,404	237,690
Claims and judgments	1,687,975	—	—	—	—	1,687,975
Bonds, notes, and loans payable	—	—	—	249,306	—	249,306
Total current liabilities	1,895,086	147,645	312,622	1,461,847	308,729	4,125,929
Noncurrent liabilities:						
Claims and judgments	5,602,900	—	—	—	—	5,602,900
Total liabilities	7,497,986	147,645	312,622	1,461,847	308,729	9,728,829
NET POSITION						
Net investment in capital assets	21,383	2,821,024	—	5,277,336	571,003	8,690,746
Unrestricted	(6,856,141)	1,836,183	230,706	(1,205,693)	298,890	(5,696,055)
Total net position	$ (6,834,758)	$ 4,657,207	$ 230,706	$ 4,071,643	$ 869,893	$ 2,994,691

Figure B-13. Combining Statement of Revenues, Expenses, and Changes in Fund Net Position, Internal Service Funds

Local City
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position for Internal Service Funds
For the Year Ended December 31, 2016

	Casualty Insurance	Fleet Management	Health/Life Insurance	Telecom-munications	Data Processing	① Total
Operating revenues:						
Charges for services	$ 1,886,451	$ 4,096,753	$4,488,619	$ 3,542,116	$ 1,242,225	$ 15,256,164
Miscellaneous	18,907	—	1,047,854	—	—	1,066,761
Total operating revenues	1,905,358	4,096,753	5,536,473	3,542,116	1,242,225	16,322,925
Operating expenses:						
Personal services	169,866	1,248,271	—	1,850,222	888,797	4,157,156
Contractual services	176,486	62,449	24,402	22,843	298,216	584,396
Utilities	—	2,616	—	212,196	—	214,812
Repairs and maintenance	2,497	1,523,774	—	389,132	45,087	1,960,490
Other supplies and expenses	55,041	23,656	—	89,252	66,496	234,445
Insurance claims and expenses	2,085,306	—	5,918,980	—	—	8,004,286
Depreciation	5,541	448,944	—	938,251	315,136	1,707,872
Total operating expenses	2,494,737	3,309,710	5,943,382	3,501,896	1,613,732	16,863,457
Operating income (loss)	(589,379)	787,043	(406,909)	40,220	(371,507)	(540,532)
Nonoperating revenues (expenses):						
Interest and investment revenue	48,570	52,925	10,338	—	22,900	134,733
Miscellaneous revenue	9,544	732	—	10,579	—	20,855
Interest expense	—	—	—	(35,185)	(6,431)	(41,616)
Miscellaneous expense	(14,948)	(39,790)	—	(120,949)	(316)	(176,003)
Total nonoperating revenues (expenses)	43,166	13,867	10,338	(145,555)	16,153	(62,031)
Income (loss) before contributions and transfers	(546,213)	800,910	(396,571)	(105,335)	(355,354)	(602,563)
Capital contributions	—	3,364	—	1,222	14,202	18,788
Transfers in	10,000	—	—	9,008	—	19,008
Transfers out	—	—	(50,319)	—	(143,722)	(194,041)
Change in net position	(536,213)	804,274	(446,890)	(95,105)	(484,874)	(758,808)
Net position—beginning	(6,298,545)	3,852,933	677,596	4,166,748	1,354,767	3,753,499
Net position—ending	$ (6,834,758)	$ 4,657,207	$ 230,706	$ 4,071,643	$ 869,893	$ 2,994,691

Figure B-14. Combining Statement of Cash Flows, Internal Service Funds

Local City
Combining Statement of Cash Flows for Internal Service Funds
For the Year Ended December 31, 2016

	Casualty Insurance	Fleet Management	Health/Life Insurance	Telecom-munications	Data Processing	① Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	$ 1,905,870	$ 4,098,790	$4,549,558	$ 3,542,157	$1,229,968	$ 15,326,343
Payments to suppliers	(129,409)	(1,671,378)	—	(656,961)	(354,490)	(2,812,238)
Payments to employees	(166,729)	(1,236,855)	—	(1,910,948)	(895,156)	(4,209,688)
Claims paid	(2,863,973)	—	(5,618,478)	—	—	(8,482,451)
Other receipts	18,907	—	1,023,452	—	18,759	1,061,118
Net cash provided (used) by operating activities	(1,235,334)	1,190,557	(45,468)	974,248	(919)	883,084
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Operating subsidies and transfers to other funds	10,000	—	(50,319)	9,008	(143,722)	(175,033)
RELATED FINANCING ACTIVITIES						
Purchases of capital assets	(13,578)	(237,054)	—	(132,596)	(16,858)	(400,086)
Principal paid on capital debt	—	—	—	(954,137)	—	(954,137)
Interest paid on capital debt	—	—	—	(35,185)	(6,431)	(41,616)
Other receipts (payments)	25,167	(39,058)	—	145,307	—	131,416
Net cash provided (used) by capital and relating financing activities	11,589	(276,112)	—	(976,611)	(23,289)	(1,181,191)
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sales and maturities of investments	—	—	—	—	15,684	15,684
Interest and dividends	48,570	47,742	10,338	—	22,900	129,550
Net cash provided by investing activities	48,570	47,742	10,338	—	38,584	145,234
Net increase (decrease) in cash and cash equivalents	(1,165,175)	962,187	(85,449)	6,645	(129,346)	(411,138)
Balances—beginning of the year	1,797,183	883,138	513,847	—	553,069	3,747,237
Balances—end of the year ②	$ 632,008	$ 1,845,325	$ 428,398	$ 6,645	$ 423,723	$ 3,336,099

Figure B-15. Statistical Section Schedule of Net Assets/Position

City of Chronological
Net Assets/Position by Component
Last 10 Fiscal Years
(accrual basis of accounting)

	Fiscal Year									
	20X0	20X1	20X2	20X3	20X4	20X5[a]	20X6	20X7	20X8	20X9
Governmental activities										
Net investment in capital assets	$ 221,991,132	$ 233,674,876	$ 245,973,553	$ 258,919,530	$ 272,546,873	$ 286,891,446	$ 301,990,995	$ 317,885,258	$ 334,616,061	$ 352,227,433
Restricted	43,936,163	46,248,593	48,682,729	51,244,978	53,942,082	56,781,139	59,769,620	62,915,390	66,226,726	69,712,343
Unrestricted	18,513,223	19,487,604	20,513,267	21,592,913	22,729,382	23,925,665	25,184,910	26,510,432	27,905,718	29,374,440
Total governmental activities net assets/position	$ 284,440,518	$ 299,411,073	$ 315,169,549	$ 331,757,421	$ 349,218,337	$ 367,598,250	$ 386,945,525	$ 407,311,080	$ 428,748,505	$ 451,314,216
Business-type activities										
Net investment in capital assets	$ 81,071,745	$ 85,338,679	$ 89,830,189	$ 94,558,093	$ 99,534,835	$ 104,773,511	$ 110,287,906	$ 116,092,532	$ 122,202,666	$ 128,634,385
Unrestricted	29,767,571	31,334,286	32,983,459	34,719,430	36,546,769	38,470,283	40,495,034	42,626,352	44,869,844	47,231,415
Total business-type activities net assets/position	$ 110,839,316	$ 116,672,965	$ 122,813,648	$ 129,277,523	$ 136,081,604	$ 143,243,794	$ 150,782,940	$ 158,718,884	$ 167,072,510	$ 175,865,800
Primary government										
Net investment in capital assets	$ 303,062,877	$ 319,013,555	$ 335,803,742	$ 353,477,623	$ 372,081,708	$ 391,664,956	$ 412,278,901	$ 433,977,791	$ 456,818,727	$ 480,861,818
Restricted	43,936,163	46,248,593	48,682,729	51,244,978	53,942,082	56,781,139	59,769,620	62,915,390	66,226,726	69,712,343
Unrestricted	48,280,795	50,821,889	53,496,726	56,312,343	59,276,150	62,395,948	65,679,945	69,136,784	72,775,562	76,605,855
Total primary government net assets/position	$ 395,279,835	$ 416,084,037	$ 437,983,197	$ 461,034,944	$ 485,299,940	$ 510,842,043	$ 537,728,466	$ 566,029,965	$ 595,821,015	$ 627,180,016

[a] Beginning in 20X5, the city began reporting net position rather than net assets, in conformity with GASB Statement 63. Prior to that time, net investment in capital assets was labeled "invested in capital assets, net of related debt."

Figures B-15–B-32 Note

NOTE: The illustrations of statistical section schedules are for different governments from Local City and, therefore, they do not tie to the financial statements. Furthermore, they may not tie to the other statistical section illustrations.

Figure B-16. Statistical Section Schedule of Fund Balances

City of Statistical
Fund Balances, Governmental Funds
Last 10 Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year									
	20X0	20X1	20X2	20X3	20X4[a]	20X5	20X6	20X7	20X8	20X9
General fund										
Reserved	$ 6,722,872	$ 6,797,299	$ 7,549,349	$ 7,162,493						
Unreserved	39,546,951	34,566,111	31,125,648	30,000,154						
Nonspendable					$ 1,112,323	$ 1,115,864	$ 1,176,583	$ 1,240,606	$ 1,308,113	$ 1,236,933
Restricted					2,458,952	2,466,780	2,601,009	5,344,261	5,377,624	2,111,898
Committed					956,241	959,285	1,011,484	1,066,524	1,124,558	1,063,366
Assigned					3,424,886	3,435,789	3,622,746	3,819,875	4,027,732	3,808,565
Unassigned					31,526,911	31,269,874	28,113,555	30,030,046	30,220,537	31,605,673
Total general fund	$ 46,269,823	$ 41,363,410	$ 38,674,997	$ 37,162,647	$ 39,479,313	$ 39,247,592	$ 36,525,377	$ 41,501,312	$ 42,058,564	$ 39,826,435
All other governmental funds										
Reserved	$ 18,989,132	$ 20,377,901	$ 19,953,298	$ 22,400,477						
Unreserved, reported in:										
Special revenue funds	8,323,089	8,060,677	7,958,184	8,018,536						
Capital projects funds	3,851,886	3,781,238	2,963,047	3,402,455						
Debt service funds	4,287,652	4,152,470	4,099,671	4,130,761						
Nonspendable					$ 2,358,974	$ 2,378,463	$ 2,385,190	$ 2,726,275	$ 3,168,375	$ 3,052,737
Restricted					18,745,214	18,900,078	18,953,532	21,663,915	25,176,993	24,258,094
Committed					11,623,985	11,720,017	11,753,164	13,433,884	15,612,358	15,042,545
Assigned					7,461,221	7,522,862	7,544,138	8,622,961	10,021,284	9,655,531
Total all other governmental funds	$ 35,451,759	$ 36,372,286	$ 34,974,200	$ 37,952,229	$ 40,189,394	$ 40,521,420	$ 40,636,024	$ 46,447,035	$ 53,979,010	$ 52,008,907

[a] Beginning in 20X4, the city began reporting fund balance in conformity with GASB Statement 54, which changed how fund balance is classified.

Figure B-17. Statistical Section Schedule of Changes in Net Assets/Position

City of Chronological
Changes in Net Assets/Position, Last 10 Fiscal Years
(accrual basis of accounting)

	Fiscal Year									
	20X0	20X1	20X2	20X3	20X4	20X5[a]	20X6	20X7	20X8	20X9
Expenses										
Governmental activities:										
General government	$ 7,861,321	$ 8,021,756	$ 8,182,192	$ 8,345,835	$ 8,512,752	$ 8,683,007	$ 8,856,667	$ 9,033,801	$ 9,214,477	$ 9,398,766
Police	19,010,700	18,398,684	18,766,658	19,141,991	19,524,831	19,915,327	20,313,634	20,719,906	21,134,305	21,556,991
Fire	11,607,694	11,344,586	11,571,478	11,802,907	12,038,965	12,279,745	12,525,340	12,775,846	13,031,363	13,291,991
Refuse collection	5,089,538	5,193,406	5,297,274	5,403,220	5,511,284	5,621,510	5,733,940	5,848,619	5,965,591	6,084,903
Other public works	13,139,232	13,007,037	13,267,178	13,532,521	13,803,172	14,079,235	14,360,820	14,648,036	14,940,997	15,239,817
Redevelopment	9,783,295	9,682,265	9,875,910	10,073,429	10,274,897	10,480,395	10,690,003	10,903,803	11,121,879	11,344,317
Parks and recreation	8,747,423	8,925,942	9,104,461	9,286,550	9,472,281	9,661,727	9,854,961	10,052,061	10,253,102	10,458,164
Library	2,034,699	2,076,224	2,117,748	2,160,103	2,203,305	2,247,371	2,292,319	2,338,165	2,384,928	2,432,627
Interest on long-term debt	12,760,549	13,020,968	13,281,388	13,547,015	13,817,956	14,094,315	14,376,201	14,663,725	14,957,000	15,256,140
Total governmental activities expenses	90,034,451	89,670,868	91,464,287	93,293,571	95,159,443	97,062,632	99,003,885	100,983,962	103,003,642	105,063,716
Business-type activities:										
Water	21,108,839	20,539,651	20,950,444	21,369,453	21,796,842	22,232,779	22,677,434	23,130,983	23,593,603	24,065,475
Wastewater	10,958,734	10,982,382	11,202,030	11,426,070	11,654,592	11,887,683	12,125,437	12,367,946	12,615,305	12,867,611
Transit	783,168	799,151	815,135	831,437	848,066	865,027	882,328	899,974	917,974	936,333
Total business-type activities expenses	32,850,741	32,321,184	32,967,609	33,626,960	34,299,500	34,985,489	35,685,199	36,398,903	37,126,882	37,869,419
Total primary government expenses	$ 122,885,192	$ 121,992,052	$ 124,431,896	$ 126,920,531	$ 129,458,943	$ 132,048,121	$ 134,689,084	$ 137,382,865	$ 140,130,524	$ 142,933,135
Program Revenues										
Governmental activities:										
Charges for services:										
Refuse collection	$ 4,478,165	$ 4,865,556	$ 4,962,867	$ 5,062,124	$ 5,163,367	$ 5,266,634	$ 5,371,967	$ 5,479,406	$ 5,588,994	$ 5,700,774
Other public works	8,143,696	8,706,894	8,881,032	9,058,653	9,239,826	9,424,622	9,613,115	9,805,377	10,001,484	10,201,514
Parks and recreation	1,561,549	1,993,417	2,033,285	2,073,951	2,115,430	2,157,739	2,200,893	2,244,911	2,289,810	2,335,606
Other activities	1,735,735	1,771,158	1,806,581	1,842,712	1,879,567	1,917,158	1,955,501	1,994,611	2,034,503	2,075,193
Operating grants and contributions	6,041,058	6,497,667	6,627,620	6,760,173	6,895,376	7,033,284	7,173,949	7,317,428	7,463,777	7,613,052
Capital grants and contributions	3,140,265	3,704,352	3,778,439	3,854,008	3,931,088	4,009,710	4,089,904	4,171,702	4,255,136	4,340,239
Total governmental activities program revenues	25,100,468	27,539,044	28,089,824	28,651,621	29,224,654	29,809,147	30,405,329	31,013,436	31,633,705	32,266,379
Business-type activities:										
Charges for services:										
Water	18,261,330	19,634,010	20,026,690	20,427,224	20,835,768	21,252,484	21,677,534	22,111,084	22,553,306	23,004,372
Wastewater	3,967,097	4,448,059	4,537,020	4,627,761	4,720,316	4,814,722	4,911,017	5,009,237	5,109,422	5,211,610
Other activities	156,634	159,704	162,898	166,156	169,479	172,869	176,326	179,853	183,450	187,119
Operating grants and contributions	10,389,269	10,901,295	11,119,321	11,341,707	11,568,541	11,799,912	12,035,911	12,276,629	12,522,161	12,772,605
Capital grants and contributions	560,668	804,110	820,192	836,596	853,328	870,395	887,802	905,558	923,670	942,143
Total business-type activities program revenues	33,334,998	35,947,178	36,666,121	37,399,444	38,147,432	38,910,382	39,688,590	40,482,361	41,292,009	42,117,849
Total primary government program revenues	$ 58,435,466	$ 63,486,222	$ 64,755,945	$ 66,051,065	$ 67,372,086	$ 68,719,529	$ 70,093,919	$ 71,495,796	$ 72,925,713	$ 74,384,227

Net (Expense)/Revenue										
Governmental activities	$ (64,933,983)	$ (62,131,825)	$ (63,374,461)	$ (64,641,951)	$ (65,934,790)	$ (67,253,485)	$ (68,598,555)	$ (69,970,526)	$ (71,369,937)	$ (72,797,336)
Business-type activities	484,257	3,625,994	3,698,513	3,772,484	3,847,933	3,924,892	4,003,390	4,083,458	4,165,127	4,248,429
Total primary government net expense	$ (64,449,729)	$ (58,505,831)	$ (59,675,948)	$ (60,869,467)	$ (62,086,857)	$ (63,328,594)	$ (64,595,165)	$ (65,887,068)	$ (67,204,810)	$ (68,548,907)
General Revenues and Other Changes in Net Assets/Position										
Governmental activities:										
Taxes										
Property taxes	$ 18,993,540	$ 19,381,163	$ 19,768,786	$ 20,164,162	$ 20,567,445	$ 20,978,794	$ 21,398,370	$ 21,826,338	$ 22,262,864	$ 22,708,122
Franchise taxes	8,164,634	8,331,259	8,897,884	9,175,842	9,459,359	9,848,546	10,245,517	10,650,427	11,063,436	11,584,705
Sales taxes	17,148,354	17,498,320	17,928,927	18,287,506	18,653,256	19,026,321	19,406,847	19,794,984	20,190,884	20,594,701
Other taxes	2,781,964	2,838,739	2,902,513	3,060,563	3,221,774	3,486,209	3,755,933	4,031,052	4,311,673	4,597,906
Unrestricted grants and contributions	5,413,160	5,923,632	6,042,978	6,263,838	6,489,115	6,718,897	7,053,275	7,394,341	7,742,228	7,997,703
Payments in lieu of taxes	9,058,559	9,643,428	9,836,297	10,133,022	10,435,682	10,644,396	10,857,050	11,074,191	11,295,675	11,618,618
Investment earnings	6,517,801	6,950,817	7,089,833	7,331,630	7,578,322	7,829,888	7,986,486	8,177,547	8,406,898	8,576,913
Miscellaneous	4,905,579	5,505,693	5,615,807	5,742,123	5,897,965	5,985,294	6,105,000	6,227,100	6,350,401	6,477,409
Transfers	1,008,741	1,029,327	1,049,914	1,071,136	1,092,789	1,115,053	1,137,354	1,160,101	1,183,303	1,206,969
Total governmental activities	73,992,332	77,102,378	79,132,939	81,229,822	83,395,707	85,633,398	87,945,832	90,336,081	92,807,362	95,363,046
Business-type activities:										
Investment earnings	2,584,242	3,236,982	3,492,083	3,762,305	4,048,477	4,351,475	4,672,218	4,965,662	5,314,978	5,651,278
Transfers	(1,008,741)	(1,029,327)	(1,049,914)	(1,070,912)	(1,092,331)	(1,114,177)	(1,136,461)	(1,113,175)	(1,126,479)	(1,106,417)
Total business-type activities	1,575,501	2,207,655	2,442,169	2,691,393	2,956,146	3,237,298	3,535,757	3,852,487	4,188,499	4,544,861
Total primary government	$ 75,567,833	$ 79,310,033	$ 81,575,108	$ 83,921,215	$ 86,351,853	$ 88,870,696	$ 91,481,589	$ 94,188,568	$ 96,995,861	$ 99,907,907
Change in Net Assets/Position										
Governmental activities	$ 9,058,346	$ 14,970,553	$ 15,758,478	$ 16,587,871	$ 17,460,917	$ 18,379,912	$ 19,347,277	$ 20,365,554	$ 21,437,425	$ 22,565,711
Business-type activities	2,059,759	5,833,648	6,140,682	6,463,876	6,804,080	7,162,190	7,539,147	7,935,945	8,353,626	8,793,290
Total primary government	$ 11,118,105	$ 20,804,201	$ 21,899,160	$ 23,051,747	$ 24,264,997	$ 25,542,102	$ 26,886,424	$ 28,301,499	$ 29,791,051	$ 31,359,001

[a] Beginning in 20X5, the City began reporting net position rather than net assets, in conformity with GASB Statement 63.

