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IMPLEMENTATION GUIDE

Guide to Implementation of  
GASB Statement 34 and