Figure B-18. Statistical Section Schedule of Changes in Fund Balances

City of Statistical
Changes in Fund Balances, Governmental Funds
Last 10 Fiscal Years
(modified accrual basis of accounting)

	Fiscal Year									
	20X0	**20X1**	**20X2**	**20X3**	**20X4**	**20X5**	**20X6**	**20X7**	**20X8**	**20X9**
Revenues										
Taxes	$ 26,267,700	$ 26,495,252	$ 26,284,710	$ 28,954,785	$ 29,977,720	$ 30,442,344	$ 32,617,140	$ 39,650,001	$ 43,743,092	$ 49,435,320
Licenses, fees and permits	3,532,841	3,008,722	4,410,897	7,673,948	9,813,411	11,202,863	9,454,323	13,385,329	9,884,567	11,224,714
Fines and penalties	326,598	308,157	351,353	374,252	392,650	436,051	488,500	860,126	1,562,990	1,105,048
Charges for services	6,151,778	5,387,557	5,872,279	7,462,332	7,991,102	7,343,190	8,962,504	10,806,778	11,187,411	11,634,689
Special assessments	11,365,205	10,188,591	8,515,168	8,764,388	8,811,251	8,377,823	8,382,471	8,787,785	9,175,512	8,488,067
Intergovernmental	15,540,752	13,495,919	12,742,002	9,505,719	12,193,773	11,270,410	11,780,262	13,395,868	18,182,327	17,242,467
Investment earnings	11,986,002	8,980,865	9,028,427	7,899,789	9,695,941	12,056,372	9,512,799	10,040,487	6,654,778	10,604,860
Other revenues	6,460,513	3,400,996	3,626,147	8,735,815	12,322,491	14,576,981	12,510,453	14,620,720	15,986,776	15,163,499
Total revenues	81,631,389	71,266,059	70,830,983	79,371,028	91,198,339	95,706,034	93,708,452	111,547,094	116,377,453	124,898,664
Expenditures										
General government	8,247,588	7,528,601	6,815,338	7,293,992	7,714,023	8,459,006	9,405,687	11,049,809	10,988,887	12,547,645
Police[a]	13,597,361	13,129,512	12,526,731	13,529,493	15,174,847	16,272,905	16,790,906	18,142,355	19,790,239	22,639,931
Fire	8,456,568	8,165,601	7,790,715	8,414,359	9,437,650	10,120,563	10,442,721	11,283,224	12,308,088	11,692,537
Refuse collection	4,080,124	4,142,258	4,205,338	4,269,379	4,334,395	4,400,401	4,467,412	4,535,443	4,604,511	4,823,462
Other public works	13,480,900	9,168,715	6,153,569	12,359,844	9,730,625	9,428,474	8,936,241	9,089,559	8,212,694	8,516,466
Parks and recreation	3,851,886	3,781,238	2,963,047	3,402,454	3,616,722	4,268,916	4,256,346	4,672,020	7,586,387	11,132,786
Library	1,379,360	1,264,608	1,130,214	1,252,999	1,329,395	1,488,820	1,646,773	1,748,150	2,161,886	2,323,887
Capital outlay	38,793,881	35,122,208	61,112,259	22,270,493	29,804,719	20,728,911	26,558,157	30,478,506	30,328,142	33,820,224
Debt service										
Interest	11,053,542	13,502,322	14,300,337	11,350,341	10,191,242	11,389,970	10,826,408	11,552,128	12,239,270	14,360,876
Principal	5,983,565	7,309,153	7,741,138	6,144,230	5,516,780	6,165,683	5,860,611	6,561,088	6,374,046	6,956,210
Total expenditures	108,924,775	103,114,216	124,738,686	90,287,584	96,850,398	92,723,649	99,191,262	109,112,282	114,594,150	128,814,024
Excess of revenues over (under) expenditures	(27,293,386)	(31,848,157)	(53,907,703)	(10,916,556)	(5,652,059)	2,982,385	(5,482,810)	2,434,812	1,783,303	(3,915,360)
Other Financing Sources (Uses)										
Proceeds from borrowing	—	—	47,050,000	—	9,345,000	—	—	—	—	7,915,000
Proceeds from refunding	—	—	—	—	—	—	—	33,000,000	—	15,625,000
Payments to escrow agent	—	—	—	—	—	—	—	(33,000,000)	—	(15,625,000)
Transfers in	30,456,987	31,848,016	7,113,443	21,802,896	10,767,445	6,254,973	8,999,786	14,810,024	13,132,580	7,670,544
Transfers out	(7,458,618)	(3,985,746)	(4,342,239)	(9,420,661)	(9,906,555)	(9,137,053)	(6,124,587)	(6,457,890)	(6,826,657)	(5,766,396)
Total other financing sources (uses)	22,998,369	27,862,270	49,821,204	12,382,235	10,205,890	(2,882,080)	2,875,199	8,352,134	6,305,923	9,819,148
Net change in fund balances	$ (4,295,017)	$ (3,985,887)	$ (4,086,499)	$ 1,465,679	$ 4,553,831	$ 100,305	$ (2,607,611)	$ 10,786,946	$ 8,089,226	$ 5,903,788
Debt service as a percentage of noncapital expenditures	24.3%	30.6%	34.6%	25.7%	23.4%	24.4%	23.0%	23.0%	22.1%	22.4%

[a] Starting in 20X7, the City implemented a program to hire 50 additional police officers over 3 years to fill community policing positions

Figure B-19. Statistical Section Schedule of Revenue Base Information

City of Mathematical
Assessed Value and Estimated Actual Value of Taxable Property
Last 10 Fiscal Years
(in thousands of dollars)

Fiscal Year	Residential Property	Commercial Property	Industrial Property	Less: Tax-Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value[a] as a Percentage of Actual Value
20X0	$ 2,593,519	$ 1,815,464	$ 1,556,112	$ 778,056	$ 5,187,039	$ 4.05	$ 14,902,445	40.028%
20X1	2,697,275	1,888,093	1,618,365	809,183	5,394,551	3.62	15,498,630	40.028
20X2	2,648,721	1,854,105	1,589,233	794,616	5,297,442	3.33	15,219,635	40.028
20X3	2,688,372	1,881,861	1,613,023	806,512	5,376,745	3.20	15,447,473	40.028
20X4	2,710,909	1,897,637	1,626,546	813,273	5,421,819	3.22	15,576,971	40.028
20X5	2,857,171	2,000,020	1,714,303	857,151	5,714,343	3.11	16,417,397	40.028
20X6	3,118,397	2,182,878	1,871,038	935,519	6,236,794	2.96	17,918,409	40.028
20X7	3,426,648	2,398,654	2,055,989	1,027,994	6,853,297	2.95	19,689,630	40.028
20X8	3,912,429	2,738,700	2,347,457	1,173,729	7,824,858	2.85	22,480,942	40.028
20X9	4,374,719	3,062,304	2,624,832	1,312,416	8,749,439	2.98	25,137,277	40.028

Source: Owen County Board of Equalization and Assessment.

Note: Property in Owen County is reassessed once every five years on average. The County assesses property at approximately 45 percent of actual value for commercial and industrial property and 35 percent for residential property. Estimated actual value is calculated by dividing assessed value by those percentages. Tax rates are per $1,000 of assessed value.

[a] Includes tax-exempt property.

Figure B-20. Statistical Section Schedule of Direct and Overlapping Rates

City of Mathematical
Direct and Overlapping Property Tax Rates
Last 10 Fiscal Years
(rate per $1,000 of assessed value)

	City Direct Rates					Overlapping Rates [a]		
Fiscal Year	Basic Rate	General Obligation Debt Service	Redevelopment Debt Service	Redevelopment Program	Total Direct	Anfield School District	Shankly Flood Control District	Owen County
20X0	$ 1.89	$ 0.17	$ 1.76	$ 0.23	$ 4.05	$ 2.10	$ 0.11	$ 4.32
20X1	1.75	0.17	1.47	0.23	3.62	2.25	0.11	4.36
20X2	1.66	0.17	1.26	0.23	3.33	2.31	0.11	4.42
20X3	1.66	0.17	1.15	0.23	3.20	2.33	0.11	4.48
20X4	1.66	0.21	1.12	0.23	3.22	2.35	0.11	4.56
20X5	1.66	0.24	0.97	0.23	3.11	2.35	0.13	4.61
20X6	1.66	0.20	0.87	0.23	2.96	2.39	0.13	4.65
20X7	1.66	0.18	0.88	0.23	2.95	2.37	0.13	4.60
20X8	1.66	0.16	0.80	0.23	2.85	2.45	0.13	4.52
20X9	1.66	0.14	0.95	0.23	2.98	2.45	0.13	4.23

Source: Owen County Board of Equalization and Assessment.

①

Note: The City's basic property tax rate may be increased only by a majority vote of the City's residents. Rates for debt service are set based on each year's requirements.

[a] Overlapping rates are those of local and county governments that apply to property owners within the City of Mathematical. Not all overlapping rates apply to all Mathematical property owners; for example, although the county property tax rates apply to all City property owners, the Flood Control District rates apply only to the approximately one-third of City property owners whose property is located within that District's geographic boundaries.

Figure B-20 Note

① If there are limitations on your government's ability to raise its property tax rates, they will be disclosed in this schedule.

Figure B-21. Statistical Section Schedule of Principal Revenue Payers

City of Mathematical
Principal Property Taxpayers
Current Year and Nine Years Ago

	20X9			20X0		
Taxpayer	**Taxable Assessed Value**	**Rank**	**Percentage of Total City Taxable Assessed Value**	**Taxable Assessed Value**	**Rank**	**Percentage of Total City Taxable Assessed**
Tofu Farmers of America, Inc.	$ 120,316,033	1	1.38%	$ 80,545,475	1	1.53%
Kenwood Health Plan, Inc.	85,616,816	2	0.98	32,696,104	4	0.60
Oak Energy Partners Ltd.	82,521,151	3	0.94	—		—
Reanimator Laboratories	69,373,517	4	0.79	46,738,407	3	0.86
Pine Scent Car Fresheners	18,686,454	5	0.21	8,594,292	7	0.16
Jamie Q. Public	18,320,000	6	0.21	—		—
Willow Container Corp.	17,504,162	7	0.20	—		—
Deanland Properties	15,455,204	8	0.18	11,400,269	6	0.21
Kramerica, Inc.	14,666,419	9	0.17	—		—
Vandelay Industries	13,298,369	10	0.15	—		—
Acorn Energy Partners Ltd.	—		—	50,167,988	2	0.93
Shrub Plaza Company	—		—	19,692,339	5	0.36
Wooden Acres Ltd.	—		—	7,913,882	8	0.15
Balsawood Farms	—		—	4,703,927	9	0.09
Fern Foundries	—		—	3,767,223	10	0.07
Total	$ 455,758,125		5.21%	$ 266,219,906		4.96%

Source: County Board of Equalization and Assessment.

Figure B-22. Statistical Section Schedule of Property Tax Levies and Collections

City of Mathematical
Property Tax Levies and Collections
Last 10 Fiscal Years

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
20X0	$ 21,012,190	$ 18,343,800	87.30%	$ 2,508,286	$ 20,852,086	99.24%
20X1	19,520,892	17,595,149	90.13	1,771,684	19,366,833	99.21
20X2	17,616,968	15,456,835	87.74	1,944,119	17,400,955	98.77
20X3	17,225,167	15,124,061	87.80	1,933,017	17,057,079	99.02
20X4	17,473,003	15,486,912	88.63	1,787,482	17,274,394	98.86
20X5	17,746,808	15,501,805	87.35	1,908,253	17,410,058	98.10
20X6	18,462,001	16,346,494	88.54	1,586,631	17,933,124	97.14
20X7	20,242,938	18,359,297	90.69	1,255,761	19,615,057	96.90
20X8	22,326,307	20,581,542	92.19	872,383	21,453,924	96.09
20X9	26,083,673	24,158,911	92.62 ①	—	24,158,911 ②	92.62 ③

Sources: Owen County Board of Equalization and Assessment and Owen County Department of Finance.

Note: Totals may not add due to rounding.

Figure B-22 Notes

① This column equals the amount collected within the fiscal year of the levy divided by the taxes levied.

② This column equals collections within the fiscal year of the levy plus collections in subsequent years.

③ This column equals total collections to date divided by taxes levied.

Figure B-23. Statistical Section Schedule of Debt Ratios

City of Monumental
Ratios of Outstanding Debt by Type
Last 10 Fiscal Years
(dollars in thousands, except per capita)

	Governmental Activities					Business-Type Activities						
Fiscal Year	General Obligation Bonds	Redevelopment Bonds	Sales Tax Increment Bonds	Lease Revenue Bonds[a]	Special Assessment Bonds	Water Bonds	Term Loan Payable	Certificates of Participation	Capital Leases	Total Primary Government	Percentage of Personal Income[b]	Per Capita[b]
20X0	$ 10,990	$ —	$ 6,176	$ 20,921	$ 34,495	$ —	$ —	$ —	$ 1,023	$ 73,605	3.10%	$ 834
20X1	10,510	—	5,947	20,357	33,095	—	—	—	1,009	70,918	2.86	766
20X2	9,995	47,050	5,700	19,765	31,565	—	—	—	985	115,061	4.41	1,218
20X3	9,455	46,610	5,437	19,145	29,875	—	—	—	951	111,473	4.23	1,136
20X4	9,630	55,455	5,157	18,497	27,995	—	—	—	909	117,642	4.18	1,183
20X5	8,925	54,903	4,859	17,821	25,895	—	—	7,010	860	120,273	4.21	1,170
20X6	8,290	54,251	4,545	17,117	23,545	36,690	—	6,880	804	152,122	4.93	1,364
20X7	7,625	53,335	4,213	16,385	20,915	36,490	22,244	6,615	743	168,566	4.91	1,437
20X8	6,925	52,380	3,865	15,625	17,975	36,245	21,989	6,180	849	162,033	4.31	1,317
20X9	6,190	51,375	3,499	22,810	14,695	35,585	21,097	5,940	801	161,992	4.12	1,234

①

Notes: Details regarding the city's outstanding debt can be found in the notes to the financial statements. Totals may not add due to rounding.

[a] In addition to $15.6 million of refunding lease revenue bonds, the city issued over $7 million of new lease revenue bonds in 20X9.

[b] See Schedule R for personal income and population data. These ratios are calculated using personal income and population for the prior calendar year.

Figure B-23 Note

① The personal income and population data used to calculate these ratios can be found in the statistical section schedule of demographic and economic statistics (for example, see Figure B-28).

Figure B-24. Statistical Section Schedule of General Bonded Debt Ratios

City of Monumental
Ratios of General Bonded Debt Outstanding
Last 10 Fiscal Years
(dollars in thousands, except per capita)

Fiscal Year	General Bonded Debt Outstanding: General Obligation Bonds	General Bonded Debt Outstanding: Redevelopment Bonds	General Bonded Debt Outstanding: Total	Percentage of Actual Taxable Value[a] of Property	Per Capita[b]
20X0	$ 10,990	$ —	$ 10,990	0.21%	$ 125
20X1	10,510	—	10,510	0.19	114
20X2	9,995	47,050	57,045	1.08	604
20X3	9,455	46,610	56,065	1.04	571
20X4	9,630	55,455	65,085	1.20	654
20X5	8,925	54,903	63,828	1.12	621
20X6	8,290	54,251	62,541	1.00	561
20X7	7,625	53,335	60,960	0.89	520
20X8	6,925	52,380	59,305	0.76	482
20X9	6,190	51,375	57,565	0.66	439

①

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

[a] See Schedule H for property value data. ②

[b] Population data can be found in Schedule R.

Figure B-24 Notes

① If your government has resources that are restricted to repaying the *principal* of outstanding general bonded debt, it shows them between these columns and calculates the debt ratios *net* of the restricted resources.

② Property values can be found in your government's statistical section schedule of property tax base information (assuming your government's most significant own-source revenue is a property tax). See Figure B-19 for an example of that schedule.

Figure B-25. Statistical Section Schedule of Direct and Overlapping Debt

City of Monumental
Direct and Overlapping Governmental Activities Debt
As of June 30, 20X9
(dollars in thousands)

Governmental Unit	① Debt Outstanding	② Estimated Percentage Applicable[a]	③ Estimated Share of Overlapping Debt
Debt repaid with property taxes			
Willow Pond School District	$ 55,655	75.313%	$ 41,915
Willow Pond School District Facilities District #1	5,247	100.000%	5,247
Willow Pond School District Facilities District #2	3,253	86.622%	2,818
Willow Pond School District Facilities District #3	2,286	90.114%	2,060
Suarez County General Obligation Debt	627,809	10.386%	65,204
Other debt			
Suarez County Capital Leases	11,546	10.386%	1,199
Suarez County Economic Development Bonds	95,688	8.154%	7,802
Suarez County Loan: State Environmental Revolving Fund	31,648	10.386%	3,287
Suarez County—other debt	14,675	10.386%	1,524
Subtotal, overlapping debt			131,057
City direct debt		④	98,569
Total direct and overlapping debt			$ 229,626

Sources: Assessed value data used to estimate applicable percentages provided by the Suarez County Board of Equalization and Assessment. Debt outstanding data provided by each governmental unit.
Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of Monumental. This process recognizes that, when considering the City government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident—and therefore responsible for repaying the debt—of each overlapping

[a] For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value that is within the City's boundaries and dividing it by each unit's total taxable assessed value. This approach also was used for Suarez County's capital lease, loan, and other debt. The applicable percentage of Suarez County Economic Development Bonds, which are backed by County sales taxes, was estimated by dividing the City's retail sales by the County's retail sales.

Figure B-25 Notes

① These are the total outstanding debt amounts for the overlapping governments.

② This column presents the percentage of overlap relevant to each type of outstanding debt.

③ The overlapping debt amounts are calculated by multiplying the first two columns.

④ This direct debt amount of the reporting government is the sum of the governmental activities debt in the statistical section schedule of debt ratios (Figure B-23).

Figure B-26. Statistical Section Schedule of Debt Limitation Information

City of Monumental
Legal Debt Margin Information
Last 10 Fiscal Years
(dollars in thousands)

① **Legal Debt Margin Calculation for Fiscal Year 20X9**

Assessed value	$ 8,749,439
Debt limit (15% of assessed value)	1,312,416
Debt applicable to limit:	
General obligation bonds	6,190
Less: Amount set aside for repayment of general obligation debt	(1,862)
Total net debt applicable to limit	4,328
Legal debt margin	$ 1,308,088

	Fiscal Year									
	20X0	20X1	20X2	20X3	20X4	20X5	20X6	20X7	20X8	20X9
Debt limit	$ 778,056	$ 809,183	$ 794,616	$ 806,512	$ 813,273	$ 857,151	$ 935,519	$ 1,027,994	$ 1,173,729	$ 1,312,416
Total net debt applicable to limit	9,234	8,634	7,830	7,241	6,810	6,270	7,144	4,360	1,227	4,328
Legal debt margin	$ 768,822	$ 800,547	$ 786,786	$ 799,271	$ 806,463	$ 850,881	$ 928,375	$ 1,023,634	$ 1,172,502	$ 1,308,088
Total net debt applicable to the limit as a percentage of debt limit ②	1.19%	1.07%	0.99%	0.90%	0.84%	0.73%	0.76%	0.42%	0.10%	0.33%

Note: Under state finance law, the City's outstanding general obligation debt should not exceed 15 percent of total assessed property value. However, the City has established a more conservative internal limit of no more than 5 percent. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds. ③

Figure B-26 Notes

① Your government is required to present the full calculation of the legal debt margin only for the most recent year.

② Alternatively, your government may report a ratio of the legal debt margin to the debt limit.

③ Your government describes the nature of the legal limitations governing its outstanding debt.

Figure B-27. Statistical Section Schedule of Pledged-Revenue Coverage

City of Monumental
Pledged-Revenue Coverage
Last 10 Fiscal Years
(dollars in thousands)

	Water Revenue Bonds ①						Special Assessment Bonds				Sales Tax Increment Bonds [a]			
Fiscal Year	Utility Service Charge	Less: Operating Expenses	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage	Special Assessment Collections	Debt Service Principal	Debt Service Interest	Coverage	Sales Tax Increment	Debt Service Principal	Debt Service Interest	Coverage
20X0	$ —	$ —	$ —	$ —	$ —	—	$ 9,172	$ 1,300	$ 6,963	1.11	$ 944	$ 310	$ 212	1.81
20X1	—	—	—	—	—	—	9,088	1,400	6,862	1.10	938	300	229	1.78
20X2	—	—	—	—	—	—	7,757	1,530	6,722	0.94	959	288	247	1.79
20X3	—	—	—	—	—	—	7,829	1,690	6,595	0.95	1,178	276	263	2.18
20X4	—	—	—	—	—	—	7,996	1,880	6,363	② 0.97	1,188	264	280	2.19
20X5	—	—	—	—	—	—	7,531	2,100	6,131	0.92	1,263	250	298	2.31
20X6	30,521	13,734	16,787	710	1,577	7.34	8,444	2,350	5,888	1.03	1,332	236	314	2.42
20X7	31,124	14,006	17,118	735	1,550	7.49	8,568	2,630	5,648	1.04	1,731	220	332	3.13
20X8	31,685	14,258	17,427	765	1,522	7.62	8,688	2,940	5,334	1.05	1,874	204	348	3.39
20X9	30,903	13,906	16,997	795	1,493	7.43	8,625	3,280	4,971	1.05	2,216	187	366	4.00

③

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements. Operating expenses do not include interest, depreciation, or amortization expenses.

[a] Sales tax increment bonds are backed by the sales tax revenue produced by the sales tax rate in effect when the bonds were issued (2.5 percent) applied to the increase in retail sales in the Commons shopping area since that time.

Figure B-27 Notes

① If a revenue stream pledged to repay the debt of a particular activity also is used to finance the operating costs of that activity, the operating expenses are removed from the revenues before calculating the coverage ratio.

② During 20X2–20X5, the special assessment collections were not sufficient to pay the annual debt service. General revenues were needed in those years to cover the shortfall.

③ If the revenue source pledged to repay debt is not clearly identifiable from the column headings, your government describes it in a note to the schedule.

Figure B-28. Statistical Section Schedule of Demographic and Economic Statistics

City of Monumental
Demographic and Economic Statistics
Last 10 Calendar Years

Calendar Year	Population	Personal Income *(thousands of dollars)*	Per Capita Personal Income	Median Age ①	Education Level in Years of Schooling ①	School Enrollment ①	Unemployment Rate
20W9	88,260	$ 2,373,285	$ 26,890	31.0	14.1	21,647	6.7%
20X0	92,584	2,477,522	26,760	31.3	14.3	22,015	7.7%
20X1	94,485	2,607,966	27,602	31.6	14.4	22,544	6.9%
20X2	98,102	2,633,412	26,844	31.9	14.5	23,020	6.0%
20X3	99,478	2,816,038	28,308	32.2	14.7	23,548	6.0%
20X4	102,794	2,857,718	27,800	32.6	14.8	24,687	5.4%
20X5	111,507	3,088,421	27,697	32.8	14.9	27,084	4.9%
20X6	117,292	3,433,399	29,272	32.9	15.0	29,624	3.2%
20X7	122,989	3,762,912	30,596	33.0	15.1	31,854	2.6%
20X8	131,246	3,936,501	29,993	33.1	15.2	34,215	4.4%

Sources: Population, median age, and education level information provided by the State Department of Planning. Personal income and unemployment data provided by the State Department of Commerce and Labor. School enrollment data provided by the Stonehenge Independent School District.

Note: Population, median age, and education level information are based on surveys conducted during the last quarter of the calendar year. Personal income information is a total for the year. Unemployment rate information is an adjusted yearly average. School enrollment is based on the census at the start of the school year.

Figure B-28 Note

① These are not required; they are provided voluntarily by the illustrative government. Your government may provide demographic and economic information beyond the minimum required by accounting standards if it believes the information will be useful to the readers of its financial report.

Figure B-29. Statistical Section Schedule of Principal Employers

City of Monumental
Principal Employers
Current Year and Nine Years Ago ①

	Calendar Year					
	20X8			20W9		
Employer	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Topaz Laboratories	2,100	1	2.63%	1,800	1	2.57%
Fitty Scent Car Fresheners	960	2	1.20%	850	2	1.21%
City of Monumental	810	3	1.01%	650	4	0.93%
Volcano Health Plan, Inc.	650	4	0.81%	750	3	1.07%
Really Big Chain Store	595	5	0.74%	—		—
Sulfur Industries	410	6	0.51%	420	6	0.60%
Pearl Partners LLP	332	7	0.42%	—		—
Diamond Properties	180	8	0.23%	200	7	0.29%
Bronson, Brunson & Branson	120	9	0.15%	—		—
Megagoogleplex Cinemas	115	10	0.14%	—		—
Pet Container Corp.	—		—	450	5	0.64%
Puffin LLP	—		—	190	8	0.27%
Inward Outreach	—		—	120	9	0.17%
Titanium Energy Partners Ltd.	—		—	90	10	0.13%
Total	6,272		7.84%	5,520		7.89%

Source: City Economic Development Division.

Figure B-29 Note

① At first blush, the requirement to present information for the current year and the period 9 years prior may seem strange, since the statistical section schedules are mostly 10-year schedules. However, you should notice that the 2 years reported here are the same as the first and last years of the 10-year trend in Figure B-28; therefore, it covers the same 10-year period. It simply does not present the information for the intervening years.

Figure B-30. Statistical Section Schedule of Government Employees

City of Phenomenal
Full-Time Equivalent City Government Employees by Function/Program
Last 10 Fiscal Years

	Full-Time Equivalent Employees as of June 30									
Function/Program	**20X0**	**20X1**	**20X2**	**20X3**	**20X4**	**20X5**	**20X6**	**20X7**	**20X8**	**20X9**
General government										
Management services	26	26	27	27	26	26	25	30	31	31
Finance	33	34	34	36	36	37	38	39	46	44
Planning	17	17	17	17	17	17	18	18	18	19
Building	15	14	15	16	16	15	16	17	17	20
Other	6	6	6	6	6	6	6	6	6	8
Police										
Officers [a]	143	145	148	151	158	153	156	166	187	201
Civilians	70	72	73	69	70	72	74	78	84	85
Fire										
Firefighters and officers	78	80	81	77	77	78	80	80	80	89
Civilians	30	31	32	32	33	35	36	39	40	31
Refuse collection	17	18	17	18	18	18	18	18	20	22
Other public works										
Engineering [b]	46	48	51	50	48	49	50	54	56	57
Other	12	12	12	13	13	13	13	14	15	14
Redevelopment	14	15	15	15	16	16	17	17	18	18
Parks and recreation	47	49	48	49	50	49	49	49	49	50
Library	21	21	21	21	21	21	21	20	20	19
Water [b]	35	37	39	41	41	43	45	52	57	57
Wastewater	33	33	33	35	37	39	41	37	37	37
Transit	7	7	7	7	7	7	7	7	8	8
Total	650	665	676	680	690	694	710	741	789	810

Source: City Budget Office.

[a] The police department began the hiring of additional police officers in 20X7 to staff community policing positions.

[b] The City has added engineering and water staff in recent years in connection with several infrastructure improvement initiatives.

Figure B-31. Statistical Section Schedule of Operating Indicators

City of Phenomenal
Operating Indicators by Function/Program
Last 10 Fiscal Years

	Fiscal Year									
Function/Program	**20X0**	**20X1**	**20X2**	**20X3**	**20X4**	**20X5**	**20X6**	**20X7**	**20X8**	**20X9**
Police										
Physical arrests	11,427	11,542	11,016	11,127	11,471	11,587	11,704	12,192	12,700	13,511
Parking violations	27,014	27,565	28,128	28,702	29,288	29,885	30,495	31,118	29,921	28,770
Traffic violations	22,099	22,550	23,010	23,479	23,958	24,447	24,946	25,455	24,476	23,535
Fire										
Emergency responses	10,950	12,045	11,607	11,279	12,264	12,483	12,812	12,593	12,921	13,359
Fires extinguished	1,643	1,807	1,741	1,692	1,840	1,872	1,922	1,889	1,938	2,004
Inspections	27,375	27,923	28,481	29,051	28,470	27,900	27,342	26,522	25,726	24,954
Refuse collection [a]										
Refuse collected (tons per day)	215.6	218.8	222.2	225.6	229.0	203.6	204.6	205.6	206.7	207.7
Recyclables collected (tons per day)	27.7	28.2	28.8	29.4	30.0	60.0	62.5	65.1	67.8	70.6
Other public works										
Street resurfacing (miles)	25.7	26.0	26.2	26.5	26.8	27.1	27.3	27.6	27.9	28.2
Potholes repaired	898	906	913	921	928	988	996	1,003	1,011	1,019
Parks and recreation										
Athletic field permits issued [b]	1,386	1,512	1,632	1,825	1,850	1,550	1,776	1,887	1,924	1,991
Community center admissions	130,000	131,950	133,929	135,938	137,977	140,047	142,148	144,280	146,444	148,641
Library										
Volumes in collection	145,687	146,415	147,148	147,883	148,623	149,366	150,113	150,863	151,617	152,376
Total volumes borrowed	384,614	386,537	388,469	390,412	392,364	394,326	396,297	398,279	400,270	402,272
Water										
New connections	146	142	144	145	147	148	150	151	153	154
Water mains breaks	9	9	4	7	12	10	6	5	10	14
Average daily consumption (thousands of gallons)	3,177	3,241	3,308	3,375	3,444	3,514	3,586	3,659	3,734	3,810
Peak daily consumption (thousands of gallons)	6,991	7,134	7,279	7,428	7,579	7,734	7,892	8,053	8,217	8,385
Wastewater										
Average daily sewage treatment (thousands of gallons)	2,516	2,568	2,620	2,673	2,728	2,784	2,841	2,898	2,958	3,018
Transit										
Total route miles	96,900	96,900	96,900	96,900	96,900	96,900	96,900	96,900	96,900	96,900
Passengers	140,347	138,957	137,581	136,219	134,870	133,535	132,213	129,684	131,433	135,900

Sources: Various city departments.

Note: Indicators are not available for the general government function.

[a] The Department of Sanitation implemented a recycling initiative in 20X5.

[b] The 12 athletic fields in Schoonmaker Park were out of service during most of 20X5 while they were rehabilitated.

Figure B-32. Statistical Section Schedule of Capital Asset Indicators

City of Phenomenal
Capital Asset Statistics by Function/Program
Last 10 Fiscal Years

	Fiscal Year									
	20X0	20X1	20X2	20X3	20X4	20X5	20X6	20X7	20X8	20X9
Function/Program										
Police										
Stations	2	2	2	2	2	2	2	2	2	2
Zone offices	3	3	3	3	3	3	3	4	5	5
Patrol units	24	24	24	25	26	26	25	28	32	33
Fire stations	6	6	6	6	6	6	6	6	6	6
Refuse collection										
Collection trucks	8	8	8	8	7	7	7	8	8	8
Other public works										
Streets (miles)	367.5	371.2	375.0	378.8	382.6	386.4	390.4	394.3	398.3	402.3
Highways (miles) [a]	81.6	81.6	81.6	81.6	81.6	107.4	107.4	107.4	107.4	107.4
Streetlights	7,455	7,531	7,607	7,683	7,761	7,839	7,919	7,999	8,079	8,161
Traffic signals	93	94	98	98	98	101	105	105	106	106
Parks and recreation										
Acreage	309	309	309	309	309	309	309	309	309	309
Playgrounds	23	23	23	23	23	23	25	25	25	25
Baseball/softball diamonds [b]	38	38	38	38	39	30	39	39	39	41
Soccer/football fields [b]	25	25	30	35	35	32	35	35	35	35
Community centers	5	5	5	5	5	5	5	5	5	5
Water										
Water mains (miles)	469.5	474.3	479.1	483.9	488.8	493.7	498.7	503.8	508.9	514.0
Fire hydrants	3,170	3,202	3,234	3,267	3,300	3,333	3,367	3,401	3,435	3,470
Storage capacity (thousands of gallons)	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500	5,500
Wastewater										
Sanitary sewers (miles)	442.5	447.0	451.5	456.1	460.7	465.3	470.0	474.8	479.6	484.4
Storm sewers (miles)	309.2	312.3	315.5	318.7	321.9	325.2	328.4	331.8	335.1	338.5
Treatment capacity (thousands of gallons)	3,200	3,200	3,200	3,200	3,550	3,550	3,550	3,550	3,550	4,200
Transit—minibuses	3	3	3	3	3	4	4	4	4	4

① **Sources:** Various city departments.

② **Note:** No capital asset indicators are available for the general government function or library function.

[a] The Seabury Memorial Highway opened in 20X5.

[b] The 12 athletic fields in Schoonmaker Park were out of service during most of 20X5 while they were rehabilitated.

Figure B-32 Notes

① Your government will identify the source of any information in the statistical section that does not come from elsewhere in the financial report.

② Only available indicators are required to be reported. If your government does not have capital asset indicators for one of its functions or programs, it indicates that fact.

Figure B-33. Selected Current Note Disclosures

These two lists of note disclosures have been excerpted and adapted from the GASB's *Codification of Governmental Accounting and Financial Reporting Standards*.

Notes that are essential if the information in the financial statements is to be presented fairly include:

a. Summary of significant accounting policies
b. Cash deposits with financial institutions
c. Investments
d. Significant contingent liabilities
e. Significant effects of events subsequent to the end of the year
f. Pension and OPEB liabilities
g. Significant violations of finance-related legal and contractual provisions
h. Future debt service requirements for currently outstanding debt
i. Leases
j. Construction and other significant commitments
k. Capital assets
l. Long-term liabilities
m. Deficit fund balance or net position of individual funds
n. Receivables and payables and transfers between funds
o. Significant transactions between discretely presented component units and with the primary government
p. Donor-restricted endowments.

Additional note disclosures that should be made if applicable to your government include:

a. Risk management activities
b. Property taxes
c. SEGMENT information for enterprise funds
d. Condensed financial statements for major discretely presented component units
e. Budget basis of accounting and budget-to-GAAP reporting differences not otherwise reconciled in the financial statements
f. Short-term debt instruments and liquidity
G. Transactions with related parties
h. The nature of the primary government's accountability for RELATED ORGANIZATIONS (organizations like component units but for which a government is not financially accountable)
i. JOINT VENTURES
J. JOINTLY GOVERNED ORGANIZATIONS
k. DEBT REFUNDINGS (similar to refinancing a mortgage) and troubled debt restructurings
l. INTERFUND ELIMINATIONS in fund financial statements not apparent from headings
m. Pension and OPEB plans

n. Bond, tax, or revenue anticipation notes excluded from fund or current liabilities (proprietary funds)
o. 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
p. Special assessment debt
q. Reverse repurchase agreements and dollar reverse repurchase agreements
r. Securities lending transactions
s. Demand bonds
t. Landfill closure and postclosure care
u. Pollution remediation obligations
v. **ON-BEHALF PAYMENTS** for fringe benefits and salaries (from a government to another organization for employees of the legally separate entity)
w. Involvement in **CONDUIT DEBT** obligations (debt issued by a government on behalf of an entity not a part of the government)
x. Sponsoring government disclosures about external investment pools reported as investment trust funds and disclosures by participants in those pools
y. The amount of interest expense included in direct expenses
z. Nature of individual elements of a particular reconciling item, if obscured in the aggregated information in the summary reconciliation of the fund financial statements to the government-wide statements
aa. Discounts and allowances that reduce gross revenues, if not reported on the face of the financial statements
bb. Disaggregation of receivable and payable balances
cc. Impairment losses (when a capital asset's capacity to provide services is significantly diminished), idle impaired capital assets, and insurance recoveries, if not otherwise apparent from the face of the financial statements
dd. The amount of the primary government's net position at the end of the reporting period that is restricted by **ENABLING LEGISLATION**
ee. Termination benefits
ff. Future revenues that are pledged or sold
gg. Derivative instruments
hh. Conditions and events giving rise to substantial doubt about the government's ability to continue as a going concern
ii. Bankruptcy proceedings
jj. Stabilization arrangements and minimum fund balance policies
kk. Information about major special revenue funds
ll. Changes in the manner of or basis for presenting corresponding items for two or more periods in comparative financial statements
mm. Short-term obligations
nn. Prior-period adjustments, accounting changes, and error corrections
oo. Deferrals and their effects on net position

pp. Lending and mortgage banking activities
qq. Regulated business-type activities
rr. Service concession arrangements
ss. Financial guarantees provided or received for little or no payment
tt. Government combinations and disposals of operations
uu. Fair value measurements
vv. Tax abatements
ww. Asset retirement obligations.

APPENDIX C

THE BASICS OF ANALYZING GOVERNMENT FINANCES

In many cases, the information in your government's financial statements will not simply volunteer answers to your questions—you have to make it talk. The process of drawing meaning from financial statement data can be called **FINANCIAL ANALYSIS.** In most cases, analytical techniques utilize **FINANCIAL RATIOS**—indicative amounts created by dividing one number into another. This appendix presents some ratios that may be applied to government statements to give you some basic equipment to put in your analytical toolbox. But before we power up those tools and start hacking away at a set of financial statements, we should discuss their proper use and care.

CAVEATS OF FINANCIAL ANALYSIS

It is important to keep in mind that financial statement analysis is more of an art form than a science. There are not many absolutes when it comes to assessing the financial status of a government because different people are interested in different aspects of financial health. While some may be concerned with the cost of services, others may be focused on a government's ability to repay long-term debt, and still others may want to look at the short-term availability of cash. Furthermore, even if two people are interested in the same financial issue, their judgments remain subjective and therefore are likely to be different. In other words, one person may consider a $10,000 increase in net position to be acceptable, while another may believe it is insufficient for a government's needs. Who is right? The only suitable answer may be, "It depends...."

Fortunately, there are ways to ensure the validity of the conclusions you draw from the results of your analytical work. Others may disagree with your conclusions, but they cannot impugn your methods if you are mindful of four facts. First, *the definitions of financial ratios are not set in stone.* Different people may employ different equations but call them by the same name. For instance, some analysts add receivables to the cash and investments in the numerator of the **QUICK RATIO** (described below). If you are presented with ratio information, you should be careful to ask how it was calculated. Similarly, you should take care to specify the components of the ratios you use in your own analyses.

Second, *you need to place your ratios in context.* Governmental operations and transactions do not occur in a vacuum. Good financial analysis cannot exist in a vacuum, either—it requires context to be meaningful. For example, it is not sufficient just to calculate a quick ratio and find that it is 1.50. What does a quick ratio of 1.50 mean? One might answer, "The government's most liquid assets amount to 50 percent more than the liabilities it is facing in the next year." But that sounds more like a definition than a meaningful answer. To give meaning to financial ratios, and financial analysis in general, you need a point of reference, a comparison, a benchmark. For example:

- How does the ratio compare to earlier years for the same government—improving, declining, holding steady?

- How does the government's quick ratio compare to other, similar governments—higher, lower, roughly the same?

Is there a commonly accepted rule of thumb to compare it to?

Third, *financial analysis is an iterative process*. It seems sometimes that ratios raise more questions than they answer. Consider the quick ratio example in the previous paragraph. We have inserted the necessary information from the statement of net position into a quick ratio formula and calculated a ratio of 1.5. The result immediately raised another question: What does a ratio of 1.5 mean? Other than restating the obvious, we were not sure. So again, we asked more questions: How does that ratio compare with past years? How does it compare with other, similar governments?

Should we be satisfied with having answered those questions, too? The answer is no. Thorough analysis covers all the bases and looks for explanations of the differences between governments and the reasons for changes over time. This is especially the case if the current year for the government of interest compares unfavorably with other governments or unfavorably with itself in earlier years. Financial analysis is an iterative process, much like peeling away the layers of an onion.

Finally, *thorough analysis makes better analysis*. Take these truisms to heart: "No ratio is an island" and "An analyst does not live by one ratio alone." The financial story of a government is not told with a single ratio, an individual snapshot of a portion of the government, but with an accumulation of ratios and other information that together form a comprehensive, multidimensional picture of the fiscal health of a government.

COMMON-SIZE RATIOS

Common-size ratios serve two valuable purposes. First, they can provide a quick overview of the finances of your government and how they have changed since last year. Did assets grow or shrink? Were taxes the source of a larger or smaller share of revenue? Second, they put the financial data of your government in a form that can be compared with other governments, regardless of how big they are (hence the name *common-size*). In addition, *they can be applied to virtually any kind of financial statement information*. There are two kinds of common-size ratios—percentage change and percentage distribution.

Percentage change represents the magnitude of change in a particular item, rather than the aggregate dollar difference from one year to the next. Consider these assets from Figure 1, which is in Part Two:

	2015	2016	Dollar Change	Percentage Change
Capital assets	$309,719,154	$321,411,511	$11,692,357	3.78%
Receivables	$8,978,514	$14,686,156	$5,707,642	63.57%

Capital assets increased $11.7 million between 2015 and 2016, while receivables increased by a smaller $5.7 million. The percentage changes show that although the dollar growth for receivables was smaller, the percentage change was very significant—an increase of almost 64 percent. Growth on such a scale might lead you to look further in that area to determine what happened and whether it has any implications for Local City's finances. Percentage change is calculated using this formula:

[(current year amount – earlier year amount) ÷ earlier year amount] × 100 =
percentage change from earlier year to current year

Insert the numbers for receivables:

[(14,686,156 – 8,978,514) ÷ 8,978,514] × 100 =
(5,707,642 ÷ 8,978,514) × 100 = 0.6357, or 63.57%

Percentage distribution shows the portion of a total represented by the individual elements comprising the total. Consider a hypothetical set of figures. It probably is not meaningful to know that the City of Large had $1 *billion* of accounts receivable and the Village of Small had $1 *million*. But knowing that accounts receivable represented 3 percent of total assets in Large and 14 percent in Small tells you something about the extent to which each is reliant on resources it has not yet collected. Percentage distribution uses this formula:

(individual element amount ÷ total amount for category) × 100
= percentage distribution for individual element

Total assets for Local City are $438,577,188. To obtain the percentage distribution numbers for capital assets and receivables in Figure 1:

[(32,305,239 + 121,603,455 + 167,502,817) ÷ 438,577,188] × 100 = 73.29%
(14,686,156 ÷ 438,577,188) × 100 = 3.35%

LIQUIDITY RATIOS

LIQUIDITY RATIOS are concerned with your government's ability to pay for its most immediate obligations. In other words, they can help you determine whether, over the next year (or less), your government will have enough cash or readily liquidated assets on hand to finance the bills that come due. One measure of liquidity is the **CURRENT RATIO:**

current ratio = current assets ÷ current liabilities

Insert the governmental activities data from Local City's government-wide statement of net position (Figure 1 in Part Two). (You could do the same for the BTAs, too.) Local City's current assets include all assets other than capital assets; current liabilities include all liabilities other than the portion of long-term liabilities due beyond a year.

54,293,401 ÷ 17,774,206 = 3.06

This means that Local City's governmental activities have current assets 3.06 times greater than its current liabilities.

A narrower measure of liquidity is the quick ratio, which compares only the most liquid assets of your government—generally cash, near-cash assets such as money market funds, and other short-term investments—to its current liabilities. This is a more conservative indicator of your government's ability to meet obligations, assuming implicitly that its current liabilities will come due so soon that current assets like receivables and inventory cannot be liquidated quickly enough to pay for them.

quick ratio = (cash + current investments) ÷ current liabilities

Again, using the governmental activities information from the statement of net position:

(13,597,899 + 27,365,221) ÷ 17,774,206 = 2.31

SOLVENCY RATIOS

SOLVENCY RATIOS, like liquidity ratios, are used to examine your government's ability to fulfill obligations. But solvency ratios focus on your government's *long-term* financial capacity. Solvency ratios come in two general forms—**LEVERAGE RATIOS** and **COVERAGE RATIOS.**

Leverage Ratios

Leverage—the degree to which your government's assets are financed through borrowing and other long-term obligations—can be assessed with two ratios. The **LIABILITIES-TO-ASSETS RATIO** is straightforward—total liabilities divided by total assets. Alternatively, you might calculate the **LIABILITIES-TO-NET-POSITION RATIO,** although it tells you literally the same things as the debt-to-assets ratio despite producing a different number. The ratios are calculated below using statement of net position information (Figure 1) for the total primary government.

liabilities-to-assets ratio = total liabilities ÷ total assets

338,791,841 ÷ 438,577,188 = 0.77

liabilities-to-net-position ratio = total liabilities ÷ total net position

338,791,841 ÷ 112,398,922 = 3.01

The first calculation produces a ratio of 0.77, or 77 percent. This means that more than three-quarters of Local City's assets are financed with borrowing of one form or another. The latter ratio is 3.01, meaning for every dollar of resources Local City has available to use for providing public services, it owes $3.01.

Coverage Ratios

One typical coverage ratio, **INTEREST COVERAGE RATIO** (or **TIMES-INTEREST-EARNED**), compares cash flows generated by operations to interest payments on debt. Another, **DEBT SERVICE COVERAGE RATIO,** compares cash flows to your government's entire debt repayments, both interest and principal. These ratios generally can be computed for the enterprise funds (and BTAs, if they are the same) using information

from the statement of revenues, expenses, and changes in fund net position, statement of cash flows (Figures 8 and 9, respectively), and long-term liabilities note disclosure (Figure 18).

times-interest-earned = (cash flow from operations +

interest expense) ÷ interest expense

($1,921,872 + 2,767,376) ÷ 2,767,376 = 1.69

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debt service coverage = (cash flow from operations + debt service)

÷ debt service

($1,921,872 + 2,767,376 + 2,588,000) ÷ (2,767,376 + 2,588,000) = 1.36

Unfortunately, it is not as straightforward to calculate either of these ratios for the governmental activities or the total primary government, principally because the statements contain no cash flows information for either. Governmental activities debt generally takes the form of GO or tax-backed bonds, however, for which coverage ratios are less important than for the revenue bonds of BTAs.

The coverage ratios are interpreted in much the same way as the liquidity ratios, comparing available (or likely to be available) resources with resource needs. An interest coverage ratio of 1.69 suggests that a government will have about 1.7 times as much cash as will be needed to make its annual interest payments on long-term debt. Similarly, the debt service coverage ratio implies resources approximately 1.36 times (or 36 percent greater than) the expected amount needed to make interest and principal payments.

Ability-to-Pay Ratios

A set of ratios that addresses similar concerns as coverage ratios may be categorized as *ability-to-pay ratios*. By combining liability information from the statement of net position with certain nonfinancial data and comparing the resulting ratios over time and with other, similar governments, you can gain insights into your government's financial capacity. These ratios compare outstanding debts, revenues, and expenses with economic indicators that imply a constituency's ability to pay for government services. Some of the necessary economic information may be in your government's CAFR; if it is not, or if your government does not prepare a CAFR, there are other easily accessible sources of the necessary information. (See **Tools of the trade...sources of other data.**)

Three ratios of this type using debt data were discussed in Part Two. They are calculated below:

debt per $100 of assessed property value =

(total debt outstanding × 100) ÷ total assessed property value

($79,318,111 × 100) ÷ $3,923,863,884 =

$2.02 per $100 of assessed property value

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debt per $1,000 of personal income = (total debt outstanding × 1,000) ÷ total personal income

($79,318,111 × 1,000) ÷ $8,000,000,000 =

$9.91 per $1,000 of personal income

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debt per capita = total debt outstanding ÷ total population

$79,318,111 ÷ 89,945 = $882 per person

With some additional economic and demographic information, you can produce another pertinent indicator:

The average family size in Local City is 2.4 persons. Average debt per family is:

debt per capita × average family size =
$882 × 2.4 = $2,177 per family

Part Two also presented four examples of these ratios using revenue and expense data from the government-wide statement of activities. They were calculated as follows:

Health and sanitation expenses per capita:

expenses ÷ total population = $6,738,672 ÷ 89,945 = $75 per person

Financial support per pupil:

payment to the school district ÷ total students =
$21,893,273 ÷ 13,605 = $1,609 per student

Property taxes per $100 of property value:

(property taxes × 100) ÷ total property value =
[($51,693,573 + 4,726,244) × 100] ÷ $3,923,863,884 =
$1.44 per $100 of property value

Taxes per capita:

total taxes ÷ total population =
($51,693,573 + 4,726,244 + 4,055,505 + 8,969,887) ÷ 89,945 =
$772 per person

FINANCIAL EFFICIENCY RATIOS

FINANCIAL EFFICIENCY RATIOS utilize information from multiple financial statements to give you a sense of how well your government uses its assets and liabilities. Perhaps the most common of these ratios focuses on your government's receivables and payables by comparing them with their related revenues and expenses, respectively. For example, you might divide your government's property tax receivables at the end of the fiscal year by its property tax revenues for the year.

RECEIVABLES EFFICIENCY RATIO for property taxes (note that the amounts in the receivables and payables ratios that follow are not from Local City's financial statements):

(property taxes receivable ÷ property tax revenues) × 100 =
($7,117,832 ÷ 121,398,078) × 100 = 5.86%

This ratio enables you to track whether your government is collecting more or less of its property taxes over time. The lower the ratio, the more that is being collected (or, conversely, the less that remains uncollected). If this ratio were to rise over time, for instance, it might indicate that property owners are having greater difficulty making their payments, which may be an indication of broader economic problems. Alternatively, your government may not be doing as good a job at collecting on late tax payments; perhaps the number of enforcement staff has declined. You would need to pursue the matter further with your government to determine the cause, but the ratio gives you a heads up that the issue may require further exploration.

Another way to look at receivables is a **RECEIVABLES TURNOVER RATIO:**

property tax revenues ÷ average property taxes receivable =
$121,398,078 ÷ 7,789,448 = 15.58

(Average property taxes are obtained by adding this year's and last year's property tax receivable amounts and dividing by two.) This ratio indicates how quickly your government collects on amounts that it is owed; a higher ratio indicates quicker collection. It might be easier for you to understand if you divide 365 days by the ratio. In the sample calculation above, that would be a little more than 24 days.

A similar ratio can be calculated for payables. For example, you might divide your government's vendors payable at the end of the fiscal year by its supplies expense for the year.

PAYABLES EFFICIENCY RATIO for grants:

(vendors payable ÷ supplies expense) × 100 =
($8,389,022 ÷ 77,000,823) × 100 = 10.89%

The lower the ratio, the less your government owes to the vendors from which it purchases supplies. If this ratio were to rise over time, it might indicate that your government is having difficulty making its payments. This might mean your government is slowing down payments because it is short of cash, or that it has fewer employees processing bills. As with other ratios, it is a stepping-off point for further discussions with your government.

PAYABLES TURNOVER RATIO:

supplies expense ÷ average vendors payable =
$77,000,823 ÷ 7,912,765 = 9.73

This ratio indicates how quickly your government is paying its bills; a higher ratio indicates quicker payment. Even more than the receivables turnover ratio, the payables turnover ratio benefits from conversion into days. In the sample calculation above, 365 divided by 9.73 equals 37.5 days on average to make payments on vendors payable.

Another way in which efficiency ratios are employed relates to capital assets. In the section on capital asset disclosures in Part Four, there is a discussion of a ratio that measures the remaining useful lives of capital assets. Using information on buildings and improvements from the note disclosure for Local City in Figure 16:

CAPITAL ASSET DEPLETION RATIO:

[(historical cost – accumulated depreciation) ÷ historical cost] × 100 =
[($40,695 – 11,049) ÷ 40,695] × 100 = 72.8%

As stated in Part Four, this ratio declined from the preceding fiscal year, when it was 74.1 percent, meaning that the average remaining lives of Local City's buildings shrank.

In addition to this ratio, which measures the capital assets your government has for use in the future, another ratio measures whether your government has been replenishing its capital assets. The **CAPITAL ASSET REPLENISHMENT RATIO** also helps to explain why the depletion ratio is increasing or decreasing over time. Using information from Figure 16 and the governmental funds statement of revenues, expenditures, and changes in fund balances in Figure 5:

capital expenditures ÷ depreciation expense =
$16,719 ÷ 4,387 = 3.81

Anytime this ratio exceeds 1.0, it means that your government is adding more to its stock of capital assets than is being lost to physical deterioration (as estimated by depreciation). The ratio for Local City for fiscal year 2016 reflects a level of investment in new capital assets or improvements to existing ones that far exceeds the pace of depreciation. However, it should be noted that capital expenditures can rise and fall significantly from year to year—they tend be *lumpy,* because more capital projects are completed in some years than others and, for smaller governments, large capital investments may happen infrequently. In other words, Local City's capital expenditures were much higher than depreciation expense in 2016, but they could be lower in the next year or even next several years.

Tools of the trade...adjusting for inflation

Inflation may be defined as the increase over time in the prevailing prices that are paid for goods and services. A portion of the growth in spending exhibited by a government each year is the effect of higher prices for motor fuel, supplies, food, professional services, and so on.

Many analysts adjust their financial trend data to remove this impact before calculating percentage changes and other ratios. One reason they do this is to obtain a more precise read on financial changes related to decisions made by a government's officials, rather than changes that occurred because a government must pay higher prices.

The process for converting the "nominal" dollars stated in each year's financial statements to "constant dollar" numbers that do not include inflation commonly relies on the Consumer Price Index (CPI) compiled by the U.S. Bureau of Labor Statistics for various regions of the country. The CPI has a base that is an average of the prices in 1983 and 1984—this base is given a value of 100. In each subsequent year, the index grows by the amount of inflation for that year. For example, if inflation had been 5 percent in the first year, the index would have risen from 100 to 105.

Using the CPI to adjust financial data essentially involves adding inflation to or subtracting it from all data so that the comparison data is stated on the same basis as a selected base year (often the last year in a trend). This is the formula:

(base year CPI ÷ comparison year CPI) × nominal dollar amount for comparison year
= constant dollar amount for comparison year

Consider a situation in which you want to compare expenditures for emergency rescue services last year ($100,500) with 10 years ago ($87,800), and you want to adjust for inflation by making the older figures comparable with last year's. The CPI for last year was 234 and 10 years ago it was 198. The calculations would look like this:

(234 ÷ 198) × $87,800 = $103,764

Before the adjustments, the percentage change between $87,800 and $100,500 was a 14.5 percent increase. However, once you calculate the constant dollar amount for the earlier year, you see that the percentage change is a 3.1 percent *decrease* in "real" or inflation-adjusted terms. In other words, were it not for the effects of inflation, expenditures for emergency rescue services actually would have fallen over the 10-year period.

FINANCIAL ANALYSIS is the act of converting the numbers in financial statements into a form upon which specific decisions can be based

Tools of the trade...sources of comparative information

One way to place financial ratios in context is to examine them over time. Alternatively, you might compare the ratios you compute for your government with those of similar governments. Several companies and organizations publish reference works that contain comparative financial ratio information. Comparative data also can be found in the publications of industry associations and federal and state oversight agencies. Associations for businesses that governments partake in, such as hospitals, airports, and utilities, often publish statistical compendia of financial and performance indicators. So, too, do many state government agencies that are responsible for monitoring particular activities of local governments, such as education, transportation, and criminal justice. (See **Tools of the trade...sources of other data,** on page C-7.)

Sources:

Cash flows from proprietary funds cash flows statement

Interest expense from statement of revenues, expenses, and changes in fund net position

Debt service equals interest expense plus principal repayments, which come from the long-term liabilities note

Tools of the trade...sources of other data

Some of the economic data you might want to use for financial ratios can be found in the statistical section of your government's comprehensive annual financial report (CAFR). If it is not there, it is easy to go to the source your government probably got the data from in the first place—the federal government. These agencies have websites with online statistics:

Bureau of the Census: social and economic characteristics of population, poverty, retail trade <www.census.gov>

Bureau of Economic Analysis: personal income, gross state product <www.bea.gov>

Bureau of Labor Statistics: employment, unemployment, inflation rates <www.bls.gov>

Bureau of Justice Statistics: crime rates, inmates in jail, drug use <www.bjs.gov>

Bureau of Transportation Statistics: highway statistics, passenger levels, aviation <www.bts.gov>

Environmental Protection Agency: pollution, environmental quality <www.epa.gov>

National Center for Education Statistics: elementary and secondary education and higher education information <nces.ed.gov>

National Center for Health Statistics: birth and mortality rates, life expectancy, disease rates <www.cdc.gov/nchs>

APPENDIX D

GLOSSARY OF TERMS

AAL: see **ACTUARIAL ACCRUED LIABILITY**

ACCOUNTABILITY: a responsibility to justify your actions to another party

ACCOUNTING: see **FINANCIAL ACCOUNTING**

ACCOUNTING EQUATION: the equation stating the relationship among the elements recorded by financial accounting. For the **GOVERNMENTAL FUNDS** it is assets + deferred outflows = liabilities + deferred inflows + fund balance; the equation is rearranged for other funds and the **GOVERNMENT-WIDE FINANCIAL STATEMENTS:** assets + deferred outflows − liabilities − deferred inflows = net position

ACCOUNTS PAYABLE: amounts a government owes to external persons or groups (Fig. 17, BTN p. 14)

ACCOUNTS RECEIVABLE: amounts a government is due to receive in return for goods or services it has provided (Part 4, Fig. 15)

ACCRUAL BASIS OF ACCOUNTING: the **BASIS OF ACCOUNTING** in which all flows of resources (and thus all **CHANGES IN NET POSITION**) during the year are recorded regardless of whether they involved cash flowing in or out of the government (App. E)

ACCUMULATED DEPRECIATION: the sum of all annual **DEPRECIATION** expenses to date for a **CAPITAL ASSET;** it is subtracted from **HISTORICAL COST** on a **STATEMENT OF NET POSITION** (Part 2, App. E)

ACTUARIAL ACCRUED LIABILITY (AAL): under prior accounting standards, the estimated value of **OTHER POSTEMPLOYMENT BENEFITS** attributed to service already completed by current and future retirees (Part 4, UFR p. 102)

ACTUARIAL VALUE OF ASSETS: under prior accounting standards, the value assigned in an actuarial valuation to cash, investments, and other property held by an **OTHER POSTEMPLOYMENT BENEFITS** fund for the future payment of benefits (Part 4, UFR p. 102)

ACTUARIALLY DETERMINED CONTRIBUTION: amount calculated by an actuary that a government should contribute annually to a pension or **OPEB** plan, which is intended to ensure that sufficient resources are available to make future benefit payments (Part 5, Fig. 31)

ADDITIONS: increases in **FIDUCIARY NET POSITION,** including contributions by employers and employees and investment earnings (Part 3, Fig. 11)

AGENCY FUNDS: a class of **FIDUCIARY FUND** that contains resources held on a temporary, purely custodial basis by a government on behalf of others (Part 3)

AGENT MULTIPLE-EMPLOYER PLAN: single-employer pension or **OPEB** plans aggregated into a single plan, with shared administrative and investment functions; separate accounts are maintained for each employer to ensure that each employer's contributions provide benefits only for its employees; see also **COST-SHARING MULTIPLE-EMPLOYER PLAN** (Part 4)

AMORTIZED COST: the original cost of debt or an investment plus accumulated portions of associated discounts or premiums (Part 4, UFR p. 69)

ANNUAL REQUIRED CONTRIBUTION (ARC): under prior accounting standards, an actuarially determined amount that is expected, if contributed to an **OTHER POSTEMPLOYMENT BENEFIT** plan, to be sufficient to fully fund benefit payments as they come due (Part 4, UFR p. 102)

APPROPRIATIONS: legal authorizations to make expenditures, or to enter into obligations to make expenditures, for specific purposes

ARC: see **ANNUAL REQUIRED CONTRIBUTION**

ASSET SUFFICIENCY RATIO: a measure of the degree to which resources set aside in a pension or **OTHER POSTEMPLOYMENT BENEFITS** trust cover a government's overall obligation to provide pension benefits or **OPEB** to employees and retirees; it is calculated as follows: **FIDUCIARY NET POSITION** minus **TOTAL PENSION LIABILITY** (or **FIDUCIARY NET POSITION** minus **TOTAL OPEB LIABILITY**) (Part 5)

ASSETS: resources controlled by a government that can be used to provide service (Part 2, App. E)

ASSIGNED FUND BALANCE: the portion of **FUND BALANCE** that represents resources a government intends to use for a particular purpose; resources in **GOVERNMENTAL FUNDS** other than the **GENERAL FUND** are, at a minimum, assigned (Part 3)

AUDITOR'S REPORT: a letter accompanying the financial statements that presents a CPA's or other auditor's opinion concerning whether the statements are presented fairly in conformity with **GAAP** (Fig. B-1, KIM p. 118)

BALANCE SHEET: a financial statement that compares what an entity owns with what it owes; governments use them to report the **CURRENT FINANCIAL RESOURCES** of the **GOVERNMENTAL FUNDS,** and sometimes to report the **ECONOMIC RESOURCES** of the **PROPRIETARY FUNDS** (Part 3, Fig. 4)

BANS: see **BOND ANTICIPATION NOTES**

BASIC FINANCIAL STATEMENTS (BFS): the heart of a government's annual financial report, consisting of **GOVERNMENT-WIDE FINANCIAL STATEMENTS, FUND FINANCIAL STATEMENTS,** and **NOTES TO THE FINANCIAL STATEMENTS**

BASIS OF ACCOUNTING: the decision rule a government employs to determine when to record the **FINANCIAL STATEMENT** items specified by the relevant **MEASUREMENT FOCUS;** two principal bases used by governments are **ACCRUAL** and **MODIFIED ACCRUAL** (App. E)

BFS: see **BASIC FINANCIAL STATEMENTS**

BOND ANTICIPATION NOTES (BANS): notes issued in advance of the receipt of proceeds from a bond issue; they are repaid with a portion of those proceeds (BTN p. 55)

BONDS: a form of debt issued by governments that is repaid, generally with **INTEREST,** over periods stretching from a few years to several decades; they typically are issued to finance the acquisition, construction, and rehabilitation of **CAPITAL ASSETS**

BTAS: see **BUSINESS-TYPE ACTIVITIES**

BUDGETARY COMPARISON: a comparison of a government's **ORIGINAL BUDGET** and **FINAL BUDGET** with actual results for a given year; a government may present the comparison as one of the **BASIC FINANCIAL STATEMENTS** or as a schedule with the **RSI** (Part 5, Figs. 28, B-7, and B-8, BTN p. 122)

BUSINESS-TYPE ACTIVITIES (BTAS): activities primarily financed with fees charged for goods and services and generally reported in **ENTERPRISE FUNDS,** as well as the **GOVERNMENT-WIDE FINANCIAL STATEMENTS** (Parts 2 and 3)

CAFR: see **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

CAPITAL AND RELATED FINANCING CASH FLOWS: cash received and disbursed by a government for the purpose of buying, selling, building, and rehabilitating **CAPITAL ASSETS** (Part 3, Fig. 9)

CAPITAL ASSET DEPLETION RATIO: a **FINANCIAL EFFICIENCY RATIO** that approximates the average remaining **USEFUL LIFE** of a government's **CAPITAL ASSETS;** it is calculated as follows: [(**HISTORICAL COST** – **ACCUMULATED DEPRECIATION**) ÷ historical cost] × 100 (App. C)

CAPITAL ASSET REPLENISHMENT RATIO: a **FINANCIAL EFFICIENCY RATIO** that measures whether a government's investment in **CAPITAL ASSETS** is keeping pace with physical deterioration; it is calculated as follows: capital **EXPENDITURES** ÷ **DEPRECIATION EXPENSE** (App. C)

CAPITAL ASSETS: ASSETS used in operations that have initial **USEFUL LIVES** of more than one year, such as land, buildings, improvements to buildings, vehicles, equipment, and **INFRASTRUCTURE** (Part 2, Fig. 16, App. E)

CAPITAL CONTRIBUTIONS: amounts received for building or purchasing **CAPITAL ASSETS,** or the receipt of an actual capital asset (Fig. 8)

CAPITAL GRANTS AND CONTRIBUTIONS: INTERGOVERNMENTAL AID and contributed amounts received for the purchase, construction, and renovation of **CAPITAL ASSETS** (Part 2, Fig. 3)

CAPITAL PROJECTS FUND: a **GOVERNMENTAL FUND** to account for the flows of resources related to the construction, acquisition, and renovation of **CAPITAL ASSETS** (Part 3, BTN p. 38)

CATEGORICAL GRANTS: INTERGOVERNMENTAL AID restricted to a specific purpose

CERTIFIED PUBLIC ACCOUNTANT (CPA): professional designation earned by achieving specified standards of accounting education and work experience and by passing a national examination

CHANGE IN FINANCIAL POSITION: refers to how finances changed as a government was run during the course of a period; most simply defined as a **CHANGE IN NET POSITION** (Part 2)

CHANGE IN FUND BALANCE: the increase or decrease from year to year in **FUND BALANCE,** it is the sum total of the flows reported in the **GOVERNMENTAL FUNDS** (Part 3)

CHANGE IN FUND NET POSITION: the increase or decrease from year to year in the net position of the **PROPRIETARY FUNDS;** it is the sum total of the flows reported in the **STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION** (Part 3)

CHANGE IN NET POSITION: the increase or decrease from year to year in the net position of the whole government; it is the sum total of the flows reported in the government-wide **STATEMENT OF ACTIVITIES** (Part 2)

CHARGES FOR SERVICES: fees and other charges to the users or recipients of the goods and services a government provides (Part 2)

CLAIMS AND JUDGMENTS: LIABILITIES of a government related to claims for payment (such as from insured employees) and court-imposed awards

CLASSIFIED FORMAT: a method of organizing a **STATEMENT OF NET POSITION** or a **BALANCE SHEET** that divides **ASSETS** and **LIABILITIES** between **CURRENT** and **NONCURRENT** (Part 2)

COMBINING FINANCIAL STATEMENTS: statements that present the finances of multiple similar accounting entities, such as nonmajor **GOVERNMENTAL FUNDS** or individual **INTERNAL SERVICE FUNDS;** combining statements for **COMPONENT UNITS** may be presented among the **BASIC FINANCIAL STATEMENTS,** and for other purposes with the supplementary material in the **CAFR** (BTN pp. 65 and 143)

COMMITTED FUND BALANCE: the portion of **FUND BALANCE** that is constrained by a government itself using its highest level of decision-making authority; committed fund balance cannot be used for any other purpose unless a government again uses its highest level of decision-making authority to change or remove the purpose limitation (Part 3)

COMMON-SIZE RATIOS: calculations that put financial data in a metric that allows comparisons over time and across governments; see **PERCENTAGE CHANGE** and **PERCENTAGE DISTRIBUTION** (App. C)

COMPENSATED ABSENCES: unused vacation and other leave time for which employees will be paid when they retire or otherwise cease to work for a government

COMPONENT UNITS: legally separate organizations, often governmental, for which the elected officials of a primary government are financially responsible (Part 3, BTN pp. 64 and 65, UFR p. 65)

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): a government's official annual financial report, containing the **BASIC FINANCIAL STATEMENTS** as well as introductory material and additional statements and **STATISTICAL SECTION** schedules with financial, economic, and demographic information (Part 6)

CONCENTRATIONS OF CREDIT RISK: the risk of loss related to the magnitude of a government's investment in a single issuer (Part 4)

CONDENSED FINANCIAL STATEMENTS: documents containing a substantially reduced set of information from another complete financial statement; governments may use them rather than **COMBINING FINANCIAL STATEMENTS** to report **COMPONENT UNITS** (Fig. B-6, BTN p. 65)

CONDUIT DEBT: debt issued by a government to provide capital financing for a third party that is not a part of the government; the third party, not the government, is responsible for repaying the debt through lease or loan payments to the government; examples include bonds issued to finance home mortgages and business expansion (Fig. B-33)

CONTINGENT LIABILITIES: potential future liabilities based on conditions that were unresolved as of the date of the **FINANCIAL STATEMENTS**, such as pending court cases, disputed claims, and unfilled purchase orders (Part 4, UFR p. 64)

COST-SHARING MULTIPLE-EMPLOYER PLANS: a pooling or cost-sharing arrangement among multiple governments; the costs of providing pension benefits or **OPEB** to employees are shared by the plan as a whole, rather than attributed to the individual governments; see also **AGENT MULTIPLE-EMPLOYER PLANS** (Part 4)

COVERAGE: a government's ability to repay long-term debts

COVERAGE RATIOS: types of **SOLVENCY RATIOS** used to determine a government's ability to repay long-term debts; examples include **INTEREST COVERAGE** and **DEBT SERVICE COVERAGE** (App. C)

COVERED-EMPLOYEE PAYROLL: total employee pay (Part 5, BTN p. 128)

COVERED PAYROLL: the portion of employee pay on which contributions to a pension or **OPEB** plan are based (Part 5, Figs. 29–31 and B-9, BTN p. 128)

CPA: see **CERTIFIED PUBLIC ACCOUNTANT**

CREDIT RATING: a grade given by a private credit rating firm to a particular outstanding or pending issue of debt to assist investors and creditors in determining the likelihood that a government will be able to make the **INTEREST** and **PRINCIPAL** payments on time

CURRENT ASSETS: cash and other **ASSETS** expected or required to be converted to cash within a year that face no restrictions that would prevent a government from doing so (Part 2, BTN p. 12)

CURRENT FINANCIAL RESOURCES MEASUREMENT FOCUS: this is applied to the **GOVERNMENTAL FUNDS** to report on the flows of resources that occurred within or soon after a given year; it does not include **CAPITAL ASSETS** or long-term **LIABILITIES** (Part 3, App. E)

CURRENT LIABILITIES: liabilities that are due now or are expected to become due within a year, and that generally require the use of **CURRENT ASSETS** or incurring another liability to satisfy them (Part 2)

CURRENT RATIO: a calculation to determine if a government has enough liquid **ASSETS** to cover the **LIABILITIES** that are due now or are expected to come due in the next year; calculated as follows: **CURRENT ASSETS** ÷ **CURRENT LIABILITIES** (App. C)

CUSTODIAL CREDIT RISK: the risk of another party not returning an investment (Part 4)

DEBT PER CAPITA: **LONG-TERM DEBT** divided by population (Part 6)

DEBT REFUNDINGS: the issuance of new **LONG-TERM DEBT** to repay outstanding debt (Fig. B-33)

DEBT SERVICE: the payment of **INTEREST** and **PRINCIPAL** on amounts borrowed

DEBT SERVICE COVERAGE RATIO: a kind of **COVERAGE RATIO** used to determine a government's ability to pay **INTEREST** on and repay the **PRINCIPAL** of its **LONG-TERM DEBT** (App. C)

DEBT SERVICE FUND: a **GOVERNMENTAL FUND** to account for the payment of **INTEREST** and **PRINCIPAL** on **LONG-TERM DEBT** (Part 3)

DEDICATED TAXES: tax revenues legally restricted to a particular purpose (BTN p. 27)

DEDUCTIONS: reductions in **FIDUCIARY NET POSITION,** primarily benefit payments and the costs of general administration (Part 3, Fig. 11)

DEFERRED INFLOWS OF RESOURCES: inflows of resources related to a future period (Part 2)

DEFERRED OUTFLOWS OF RESOURCES: outflows of resources related to a future period (Part 2)

DEFINED BENEFIT PLAN: a pension or **OTHER POSTEMPLOYMENT BENEFITS** plan that, for accounting purposes, does not meet the definition of a **DEFINED CONTRIBUTION PLAN;** a government guarantees a specific level of future benefits and is obligated to provide sufficient resources to pay those benefits (Parts 4 and 5)

DEFINED CONTRIBUTION PLAN: a pension or **OTHER POSTEMPLOYMENT BENEFITS** plan in which a government promises to contribute a specific amount to each employee's individual account and the amount of benefits employees will receive when they retire depends only on how much was contributed and the earnings on those contributions when invested (Part 4)

DEPRECIATION: the systematic allocation of the **HISTORICAL COST** of a **CAPITAL ASSET,** less its **SALVAGE VALUE,** over its **USEFUL LIFE;** it is a proxy for the cost of using a capital asset in the operations of a government, or for the gradual wearing out of a capital asset over time (Part 2, TOT p. E-15)

DOUBLE-ENTRY ACCOUNTING: a system of recording financial data that is based on the premise that for every account—**ASSET, DEFERRED OUTFLOWS OF RESOURCES, LIABILITY, DEFERRED INFLOWS OF RESOURCES, NET POSITION,** or inflows and outflows of resources—that is affected by a transaction, there must be at least one other account affected in such a way that the **ACCOUNTING EQUATION** remains balanced

DUE FROM OTHER GOVERNMENTS: amounts a government is owed by other governments

DUE FROM THE PRIMARY GOVERNMENT: amounts a component unit is owed by its parent government

ECONOMIC CONDITION: a government's ability and willingness to meet its financial obligations and service commitments on an ongoing basis; sometimes called **FINANCIAL CONDITION**

ECONOMIC RESOURCES MEASUREMENT FOCUS: applied to all governmental accounting and financial reporting except for the **GOVERNMENTAL FUNDS,** this **MEASUREMENT FOCUS** includes all of the resources of a government, both capital and financial, current and long-term (App. E)

ENABLING LEGISLATION: legislation that authorizes a government to raise a revenue source and places a legally enforceable restriction on how those resources may be used; resources deriving from enabling legislation are reported as **RESTRICTED NET POSITION** (Fig. B-33)

ENCUMBRANCES: amounts set aside to pay for goods and services a government contracted for but did not receive prior to the end of the year

ENTERPRISE FUNDS: PROPRIETARY FUNDS used to report a government's **BUSINESS-TYPE ACTIVITIES** (Part 3)

EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES: the difference between **REVENUES** and **EXPENDITURES**; more simply, surplus (deficit) (Part 3)

EXPENDITURES: the outflow of cash, a promise to pay, or other financial resources in return for goods and services that have been received (Part 3, App. E)

EXPENSES: decreases in **NET POSITION** resulting from the using up or outflows of **ASSETS** in the course of operating a government and providing goods and services (Part 2, App. E)

EXTERNAL INVESTMENT POOL: an arrangement external to the reporting entity in which governments pool their resources to invest in a single portfolio to benefit the individual participating governments (Fig. B-33)

EXTRAORDINARY ITEM: a **CHANGE IN NET POSITION** or **CHANGE IN FUND BALANCE** that is both unusual in nature and infrequent in occurrence; it is reported separately from **REVENUES** and **EXPENSES**/**EXPENDITURES** (Parts 2 and 3, BTN p. 29)

FAIR VALUE: the amount expected to be received when an item is sold in an active market between a willing seller and buyer

FASB: see **FINANCIAL ACCOUNTING STANDARDS BOARD**

FIDUCIARY ACTIVITIES: activities in which a government acts as trustee or agent for resources that belong to others, such as employee pension plans; these activities are not included in the **GOVERNMENT-WIDE STATEMENTS** because their resources do not belong to the government and are not available to be used (Parts 3 and 5)

FIDUCIARY FUNDS: funds used to account for **FIDUCIARY ACTIVITIES**; they employ the **ECONOMIC RESOURCES MEASUREMENT FOCUS** and **ACCRUAL BASIS OF ACCOUNTING**; classes of fiduciary funds include **PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS, INVESTMENT TRUST FUND, PRIVATE-PURPOSE TRUST FUND,** and **AGENCY FUNDS** (Parts 3 and 5, BTN p. 60)

FIDUCIARY NET POSITION: the **NET POSITION** of a pension or **OTHER POSTEMPLOYMENT BENEFITS** plan that is dedicated to providing benefits to the members of the plan; when subtracted from the **TOTAL PENSION LIABILITY,** the remainder is the **NET PENSION LIABILITY** (Parts 4 and 5)

FINAL BUDGET: the budget that reflects all legal changes made to the **ORIGINAL BUDGET** subsequent to the start of the year (even those that occur after the end of the year) (Part 5, Figs. 28 and B-7)

FINANCIAL ACCOUNTING: the systematic measuring and recording of the financial effects of an organization's activities for the purpose of external reporting (Part 1)

FINANCIAL ACCOUNTING STANDARDS BOARD (FASB): the **GASB**'s counterpart with responsibility for for-profit and not-for-profit nongovernmental entities in the United States (Apps. E and F)

FINANCIAL ANALYSIS: the examination and processing of financial statements and other relevant information to draw conclusions about a government's financial health upon which decisions may be based (App. C)

FINANCIAL CONDITION: see **ECONOMIC CONDITION**

FINANCIAL EFFICIENCY RATIOS: calculations to determine how well a government uses its **ASSETS** and **LIABILITIES** (App. C)

FINANCIAL POSITION: a government's financial status at a given point in time (Parts 2 and 3)

FINANCIAL RATIOS: numbers calculated from information in **FINANCIAL STATEMENTS** for the purpose of conducting **FINANCIAL ANALYSIS** (App. C)

FINANCIAL REPORTING: the process of summarizing an organization's accounting information and reporting it to persons external to the organization (Part 1)

FINANCIAL SECTION: the portion of the **CAFR** containing the **BASIC FINANCIAL STATEMENTS** and other supporting financial statements and schedules (Part 6)

FINANCIAL STATEMENTS: documents prepared by a government for the purpose of reporting its finances to the public

FISCAL YEAR: the typical period covered by a government's **FINANCIAL STATEMENTS**

FOREIGN CURRENCY RISK: the risk of loss from changes in exchange rates (Part 4)

FULL ACCRUAL: see **ACCRUAL BASIS OF ACCOUNTING**

FUND: a fiscal and accounting entity created by a government for the purpose of tracking the finances of a particular activity or group of activities (Part 3)

FUND BALANCE: the difference between **ASSETS** and **LIABILITIES** in the **BALANCE SHEET** of the **GOVERNMENTAL FUNDS** (Part 3, Fig. 4, UFR p. 39)

FUND FINANCIAL STATEMENTS: statements reporting the finances of a government's **GOVERNMENTAL FUNDS, PROPRIETARY FUNDS,** and **FIDUCIARY FUNDS** (Part 3, Figs. 4–11, App. E)

GAAP: see **GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**

GASB: see **GOVERNMENTAL ACCOUNTING STANDARDS BOARD**

GENERAL FUND: accounts for all activities not reported in the other **GOVERNMENTAL FUNDS** (Part 3)

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP): the body of standards promulgated by the **GASB** and its predecessors that governs how state and local governments account for and report their finances externally (App. E)

GENERAL OBLIGATION (GO) DEBT: debt issued by a government (generally long-term bonds) that is typically secured by the full faith and credit of the government—meaning all of its taxing and revenue-raising capability

GENERAL REVENUES: all revenues that are not **PROGRAM REVENUES;** most commonly, taxes (Part 2)

GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB): the body that establishes **GENERALLY ACCEPTED ACCOUNTING PRINCIPLES** for state and local governments in the United States (App. F)

GOVERNMENTAL ACTIVITIES: activities generally financed with taxes and unrestricted **INTERGOVERNMENTAL AID** and reported in the **GOVERNMENTAL FUNDS** and **INTERNAL SERVICE FUNDS**, as well as the **GOVERNMENT-WIDE FINANCIAL STATEMENTS** (Parts 2 and 3)

GOVERNMENTAL FUNDS: these funds track the finances of a government's basic services and collectively are virtually synonymous with the **GOVERNMENTAL ACTIVITIES** reported in the **GOVERNMENT-WIDE FINANCIAL STATEMENTS**; they are reported using the **CURRENT FINANCIAL RESOURCES MEASUREMENT FOCUS** and **MODIFIED ACCRUAL BASIS OF ACCOUNTING**, and include the **GENERAL FUND, SPECIAL REVENUE FUNDS, DEBT SERVICE FUNDS, CAPITAL PROJECTS FUNDS**, and **PERMANENT FUNDS** (Part 3, Figs. 4–6, BTN pp. 35 and 38, App. E)

GOVERNMENT-WIDE FINANCIAL STATEMENTS: statements covering all of a government's activities (except **FIDUCIARY ACTIVITIES**); they are prepared using the **ECONOMIC RESOURCES MEASUREMENT FOCUS** and **ACCRUAL BASIS OF ACCOUNTING**; they are the first to appear among the **BASIC FINANCIAL STATEMENTS** and include the **STATEMENT OF NET POSITION** and **STATEMENT OF ACTIVITIES** (Part 2, Figs. 1 and 3, App. E)

HISTORICAL COST: the original construction cost or acquisition price of a **CAPITAL ASSET**; it is reported in a **STATEMENT OF NET POSITION**, less **ACCUMULATED DEPRECIATION** (Part 2, App. E)

INDIRECT EXPENSE: costs that are not related directly to the provision of a good or service to the public but, rather, are related to support and administration; some governments allocate them among functional expense categories on their **STATEMENT OF ACTIVITIES** (Part 2, BTN p. 68)

INFRASTRUCTURE: especially long-lasting **CAPITAL ASSETS** that are stationary, can be preserved for significantly greater periods than most capital assets, and typically are part of a larger system of capital assets; examples include bridges, tunnels, roads, water mains, and sewers (Part 2, App. E)

INTEREST: the cost of using borrowed money; it typically is a percentage of **PRINCIPAL**

INTEREST COVERAGE RATIO: a kind of **COVERAGE RATIO** used to determine a government's ability to pay future **INTEREST** payments on its **LONG-TERM DEBT** (App. C)

INTEREST RATE RISK: the risk that changing interest rates will lead to a decline in the fair value of an investment (Part 4)

INTERFUND BALANCES: amounts owed from one **FUND** to another at the end of the **FISCAL YEAR** (Part 4, Fig. 23)

INTERFUND ELIMINATIONS: adjustments made when converting individual **FUND** information to government-wide data to avoid counting twice the effect of transfers or other movements of resources among funds (Fig. B-33)

INTERFUND TRANSFERS: amounts moved from one **FUND** to another without expectation of repayment (Part 4, Fig. 24)

INTERGOVERNMENTAL AID: grants to or from other governments; for local governments, they typically come from the state and federal governments

INTERNAL SERVICE FUND: a type of **PROPRIETARY FUND** that tracks the activities that provide goods or services to the other agencies or programs of a government; generally included with the **GOVERNMENTAL ACTIVITIES** in the **GOVERNMENT-WIDE FINANCIAL STATEMENTS** (Parts 3 and 6, Figs. 7–9 and B-12–B-14)

INTERPERIOD EQUITY: the degree to which a government raises sufficient resources in a year to cover its costs

INTRODUCTORY SECTION: the first part of the **CAFR;** it contains the **LETTER OF TRANSMITTAL,** organizational charts, and other general information about a government (Part 6)

INVESTING CASH FLOWS: the exchange of cash related to the buying and selling of investments, as well as investment earnings (Part 3, Fig. 9)

INVESTMENT TRUST FUND: a class of **FIDUCIARY FUNDS** to track the portion of a government's investment pools that belongs to other governments (Part 3, BTN p. 60)

JOINTLY GOVERNED ORGANIZATION: a separate governmental entity created by other governments to provide services to their citizens; the governments share control of the entity but, unlike a **JOINT VENTURE,** do not retain an ongoing financial interest in or responsibility for it (Fig. B-33)

JOINT VENTURE: a separate governmental entity created by other governments to provide services to their citizens; the governments share control of the entity and retain an ongoing financial interest in or responsibility for it (Fig. B-33)

LEGAL DEBT MARGIN: the amount of a particular type of debt, typically **GENERAL OBLIGATION,** that a government is legally allowed to issue before reaching its **LEGAL DEBT LIMIT;** it generally is the difference between a government's legal debt limit and the amount of that particular debt currently outstanding (Part 6, Fig. B-26)

LETTER OF TRANSMITTAL: a welcoming message to the user of the **CAFR,** presented in the **INTRODUCTORY SECTION,** from a government's executive—the mayor, city manager, or equivalent position—or chief financial officer; it may include information not found in **MD&A,** such as indicators of service performance (Part 6)

LEVERAGE: the degree to which a government's **ASSETS** are financed through borrowing and other long-term obligations

LEVERAGE RATIOS: calculations to determine the degree to which a government's **ASSETS** are financed through borrowing and other long-term obligations (App. C)

LIABILITIES: amounts a government is obligated to pay to persons or groups outside the government (Part 2, App. E)

LIABILITIES-TO-ASSETS RATIO: a **LEVERAGE RATIO** calculated as follows: **LIABILITIES** ÷ **ASSETS** (App. C)

LIABILITIES-TO-NET POSITION RATIO: a **LEVERAGE RATIO** calculated as follows: **LIABILITIES** ÷ **NET POSITION** (App. C)

LIQUIDITY: how quickly an **ASSET** can be exchanged for cash or is expected to be used up, taking into account any restrictions as to when the asset can be used (Part 2)

LIQUIDITY RATIOS: calculations to determine a government's ability to pay for its most immediate obligations (App. C)

LONG-TERM DEBT: borrowing that is expected to be repaid over several years to several decades (Parts 2 and 4, Fig. 18)

MAJOR FUNDS: a government's most significant **GOVERNMENTAL FUNDS** and **ENTERPRISE FUNDS,** based on specific size criteria; the **GENERAL FUND** always is considered major, and governments can designate other important funds as well; they are displayed individually on the governmental funds financial statements and proprietary funds financial statements (Part 3, BTN p. 33)

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A): an overview and analysis, prepared by a government's finance officers, of the information in the government's **FINANCIAL STATEMENTS;** it is a form of **RSI,** although it appears before the **BASIC FINANCIAL STATEMENTS** (Part 5 and App. A)

MATURITY: refers to when (1) a **LIABILITY** is due to be settled or (2) an investment is due to pay off (Part 2)

MD&A: see **MANAGEMENT'S DISCUSSION AND ANALYSIS**

MEASUREMENT DATE: the date on which a government measures its **TOTAL PENSION LIABILITY** or **TOTAL OPEB LIABILITY;** the measurement date may be as early as the last day of the prior fiscal year (Part 4, UFR p. 99)

MEASUREMENT FOCUS: the definition of the kinds of transactions a government should consider when accounting for and reporting its finances (App. E)

MODIFIED ACCRUAL BASIS OF ACCOUNTING: the basis a government uses to account for its **GOVERNMENTAL FUNDS;** it records **EXPENDITURES** rather than **EXPENSES** and requires that payment on **REVENUES** be received during the year or soon enough thereafter to be used to liquidate the current year's **LIABILITIES** (Part 3, App. E)

MODIFIED APPROACH: an alternative method to **DEPRECIATION** for reporting certain general **INFRASTRUCTURE** assets that involves reporting annual maintenance and preservation expenses for assets that a government can show is kept at a predetermined level of physical condition chosen by the government (Parts 2 and 5, Fig. 33, BTN p. 13)

MONEY MARKET INVESTMENTS: short-term investments that are easily converted to cash, such as certain U.S. Treasury debt (Part 4)

NET COST: the portion of the cost of providing services—after deducting revenues from **USER FEES** and categorical **INTERGOVERNMENTAL AID** or donations—that is financed by **GENERAL REVENUES** such as taxes; also called **NET EXPENSE** (Part 2)

NET (EXPENSE) REVENUE: the remainder after **PROGRAM REVENUES** are subtracted from **EXPENSES;** a functional expense category with a positive number provides net revenue to the government; a functional expense category with a negative number places a net expense on the government that generally is financed with taxes and other **GENERAL REVENUES;** this information is found in the government-wide **STATEMENT OF ACTIVITIES** (Part 2)

NET INVESTMENT IN CAPITAL ASSETS: the portion of **NET POSITION** represented by **CAPITAL ASSETS** less **ACCUMULATED DEPRECIATION,** less outstanding debts incurred by a government to buy or construct them (Part 2)

NET OPEB LIABILITY: the portion of a government's obligation to provide **OTHER POSTEMPLOYMENT BENEFITS** to active and inactive employees and their beneficiaries that is not covered by resources set aside in an **OPEB** trust; it is calculated as follows: **TOTAL OPEB LIABILITY** minus **FIDUCIARY NET POSITION** (Parts 4 and 5)

NET OPEB OBLIGATION: under prior accounting standards, the cumulative difference between actuarially determined contributions to an **OTHER POSTEMPLOYMENT BENEFITS** plan and a government's actual contributions (Part 4, UFR p. 102)

NET PENSION LIABILITY: the portion of a government's obligation to provide pensions to active and inactive employees and their beneficiaries that is not covered by resources set aside in a pension trust; it is calculated as follows: **TOTAL PENSION LIABILITY** minus **FIDUCIARY NET POSITION** (Parts 4 and 5)

NET POSITION: what remains after **LIABILITIES** and **DEFERRED INFLOWS** have been subtracted from **ASSETS** and **DEFERRED OUTFLOWS** (Part 2, App. E)

NONCAPITAL FINANCING CASH FLOWS: the exchange of cash related to certain grants and subsidies and to borrowing for purposes other than purchasing, constructing, or rehabilitating **CAPITAL ASSETS** (Part 3, Fig. 9)

NONCURRENT ASSETS: assets that will be liquidated beyond the coming year, if at all, or that are restricted from being liquidated in the current year (Part 2)

NONCURRENT LIABILITIES: LIABILITIES that come due beyond the coming year (Part 2)

NONEMPLOYER CONTRIBUTING ENTITY: a government or other entity that makes contributions to a pension or **OTHER POSTEMPLOYMENT BENEFITS** plan that is used to provide benefits to the employees of other governments (Part 4, UFR p. 95)

NONMAJOR FUNDS: FUNDS that do not qualify as **MAJOR FUNDS** (Part 3)

NONSPENDABLE FUND BALANCE: the portion of **FUND BALANCE** that represents resources that cannot be spent, either because they are not in spendable form or because they are required by an external individual or organization to be maintained intact (Part 3, UFR p. 39)

NOTES: a form of debt issued by governments that typically is repaid within one year; they commonly are used to even out cash flows over the course of a year (BTN p. 55)

NOTES TO THE FINANCIAL STATEMENTS: note disclosures provide additional information that is essential for **FINANCIAL STATEMENTS** to present fairly the finances of a government; they are considered a component of the **BASIC FINANCIAL STATEMENTS** and therefore are essential to a user's understanding of **FINANCIAL POSITION** and the inflows and outflows of resources (Part 4)

ON-BEHALF PAYMENTS: direct payments made by a government to a third party for the **FRINGE BENEFITS** and salaries of employees of another, legally separate organization (Fig. B-33)

OPEB: see **OTHER POSTEMPLOYMENT BENEFITS**

OPERATING CASH FLOWS: the exchange of cash related to a government's provision of services and the production and provision of goods (Part 3, Fig. 9)

OPERATING EXPENSES: the costs of producing and providing goods and services to customers and of collecting payment from them (Part 3, Fig. 8)

OPERATING GRANTS AND CONTRIBUTIONS: INTERGOVERNMENTAL AID and contributed amounts received or provided to finance operating activities (Part 2, Fig. 3)

OPERATING REVENUES: fees and charges generated by a **BTA**'s production and provision of goods and services to customers (Part 3, Fig. 8)

ORIGINAL BUDGET: the first legally adopted budget for a given year, including any legal adjustments made to it subsequent to adoption but prior to the start of the year (Part 5, Figs. 28 and B-7)

OTHER FINANCING SOURCES: inflows of resources other than **REVENUES** in the **GOVERNMENTAL FUNDS** that increase **FUND BALANCE;** an example is proceeds from **LONG-TERM DEBT** (Part 3)

OTHER FINANCING USES: outflows of resources other than **EXPENDITURES** in the **GOVERNMENTAL FUNDS** that reduce **FUND BALANCE;** an example is **TRANSFERS** to another **FUND** (Part 3)

OTHER POSTEMPLOYMENT BENEFITS (OPEB): retirement benefits other than pensions, most notably retiree health insurance (Parts 4 and 5)

OVERALL CREDIT RISK: the risk that an issuer or other counterparty to an investment will not fulfill its obligation (Part 4)

OVERLAPPING DEBT: a proportion of the outstanding **LONG-TERM DEBT** of other governments that at least partially overlap geographically with the reporting government (Part 6, Fig. B-25)

OVERLAPPING RATES: tax (or revenue) rates applied to a government's tax (or revenue) base by other governments that at least partially overlap geographically (Part 6, Fig. B-20)

OWN-SOURCE REVENUE: REVENUE that is generated by a government itself, such as taxes or subway fares (Part 6, Figs. B-19–B-22)

PAYABLES EFFICIENCY RATIO: a **FINANCIAL EFFICIENCY RATIO** that measures how long it takes a government to pay amounts it owes; it is calculated as follows: payables ÷ **EXPENSES** (App. C)

PAYABLES TURNOVER RATIO: a **FINANCIAL EFFICIENCY RATIO** that measures how long it takes a government to pay amounts it owes; it is calculated as follows: **EXPENSES** ÷ average payables (App. C)

PENSION (AND OTHER EMPLOYEE BENEFIT) TRUST FUNDS: a class of **FIDUCIARY FUND** to account for resources held in trust for the members and beneficiaries of employee benefit plans (Part 3, BTN p. 60)

PERCENTAGE CHANGE: a **COMMON-SIZE RATIO** that shows the magnitude of change over time; it is calculated as follows: (base year − comparison year) ÷ comparison year (Fig. 2, App. C)

PERCENTAGE DISTRIBUTION: a **COMMON-SIZE RATIO** for determining the proportions that individual elements represent of a total; it is calculated as follows: individual element ÷ total (Fig. 2, App. C)

PERMANENT FUND: a **GOVERNMENTAL FUND** for reporting resources **RESTRICTED** so that only the earnings they generate, and not the resources themselves, may be used to finance operations (Part 3)

PRIMARY GOVERNMENT: a state or general purpose local government and all departments and agencies that are legally a part of it; a special-purpose government that has a separately elected governing body and is legally separate from and financially independent of other governments also is a primary government (Part 2)

PRINCIPAL: the original amount borrowed via a mortgage, **BONDS, NOTES,** or other debt instrument; or original amounts invested by a government

PRIVATE-PURPOSE TRUST FUND: a class of **FIDUCIARY FUND** to report all trust arrangements not reported in another kind of fiduciary fund (Part 3, BTN p. 60)

PROGRAM REVENUES: REVENUES produced by an activity's fees and charges or received as **OPERATING GRANTS AND CONTRIBUTIONS** or **CAPITAL GRANTS AND CONTRIBUTIONS** specifically for that activity (Part 2, Fig. 3)

PROPRIETARY FUND: a **FUND** that tracks a government's activities that charge customers a fee in return for goods or services; there are two kinds—**ENTERPRISE FUND** and **INTERNAL SERVICE FUND** (Part 3, BTN p. 49)

PUBLIC AUTHORITY: a legally separate organization established in accordance with statutory provisions by a government to provide particular goods or services

PUBLIC BENEFIT CORPORATION: see **PUBLIC AUTHORITY**

PUBLIC ENTITY RISK POOL: an arrangement by which multiple governments join together to finance activities that involve risk or a liability, such as providing health or life insurance to employees (Fig. B-33)

QUICK RATIO: a **LIQUIDITY RATIO** calculated as follows: (cash + current investments) ÷ **CURRENT LIABILITIES** (App. C)

RANS: see **REVENUE ANTICIPATION NOTES**

RECEIVABLES EFFICIENCY RATIO: a **FINANCIAL EFFICIENCY RATIO** that measures how long it takes a government to collect amounts owed to it; it is calculated as follows: receivables ÷ **REVENUES** (App. C)

RECEIVABLES TURNOVER RATIO: a **FINANCIAL EFFICIENCY RATIO** that measures how long it takes a government to collect amounts owed to it; it is calculated as follows: **REVENUES** ÷ average receivables (App. C)

RECONCILIATIONS: schedules to **FINANCIAL STATEMENTS** that present the adjustments necessary to explain how the **BASIS OF ACCOUNTING** differs in two sets of statements; governments prepare reconciliations between the **GOVERNMENT-WIDE FINANCIAL STATEMENTS** and **GOVERNMENTAL FUNDS STATEMENTS,** the **ENTERPRISE FUNDS CASH FLOWS STATEMENT** and **STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION,** and the actual budgetary results and governmental funds **STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES** (Parts 3–5, BTN p. 46, UFR p. 107, Figs. 4, 6, 9, 25, 26, and B-8)

RELATED ORGANIZATION: an organization in which the majority of its board is appointed by a government, but for which the government is not financially accountable (Fig. B-33)

REPURCHASE AGREEMENT: an investment in which a government provides cash to an investment firm or other financial institution and receives bonds, stocks, or other securities in exchange, along with a

promise that the firm will repay the cash with interest in exchange for the return of the securities; see also **REVERSE REPURCHASE AGREEMENT** (Part 4)

REQUIRED SUPPLEMENTARY INFORMATION (RSI): important additional information that supports and explains the data in the **BASIC FINANCIAL STATEMENTS;** RSI is not a part of the **BFS,** but governments are required by the **GASB** to provide it together with them; RSI materials follow the **NOTES TO THE FINANCIAL STATEMENTS,** with the exception of **MD&A,** which precedes the BFS (Part 5)

RESTRICTED ASSETS: ASSETS a government is externally or legally prohibited from using for general operating purposes (Fig. 7)

RESTRICTED FUND BALANCE: FUND BALANCE restricted to a particular purpose by organizations or persons external to a government (Part 3, Fig. 4)

RESTRICTED NET POSITION: NET POSITION restricted to a particular purpose by organizations or persons external to a government (Part 2, Fig. 1)

REVENUE: under the **ECONOMIC RESOURCES MEASUREMENT FOCUS,** increases in **NET POSITION** connected with growth in **ASSETS** as a result of providing goods and services; under the **CURRENT FINANCIAL RESOURCES MEASUREMENT FOCUS,** inflows of current financial resources that are available during the year or shortly thereafter to cover **EXPENDITURES** (Parts 2 and 3, App. E)

REVENUE ANTICIPATION NOTES (RANS): NOTES issued in advance of receiving payments of nontax revenues (BTN p. 55)

REVENUE-BACKED DEBT: LONG-TERM DEBT issued by a government that is repaid with resources generated by the activity the debt is financing; for example, a municipal hospital might repay bonds with patient service revenues

REVENUE DISPERSION: the degree to which a government's **REVENUES** come from a few sources versus a wide variety of sources (Part 2)

REVERSE REPURCHASE AGREEMENT: an investment in which a government provides bonds, stocks, or other securities to an investment firm or other financial institution in exchange for cash, and promises to repay the cash with interest to the firm in exchange for the return of the securities; see also **REPURCHASE AGREEMENT** (Part 4, Fig. 13)

RSI: see **REQUIRED SUPPLEMENTARY INFORMATION**

SALVAGE VALUE: theoretically, the value of a **CAPITAL ASSET** at the end of its **USEFUL LIFE;** it is subtracted before **HISTORICAL COST** is allocated over the useful life in **DEPRECIATION;** also called residual value (Part 2, TOT p. E-15)

SCHEDULE OF EMPLOYER CONTRIBUTIONS: an **RSI** document comparing (1) a government's actual contribution to its pension or **OTHER POSTEMPLOYMENT BENEFITS** plan with (2) the contribution an actuary calculated it should make or that it was required to make based on statute or contract (Part 5, Figs. 31, 32, and B-9)

SECURITIES LENDING: a transaction that involves a government's transferring securities to a financial firm or other party in exchange for collateral (which may be cash, securities, or letters of credit), while simultaneously agreeing to return the collateral for the same securities in the future; it differs from **REVERSE REPURCHASE AGREEMENTS,** which involve the actual sale and repurchase of securities (Part 4, Fig. 14)

SEGMENT: an individual activity within an **ENTERPRISE FUND** that has a revenue source of its own dedicated to repaying some form of **REVENUE-BACKED DEBT;** governments are required to make disclosures in the **NOTES TO THE FINANCIAL STATEMENTS** about their segments (Fig. B-33)

SERVICE COST: the amount of increase in the **TOTAL PENSION LIABILITY** or **TOTAL OPEB LIABILITY** as a result of pension benefits or **OTHER POSTEMPLOYMENT BENEFITS** earned in the year for which the liability is measured (Parts 4 and 5, Figs. 22 and 29)

SERVICE UTILITY: the usefulness of a **CAPITAL ASSET** for providing service; measured as a period (years) or level of usage (volume of cars traveling over a bridge, for example) (App. E)

SINGLE-EMPLOYER PLANS: a pension or **OTHER POSTEMPLOYMENT BENEFITS** plan that serves the employees and retirees of just one government (and its component units if they participate in the plan); see also **AGENT MULTIPLE-EMPLOYER PLANS** and **COST-SHARING MULTIPLE-EMPLOYER PLANS** (Parts 4 and 5)

SOLVENCY: the ability of a government to meet its long-term obligations

SOLVENCY RATIOS: calculations that examine a government's ability to meet long-term obligations (App. C)

SPECIAL FUNDING SITUATION: circumstances in which (1) a **NONEMPLOYER CONTRIBUTING ENTITY** is legally responsible for making contributions to a pension or **OTHER POSTEMPLOYMENT BENEFITS** plan that is used to provide benefits to employees of other governments and (2) either the amount of contributions is not dependent on events or factors not related to pensions (or **OPEB**, as appropriate) or the nonemployer entity is the only entity legally required to make contributions directly to the plan (Part 4,
UFR p. 95)

SPECIAL ITEM: nontypical change in **NET POSITION** or **FUND BALANCES** that is within the control of a government and either is unusual in nature or infrequent in occurrence; it is reported separately from **REVENUES** and **EXPENSES/EXPENDITURES** (Parts 2 and 3, BTN p. 28)

SPECIAL REVENUE FUND: a **GOVERNMENTAL FUND** that tracks revenue sources restricted or committed to specific uses (Part 3)

STATEMENT OF ACTIVITIES: a **GOVERNMENT-WIDE FINANCIAL STATEMENT** that reports a government's **REVENUES** and **EXPENSES,** as well as other changes in its **NET POSITION** during the year (Part 2, Fig. 3)

STATEMENT OF CASH FLOWS: a **FINANCIAL STATEMENT** comparing the inflows and outflows of cash during a given period for operating and other purposes; governments prepare this statement for their **PROPRIETARY FUNDS** (Part 3, Fig. 9)

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION: a **FINANCIAL STATEMENT** that reports **ADDITIONS** to and **DEDUCTIONS** from the **FIDUCIARY NET POSITION** of **FIDUCIARY FUNDS** during a given period (Part 3, Fig. 11)

STATEMENT OF FIDUCIARY NET POSITION: a **FINANCIAL STATEMENT** that reports the **ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES,** and **FIDUCIARY NET POSITION** of **FIDUCIARY FUNDS** at a given point in time (Part 3, Fig. 10)

STATEMENT OF NET POSITION: a **FINANCIAL STATEMENT** that reports **ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES,** and **NET POSITION** at a given point in time; one of a government's **GOVERNMENT-WIDE FINANCIAL STATEMENTS,** as well as of the **PROPRIETARY FUNDS** financial statements (Parts 2 and 3, Figs. 1 and 7)

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES: a **FINANCIAL STATEMENT** that reports the **REVENUES, EXPENDITURES, OTHER FINANCING SOURCES,** and **OTHER FINANCING USES** of the **GOVERNMENTAL FUNDS** (Part 3, Fig. 5)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION: a **FINANCIAL STATEMENT** that reports the **REVENUES, EXPENSES,** and other inflows and outflows of the **PROPRIETARY FUNDS** (Part 3, Fig. 8)

STATISTICAL SECTION: the portion of the **CAFR** that contains additional financial, economic, and demographic information for multiple years relating to the government and its environs (Part 6, Figs. B-16–B-33)

STEWARDSHIP: the act of being accountable and demonstrating **ACCOUNTABILITY** to another party

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: NOTE TO THE FINANCIAL STATEMENTS that explains the general accounting methods and assumptions employed by a government when recording financial information and reporting that information in its **FINANCIAL STATEMENTS,** especially those instances in which a government has a choice among two or more approaches (Part 4, Fig. B-2, BTN p. 68)

TANS: see **TAX ANTICIPATION NOTES**

TAX ABATEMENT: an agreement in which a government forgoes tax revenue in exchange for a beneficial action by the recipient, generally related to economic development (Part 4, Fig. 27)

TAX AND REVENUE ANTICIPATION NOTES (TRANS): NOTES issued in advance of receiving payments from taxes and other revenues (BTN p. 55)

TAX ANTICIPATION NOTES (TANS): NOTES issued in advance of receiving payments from tax revenues (BTN p. 55)

TOTAL OPEB LIABILITY (TOL): a government's overall obligation to provide **OTHER POSTEMPLOYMENT BENEFITS** to its active and inactive employees and beneficiaries; it equals the portion of the present value of projected benefit payments that is related to service already provided by employees (Parts 4 and 5)

TOTAL PENSION LIABILITY (TPL): a government's overall obligation to provide pension benefits to its active and inactive employees and beneficiaries; it equals the portion of the present value of projected benefit payments that is related to service already provided by employees (Parts 4 and 5)

TRANS: see **TAX AND REVENUE ANTICIPATION NOTES**

TRANSACTIONS: events in which a government provides something of value to another party external to the government, or vice versa, or both

TRANSFERS: shifts of resources from one part of a government to another without receiving something in return, such as from **GOVERNMENTAL ACTIVITIES** to **BUSINESS-TYPE ACTIVITIES**, or from the **GENERAL FUND** to a **DEBT SERVICE FUND** (Parts 2 and 3)

TRANSMITTAL LETTER: see **LETTER OF TRANSMITTAL**

UAAL: see **UNFUNDED ACTUARIAL ACCRUED LIABILITY**

UNASSIGNED FUND BALANCE: the portion of **FUND BALANCE** that is available for any purpose (Part 3, Fig. 4)

UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL): under prior accounting standards, the portion of the **ACTUARIAL ACCRUED LIABILITY (AAL)** of an **OTHER POSTEMPLOYMENT BENEFITS** plan that is not covered by (or that exceeds) the plan's assets; it is determined by subtracting the AAL from the **ACTUARIAL VALUE OF ASSETS** (Part 4, UFR p. 102)

UNFUNDED LIABILITY: see **UNFUNDED ACTUARIAL ACCRUED LIABILITY**

UNRESTRICTED NET POSITION: the portion of **NET POSITION** not restricted or invested in **CAPITAL ASSETS** (Part 2, Fig. 1, UFR p. 15)

USEFUL LIFE: period during which a **CAPITAL ASSET** will be usable for government operations (Part 2, TOT p. E-15)

USER FEES: see **CHARGES FOR SERVICES**

KEY TO TEXT REFERENCES:

BTN—By the Numbers

KIM—Keep in Mind

TOT—Tools of the Trade

UFR—Upon Further Review

Note to the reader: This glossary contains definitions of certain terms as they are used in this document. These terms may, however, have different meanings in other contexts.

APPENDIX E

A BRIEF INTRODUCTION TO GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

The purpose of this appendix is to give you a quick review of the basic concepts underlying the accounting for and reporting of governmental finances. If you are unfamiliar with accounting and financial reporting, this primer is no substitute for a governmental accounting course. However, you should find it sufficiently thorough to give you a working vocabulary and orient you to the governmental accounting environment, so that you can proceed meaningfully through the main body of this guide to financial statements, rather than stopping every other sentence to wonder, "What language is this written in?!?"

If you already know a little about accounting and government finance, this section should serve you well as a rapid refresher. Regardless of what you know or do not know, this appendix is presented here for your reference as you read through the discussion of the financial statements. You will see in many places throughout the guide a reference like **(See p. E-1)** indicating that the text touches upon a basic topic covered here and identifying the relevant page.

THE ACCOUNTING EQUATION

The **ACCOUNTING EQUATION** is the DaVinci Code of governmental accounting and financial reporting. It looks like this:

Assets + Deferred Outflows − Liabilities − Deferred Inflows = Net Position

The five items listed in the equation represent the balances that accounting keeps track of. As with the core concepts of any field, defining these building blocks of accounting can be difficult and fraught with philosophical disagreement. For the purposes of this guide, though, simple and nontechnical definitions will suffice to get the important points across.

Assets are things an organization owns that can be used to operate the organization and provide goods and services, such as cash in bank accounts, supplies, equipment, and buildings. Not all assets are visible and tangible items like these, however; moneys owed to an organization, leases, and copyrights can be considered assets. Two other important qualifications unifying these different types of assets are: (1) They were created by past **TRANSACTIONS** or other events and (2) a dollar figure can be placed on each. The ability to place a dollar value on an asset does not necessarily mean, however, that the asset can be sold for that amount of cash. Some assets may not be saleable, or selling them may not be feasible. For example, if a new roof is put on a building, the cost of the roof (measured in dollars) is added to the assets. But it is difficult to conceive how one might subsequently sell that roof to someone else.

Liabilities are amounts owed by an organization to others external to the organization. The most common liabilities are accounts payable, which relate to payments owed by an organization for a variety

of goods and services it has received, such as office supplies purchased on account (vendor payable) and time worked by employees (wages payable).

Deferred inflows of resources and deferred outflows of resources are inflows or outflows of resources that already have taken place but actually relate to future years. For instance, a government may receive a tax payment from a business this year, but the payment may be for the following year's tax bill. The government has received the cash, but the recognition of the inflow of cash as a revenue is deferred until the period with which the inflow is associated—the following year.

Net position represents the ownership interest in the assets and deferred outflows of the organization. Stated differently, it is the portion of the assets and deferred outflows that is not required to repay liabilities or related to deferred inflows and, therefore, is available to the owners of the organization.

The equation itself explains how these five elements relate to each other, and how accounting operates. The overriding fact of accounting is this: *No matter what kind of transaction occurs in an organization, the equation always remains in balance—assets and deferred outflows always equal the sum of liabilities, deferred inflows, and net position.* Therefore, if an asset is affected by an event or transaction, an offsetting change also must have occurred in one of the other items or another asset; otherwise, the equation would no longer be in balance. This rule is the basis for **DOUBLE-ENTRY ACCOUNTING**, a method used for centuries to translate transactions and other events into accounting information. Examples of how it works are presented on pages E-4 and E-5.

During the course of operations, an organization's assets, liabilities, deferred inflows and outflows, and net position rise and fall as the organization engages in transactions. At the end of each operating period (typically a year), the organization produces financial statements that summarize and report the impact of events and transactions during the period on the organization's finances. One type of information reported by the financial statements is the *amount* of each kind of asset, liability, and deferred inflow and outflow, as well as the resulting net position, *as of the last day of the period.* The statements also describe how those items *changed during the course of the period.* For example, investments flow into the organization as they are acquired and flow out as they are sold; increases and decreases in the value of investments that a government holds represent changes in net position as well. Payables rise and fall with purchases of goods on credit and payments of bills, respectively.

Most changes in net position are called either revenues or expenses. Revenues are resources that flow into a government during the course of operations and providing goods and services, thereby increasing net position. Expenses are outflows of resources that reduce net position. Gains and losses on the sale of capital assets also affect net position. Gains increase and losses reduce net position.

As is the case for assets and liabilities, revenues and expenses must have a *dollar value.* In the case of amounts owed to a government, it must be *reasonably certain it will receive payment* in order to consider them revenue.

Revenues and expenses related to transactions that involve an equal exchange of value between two or more parties also are distinguished by the fact that they must be *earned.* Cash or a promise to pay received by a government is recorded as a revenue when the government has provided a good or performed a

service in return (and thereby has earned the right to receive the resources). Similarly, cash or a promise to pay given by a government is recorded as an expense if the government has received a good or service in return (and thereby the other person or group has earned the right to the resources and the government is required to give them the resources).

The requirement that revenues and expenses be earned does not extend to events and transactions in which an equal exchange of value *does not* take place. Such instances are common for governments, especially on the revenue side. Taxes levied generally on income and property, for instance, can be recorded as revenue although it is not clear what goods and services taxpayers receive in return for specific tax payments, nor what the value of those goods and services is. On the expense side, grants are recorded as expenses when the recipient has met the eligibility requirements, although no equal exchange of resources has taken place.

Upon further review…examples of transaction analysis

(1) *Matt pays Katie $20 in cash for her Denzel Valentine NBA rookie card.* Look at this from Matt's perspective: He now has $20 less cash, but owns an additional $20 of what we will politely call "investments." We can show the transaction in the form of the accounting equation:

assets + deferred outflows – liabilities – deferred inflows = net position

assets	+ deferred outflows	– liabilities	– deferred inflows	= net position
(starting balances) 100	0	50	0	50
– 20 cash +20 investments	no change	no change	no change	no change
100	0	50	0	50

Overall, Matt's assets have neither increased nor decreased; rather, his *mix* of assets changed. Thus, the zero net change on the left-hand side of the equation remains in balance with the right-hand side, where no change occurred at all.

(2) *Brett mulched leaves for 10 hours for Jeff at a rate of $5 per hour but has not yet been paid.* Brett provided a service to Jeff and has earned his pay, even though he has not received it. Jeff now owes Brett $50. From Brett's perspective:

assets	+ deferred outflows	– liabilities	– deferred inflows	= net position
(starting balances) 70	0	40	0	30
+50 accounts receivable	no change	no change	no change	+50 revenue
120	0	40	0	80

Brett did not receive cash, but he did earn a right to collect from Jeff—an asset called a "receivable." Brett's assets and net position both increased $50 and liabilities were unaffected, so the equation remains in balance.

From Jeff's perspective, the transaction looks like this:

	assets	+ deferred outflows	− liabilities	− deferred inflows	= net position	
	(starting balances) 500	0	300	0	200	
	no change	no change	+50 accounts payable	no change	– 50 expense	
	500	0	350	0	150	

Jeff's assets have not changed because he has not paid Brett yet. However, his liabilities increased by the amount he owes Brett, and his net position decreased by the same amount to reflect that assets will have to be used to repay the new liability and are therefore no longer available to Jeff. The equation remains in balance.

Assume instead that Jeff paid Brett half of what he earned at the time the mulching was performed. From Jeff's perspective:

	assets	+ deferred outflows	− liabilities	− deferred inflows	= net position	
	500	0	300	0	200	
	– 25 cash	no change	+25 accounts payable	no change	– 50 expense	
	475	0	325	0	150	

Upon further review…examples of transaction analysis (continued)

The reduction in net position is the same, but the remainder of the equation is different, reflecting that cash was paid for half of Brett's earnings and the remainder is owed by Jeff. The equation remains in balance.

(3) *Sarah buys a bolt of burnt orange fabric from Yomara for $50 and charges it to her business account.* Sarah's stock of fabric inventory increases, and she now owes an additional $50:

	assets	+ deferred outflows	− liabilities	− deferred inflows	= net position	
	(starting balances) 300	0	50	0	250	
	+50 inventory	no change	+50 accounts payable	no change	no change	
	350	0	100	0	250	

Sarah pays the bill when it arrives:

– 50 cash	no change	– 50 accounts payable	no change	no change
300	0	50	0	250

(4) *Emily gives Amy $100 on the condition that Amy not spend any of it until next year.* This is where deferred inflows and outflows come into play, because the $100 is related to a future period. First, let's look at the transaction from the perspective of the recipient, Amy:

assets	+ deferred outflows	− liabilities	− deferred inflows	= net position
(starting balances) 1,000	0	250	0	750
+100 cash	no change	no change	+100	no change
1,100	0	250	100	750

In the following year, Amy is now allowed to spend the $100. The recognition of the $100 as revenue, which had been deferred the previous year, can now occur:

no change	no change	no change	– 100	+100 revenue
1,100	0	250	0	850

Now, let's look at the transaction from the perspective of the provider, Emily:

assets	+ deferred outflows	− liabilities	− deferred inflows	= net position
(starting balances) 1,500	0	500	0	1,000
–100 cash	+100	no change	no change	no change
1,400	100	500	0	1,000

In the following year, Emily's restriction on when Amy can spend the $100 is lifted:

no change	– 100	no change	no change	– 100 expense
1,400	0	500	0	900

FUND-BASED VERSUS GOVERNMENT-WIDE ACCOUNTING

Broadly speaking, the basic financial statements of governments contain two distinctly different categories of statements—government-wide statements and fund statements. (The individual kinds of statements in each category are discussed at length in Parts Two and Three of this guide.) The accounting equation differs slightly for governments, depending on whether you are looking at the entire government or its individual funds. This section describes the differences between fund-based measures of government finances and government-wide measures. (**By the numbers...major characteristics of the government-wide and fund financial statements** on page E-8 summarizes these descriptions.)

Fund Statements

Fund financial statements focus on individual portions of a government. These portions, or funds, are created by your government for the purpose of tracking the resources related to particular kinds of activities. There are three broad categories of funds—governmental, proprietary, and fiduciary—each of which contains several types of funds that differ based on the kind of activities they account for. (The various types of funds are described, and examples of each are provided, in the inset boxes on pages 38, 49, and 60 of Part Three.)

Essentially, each fund has its own accounting equation, which includes only the assets, deferred outflows, liabilities, deferred inflows, and net position that are assigned to the particular fund. In the governmental funds, net position is called fund balance, and the equation is rearranged from

$$\text{Assets} + \text{Deferred Outflows} - \text{Liabilities} - \text{Deferred Inflows} = \text{Net Position}$$

to

$$\text{Assets} + \text{Deferred Outflows} = \text{Liabilities} + \text{Deferred Inflows} + \text{Fund Balance}$$

Budgetary and legal compliance

Governments often create specific funds based on the structure of their budget or because of a law or special requirement. These funds are established specifically to provide an accounting that can demonstrate the government's compliance with the budgetary and legal restrictions placed on its finances. For instance, a county government might require that no less than 10 percent of its capital budget be used for road construction. A capital projects fund could be established to track road construction spending so that compliance with that budgetary requirement could be determined.

Dedicated revenues

Funds also are particularly convenient for following the flow of individual sources of dedicated revenue. Assume, for instance, that a town levies a real estate transaction tax equal to 1 percent of the sales price of houses and other real property. The state law allowing the town to levy and collect this tax stipulates that it must be used for hiring more police officers. The town might establish a public safety special revenue fund, which would record the amount of the tax flowing into the town government and the

amount and purposes for which the resources subsequently flowed out. In so doing the government can demonstrate that the resources were properly used.

Useful details

The detailed information provided in fund-based statements also is important for understanding and interpreting the government-wide statements. Whereas the government-wide statements provide an overarching view of the state of your government's finances, the fund statements offer more detailed information about specific parts of your government. For example, the flows of resources for paying the principal and interest on various kinds of debt can be examined in the debt service funds, but the government-wide statements do not provide such details. Interest amounts are aggregated in a single expense figure in the statement of activities (Figure 3), and all debt repaid during the year is reported in the notes to the financial statements (Figure 18).

In a similar vein, obtaining resources and using them to construct various infrastructure features and other capital assets can be accounted for and subsequently followed in a capital projects fund by virtue of (1) their segregation from financial data related to other kinds of activities and (2) the fact that they measure how current financial resources flow. By contrast, capital expenditures are not shown in the government-wide statements; rather, depreciation is used to spread the original cost of capital assets over their useful lives.

By the numbers…major characteristics of the government-wide and fund financial statements				
	Government-Wide	**Governmental Funds**	**Proprietary Funds**	**Fiduciary Funds**
Scope	All activities of a government (except fiduciary), including governmental activities, BTAs, and component units	Basic services of government, typically financed with taxes; makes up most of governmental activities (with internal service funds)	Services that charge a fee to users; enterprise funds are basically the same as BTAs (internal service funds generally are governmental)	Established relationships in which a government minds (and may even manage) resources that belong to others and are not available to the government itself
Display features	Information divided among governmental and business-type activities and component units	"Major" funds shown individ-ually; smaller funds aggregated into a single column	"Major" enterprise funds shown individ-ually; smaller funds and internal service funds aggregated into two columns	Funds aggregated into columns by class of fund—pension (and other employee benefit) trusts, investment trusts, private-purpose trusts, and agency funds
MFBA	Economic resources and full accrual	Current financial resources and modified accrual	Economic resources and full accrual	Economic resources and full accrual
Statements	Statement of net position Statement of activities	Balance sheet Statement of revenues, expenditures, and changes in fund balances	Statement of net position Statement of revenues, expenses, and changes in fund net position Statement of cash flows	Statement of fiduciary net position Statement of changes in fiduciary net position

Government-Wide Statements

As the name implies, the government-wide statements cover the entirety of the government, including both its governmental activities and BTAs, as well as the government's component units. The statements do not include fiduciary activities, because resources the government minds or manages in public employee pension funds or unclaimed property funds do not belong to the government, nor are they available to be used to provide services to the government's constituency.

A comprehensive view

By covering the whole of a government, the government-wide statements are intended to provide an overall picture of the financial health of a government.

Comparability

Fund structures differ from government to government—each government selects the number and kinds of funds that are appropriate to how it is organized, to the services it provides and how it provides and finances them, and to the laws and regulations that apply to its operations. The inherent flexibility of fund accounting is tremendously valuable in this way. The downside to that individuality is a loss of comparability across governments; unless you have an intimate knowledge of the funds of each government you are examining you run the risk of comparing apples to oranges. An important benefit of the consolidated presentation of the government-wide statements is that it removes the boundaries created by funds, making it possible to compare the finances of similar governments, at least in the aggregate.

For example, water and sewer service is provided in some cities like any other government service—managed and delivered by a municipal public works or environmental protection department funded with general tax revenues. In others, such as the sample government in this guide, Local City, the water system charges customers directly based on the amount of water they use. And others create a legally separate entity—often called a public authority—to operate their water system.

The municipal department likely would be accounted for in a city's general fund, the fee-for-service arrangement in an enterprise fund, and the authority as a component unit. But it may not always be readily apparent which funds include which services in different governments, making the task of ensuring comparability quite difficult in some cases. Because the government-wide statements encompass the entire government, however, the particular mechanism used to deliver and finance a service is less relevant—all services would be included regardless. Though they would be in separate columns—governmental activities, BTAs, and component units, respectively—they would still be together and presented using the same accounting methods. (See Part Two.) Thereby, the task of comparing similar governments as a whole may be greatly eased.

Depending on the level of detail provided by the government, functional expense categories may be comparable across governments and perhaps individual services as well. The absence of a common set of functions, however, means that the functions used by governments in their financial statements and the services included in each function will vary and therefore will adversely affect comparability. Nonetheless, comparability is greater in the government-wide statements—at worst, it represents an improvement from apples-to-oranges to tangerines-to-oranges comparisons.

THE MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

In order to ensure consistency over time and comparability across organizations, your government follows certain standards when recording its financial transactions and summarizing them for the purpose of reporting to persons outside the government. These standards are collectively known as generally accepted accounting principles (GAAP). Crucial underlying principles are those that prescribe the measurement focus and basis of accounting (MFBA).

The **MEASUREMENT FOCUS** refers to *what* kinds of assets, liabilities, deferred inflows and outflows, and changes in net position (or fund balance) a government should concentrate on when recording transactions. Your government uses an **ECONOMIC RESOURCES MEASUREMENT FOCUS** for its government-wide financial statements. That is, it records *all* financial and capital resources that flow in and out and all changes in net position, regardless of their form, as long as a monetary value can be placed on them. Therefore, governments must track not only cash that changes hands but also investments, inventory, equipment, buildings and other property, amounts owed to suppliers and employees, outstanding notes and bonds, long-term leases, and looming judgments and claims.

The **BASIS OF ACCOUNTING** describes *when* to record the assets, liabilities, deferred inflows and outflows, and changes in net position (or fund balance) stipulated by the measurement focus. Your government uses the **ACCRUAL BASIS OF ACCOUNTING** to prepare its government-wide statements. (Also called "full" accrual, it is similar to the method required of businesses and not-for-profit organizations by the GASB's sister organization, the **FINANCIAL ACCOUNTING STANDARDS BOARD**). When following full accrual, your government reports in each year's financial statements *all transactions occurring during the year* that have an impact on its finances, regardless of whether cash changes hands. For example, goods and services provided are recorded regardless of whether cash was received in exchange from a customer or credit was extended to a customer. Similarly, purchases of office supplies are recorded whether paid for in cash or bought with a promise to pay later (by using a credit card or a business account).

In addition to the government-wide statements, your government uses the economic resources measurement focus and accrual basis of accounting for its proprietary and fiduciary funds statements. (More on these below; also see Part Three).

The Governmental Funds MFBA Is Different

Your government uses a different MFBA, however, for its governmental funds statements. Governmental funds use a **CURRENT FINANCIAL RESOURCES MEASUREMENT FOCUS** and a **MODIFIED ACCRUAL BASIS OF ACCOUNTING**. As the name implies, this measurement focus concentrates mostly on financial resources that are current in nature, meaning they are likely to be turned into cash or consumed within a year. This typically includes cash, investments, accounts receivable, and accounts payable. Capital resources (such as buildings, equipment, and infrastructure) and long-term liabilities are *not* included.

The basis of accounting for governmental funds focuses on expenditures rather than expenses. Expenses represent the using up of a resource in order to operate an organization and provide services; full accrual, therefore, records a reduction in net position when a resource has been consumed or used. Expenditures, on the other hand, represent a payment or a requirement to pay for goods and services purchased and received in the course of operating an organization and providing services. Consequently, modified accrual records a reduction in fund balance when a good or service has been delivered and the government is obligated to pay.

While there is substantial common ground between expenses and expenditures, there also are some distinct differences. The disparity is particularly marked in the ways the two MFBAs handle outlays for

capital assets and long-term debt. The essence of the disparities is distilled in Examples 3–5 in **Upon further review...similarities between the governmental funds MFBA and the MFBA for other statements.**

The recording of revenues under the two accounting methods can be different as well. Under full accrual, revenues are recorded and net position improves when an inflow is *measurable* and *reasonably certain to be collected*. Under modified accrual, for an inflow to increase fund balance it also has to be *available*. Measurable relates to both full and modified accrual and means that one must be able to place an objective monetary value on the inflow. Availability is more conservative than the *certain-to-be-collected* concept of full accrual. Under modified accrual, revenue is recognized only if payment *actually is received during the year or soon enough thereafter* to pay current-year costs. (See example 6).

The similarities and differences between the MFBA used for governmental funds (current financial resources and modified accrual) and the MFBA for other funds and the government-wide statements (economic resources and full accrual) should become clearer with the examples on page E-13 of how each treats various transactions.

Upon further review…similarities between the governmental funds MFBA and the MFBA for other statements

Example 1: A village hires a temporary secretary for a week. At the end of the week, the secretary departs without being paid yet. Under both MFBAs, an expense (expenditure) for salaries is incurred, even though payment has not been made yet, because the secretary had rendered service to the village, which in turn is now obliged to pay. A liability, salaries payable, is increased, and net position/fund balance is reduced by the same amount.

Example 2: A golfer buys a season's pass to use the municipal golf course, paying cash at the city clerk's office. Under both MFBAs, this is revenue—net position/ fund balance increases, and so does cash, an asset.

…differences between the governmental funds MFBA and the MFBA for other statements

Example 3: A township obtains a loan of $1 million.

Nongovernmental funds and government-wide: Cash increases by $1 million, as does a liability called loan payable.

Governmental funds: The increase in cash is balanced by an increase in other financing sources (which increases fund balance), because loans payable are not current liabilities. The precise fund in which this transaction is recorded depends on the intended use of the loan proceeds, but it is likely to be a capital projects fund.

Example 4: The township uses the loan proceeds to purchase a building.

Nongovernmental funds and government-wide: Cash decreases and capital assets (fixed assets, property-plant-equipment, and so on) increase by $1 million. At the end of each fiscal period, a depreciation expense is recorded, reducing net position and causing a net reduction in capital assets. **(See Tools of the trade…Inventory and capital asset expenses.)**

Governmental funds: There are no capital assets. Consequently, while cash decreases, the building is not added; rather, fund balance in the capital projects fund is reduced as a $1 million expenditure is incurred. The entire purchase price is reflected as an expenditure immediately.

Example 5: The loan carries an interest rate of 8 percent. The first payment is due and made on the last day of the fiscal period, in the amount of $90,000. Of this amount, $80,000 is interest ($1 million multiplied by 8 percent, or 0.08) and the remaining $10,000 repays a portion of the principal.

Nongovernmental funds and government-wide: The payment of $90,000 reduces cash. Interest is an expense—you can consider it a charge for "renting" someone else's money. Therefore, net position declines by the $80,000 interest expense. Finally, the loan payable decreases by the $10,000 applied to repay principal.

Governmental funds: The payment of $90,000 reduces cash. The entire amount is treated as a debt service expenditure, reducing fund balance. Recall, there is no loan payable to reduce under this MFBA. These transactions likely would be recorded in a debt service fund. In that case, a separate transfer of cash from the general fund to the debt service fund might occur to cover the expenditure, unless the debt service fund had its own source of revenue.

Example 6: A municipality works out an arrangement with a property owner in financial difficulty whereby her property tax bill for this year ($500) can be split in two—one half paid now, and the other half paid 4 months after the end of the fiscal year.

Nongovernmental funds and government-wide: In both MFBAs, the $250 received immediately is recorded as a revenue—cash and net position increase. In this MFBA, the other $250 also is recorded as a revenue and is balanced by an increase in property taxes receivable rather than cash. When the cash is received the next year, cash increases and the receivable is eliminated.

Governmental funds: The issue of revenue *availability* comes into play here. This more stringent burden of revenue recording requires that resources must be available during or soon after the year. The period after the year during which different types of revenues are considered available may vary—for property taxes, it is required to be 60 days. Since the payment for the remaining $250 will not be received until 120 days into the next year, it cannot be considered available this year and, therefore, no revenue is recorded. Instead, a receivable is established and balanced with a deferred inflow of resources. When the payment is received, cash and fund balance increase (the revenue is recorded), and the receivable and deferred inflow are eliminated.

Example 7: Office Mart is having an end-of-the-year blowout sale on paper clips. Knowing that paper clips are a staple of administrative supply needs, an organization purchases 1,000 boxes of them on account for $1 per box. The purchase is delivered on the last day of the year.

Nongovernmental funds and government-wide: Accounts payable increases by $1,000, as does the organization's inventory of paper clips. Net position is unaffected in the current year. As the paper clips are used up in future years, an expense will be recorded equal to the purchase price of the paper clips used—net position will decline and inventory will fall by that amount. **(See Tools of the trade…inventory and capital asset expenses.)**

Governmental funds: Governments can employ the *consumption* method just described. Alternatively, they may use the *purchase* method, which works as follows: An expenditure is recorded immediately upon receiving the paper clips—a good has been delivered and the organization is obliged to pay for it. Accounts payable increases and fund balances decrease by the same amount. Assets are unaffected, and the inventory does not appear on the balance sheet.

Capital Assets and Infrastructure

The inclusion of capital assets in the government-wide statements may be the most noticeable result of using an MFBA different from that of the governmental funds statements. In the majority of cases, the most significant assets owned by a local government will be its infrastructure. Your government reports the historical cost of infrastructure assets in its government-wide statements. Historical cost is the original purchase price or construction cost of the asset. These statements also include an annual depreciation expense. Depreciation is the process of allocating a portion of the historical cost to each year of an asset's useful life (an estimate of how long the asset will last). (The mechanics of depreciation are discussed in **Tools of the trade...inventory and capital asset expenses** on the next page.) Governments often spread the historical cost over the useful life in equal annual portions (the "straight-line method" of depreciation), though some use methods that accelerate the allocation so that more of the depreciation expense appears in the earlier years of an asset's life. In addition, some governments use a modified approach for reporting certain eligible infrastructure assets. If your government follows this approach, which is described more fully in Part Two, it reports its annual expenses for maintaining and preserving the applicable infrastructure assets instead of depreciating them.

Tools of the trade...inventory and capital asset expenses

Expenses represent the using up of an asset or the incurrence of a liability in the course of operating a government and providing goods and services. For instance, a sanitation department's annual expense for garbage bag twist ties equals the total cost of the twist ties used during the year. The department determines this amount by comparing the inventory of twist ties at the beginning and end of the year, adjusted for additional purchases of twist ties during the year. Consider a department that had 100 boxes of twist ties on hand at the start of the year, bought 20 boxes more during the year, and had 50 boxes left at the end of the year:

Beginning inventory + purchases − amount used = ending inventory

or

Beginning inventory + purchases − ending inventory = amount used during year

100 + 20 − 50 = 70

If the cost per box of twist ties was $100, the twist ties expense for the year equaled $100 times 70 boxes, or $7,000.

Capital assets are not "used up" in the same way inventory is, though. Most people would probably be disconcerted to hear that some portion of the bridge they cross every day had been "consumed." Governments approximate the using-up concept by spreading the purchase or construction price of their long-lived assets over the number of years those assets are expected to be used, often in equal amounts. This produces an annual depreciation expense that theoretically represents each year's cost for consuming a portion of the asset's usefulness for providing services (its **SERVICE UTILITY**).

For example, a public electric utility buys some transformers for $1 million. The transformers are expected to last 10 years, at which time they will have a residual or **SALVAGE VALUE** of $10,000 (meaning, that is what the government might receive if it sold the transformers at the end of their useful lives).

depreciation expense = (purchase price − salvage value) ÷ useful life

(1,000,000 − 10,000) ÷ 10 = 99,000

The annual amount is $99,000. In each of those 10 years, the utility's statement of activities would include a $99,000 charge called *depreciation expense*.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES are the body of standards that govern what governments account for and report and how they do so

MEASUREMENT FOCUS is the definition of the kinds of transactions a government should consider when accounting for and reporting its finances

the **BASIS OF ACCOUNTING** defines when the impact of transactions is to be recorded

Upon further review...can two different MFBAs share a financial report?

An important benefit of the governmental funds MFBA is that it provides more detailed information than the government-wide MFBA for assessing how well your government manages its short-term resources. One of the objectives of financial reporting is to demonstrate a capacity to manage day-to-day finances. The current-period focus of the governmental funds, and the fact that those funds track most of the day-to-day, basic services of government, combine to offer data that can help you assess the fiscal management skills of the government's finance officials. That aim is further aided by the fact that this MFBA, which is used for external reporting, is very similar to (if not precisely the same as) the measure that many governments use internally to manage their finances and to budget.

The government-wide statements (and those of the nongovernmental funds) use the economic resources measurement focus and full accrual basis of accounting. The use of this MFBA gives the statements features not available in the governmental fund statements. The government-wide statements offer both a short- and long-range view of finances because they contain both current and long-term resources. They report the complete economic impact of a government's operations, not just those transactions in which cash was exchanged during the year or shortly thereafter. The inclusion of all resources and all of a government's transactions leads to data about the full cost of services that cannot be derived from the governmental funds statements.

APPENDIX F

INFORMATION ABOUT THE GASB

WHAT IS THE GASB?

The Governmental Accounting Standards Board (GASB, or "gaz-bee") is the private, nonpartisan, nonprofit organization that works to create and improve the standards U.S. state and local governments follow when accounting for their finances and reporting them to the public. The GASB was founded under the auspices of the Financial Accounting Foundation (FAF), which appoints the GASB members, secures its funding, and oversees its activities. The FAF performs the same functions for the GASB's counterpart for business and nongovernmental not-for-profits, the Financial Accounting Standards Board (FASB).

The GASB was created in 1984 to succeed the National Council on Governmental Accounting (NCGA) by agreement among:

- FAF
- American Institute of Certified Public Accountants (AICPA)
- Council of State Governments
- Government Finance Officers Association
- International City/County Management Association
- National Association of Counties
- National Association of State Auditors, Comptrollers and Treasurers
- National Conference of State Legislatures
- National League of Cities
- National Governors' Association, and
- U.S. Conference of Mayors.

Although the GASB does not have the power to enforce compliance with the standards it promulgates, the authority for its standards is recognized by the AICPA. Also, legislation in many states requires compliance with GASB standards, and governments usually are expected to prepare financial statements in accordance with those standards when they issue bonds or notes or otherwise borrow from public credit markets.

Who Is the GASB?

The GASB is composed of a full-time chair and six part-time members drawn from various parts of the GASB's constituency—state and local government finance officers, auditors, comptrollers, the accounting profession, academia, and the community of persons who use financial statement information.

The GASB has a professional staff drawn from similar constituencies as the Board. The staff works directly with the Board and its task forces, conducts research, analyzes oral and written comments received from the public, and drafts documents for consideration by the Board.

WHAT IS THE GASB TRYING TO ACCOMPLISH?

The mission of the GASB is to:

- Establish and improve accounting and financial reporting standards for state and local governments to provide useful information to investors and other users of financial reports
- Educate stakeholders on how to most effectively understand and implement those standards.

The mission is accomplished through a comprehensive and independent process that encourages broad participation, objectively considers all stakeholder views, and is subject to oversight by the FAF's Board of Trustees.

These standards are essential to the efficient and effective functioning of our democratic system of government:

- They improve governments' ability to demonstrate their stewardship to the public, and
- They improve the information available to the public for holding governments accountable.

WHO ARE "USERS"?

The general citizenry is the largest and most diverse portion of the *user community*—the amalgam of people who use governmental financial information, either formally or informally, to make decisions or assess government accountability. A second group is investors and creditors, the people and institutions that buy a government's bonds or to whom a government otherwise is in debt. A third major component is elected legislators—city council members, town supervisors, state senators, and the like—and their staffs, as well as legislative and oversight commissions and similar bodies. The first two broad groups of users are external to government. Though a part of government and considered accountable for it, the third group typically is not in charge of operations and therefore is external to the process of accounting for and reporting governmental finances. But a fourth group may be found solidly *within* government—public employees, managers, and others who do not have access to the same quantity and breadth of information available to government executives (mayors, town managers, governors, and so on) and their staffs.

Clearly, not all of these people read government financial statements. Many find financial information about governments elsewhere, in budgets and other documents, on websites, in newspapers. Most do not actively search for government financial information at all but, rather, passively use information—whether they realize it or not—that has been gathered, analyzed, and republished by others who *are* intensive users of financial statements. This smaller subset of the user community might be referred to as *intermediate users*—persons and organizations that reprocess governmental information into a form that

is digestible to most citizens. Some intermediate users are citizen, taxpayer, and good government groups; think tanks, research organizations, and other academic institutions; the media; and analysts in investment firms and mutual funds.

HOW DOES THE GASB ESTABLISH STANDARDS?

The GASB follows the set of due process activities enumerated in its published Rules of Procedure before issuing its standards. Due process is stringent and is designed to permit timely, thorough, and open study of financial accounting and reporting issues by the preparers, attestors, and users of financial reports, in order to encourage broad public participation in the standards-setting process.

For many issues it addresses, the GASB:

- Appoints an advisory task force of outside experts
- Studies existing literature on the subject and conducts or commissions additional research
- Publishes for public comment a discussion document setting forth the issues and possible solutions and seeks public input
- Conducts public hearings and forums of financial statement users, and
- Broadly distributes the Board's Preliminary Views and then an Exposure Draft of proposed standards for public comment.

Significant steps in the process are announced publicly. The GASB's meetings are open to public observation in person or via webcast, and a public record is maintained. The GASB also is advised by the Governmental Accounting Standards Advisory Council, a group appointed by the FAF and representing a wide range of the GASB's constituents.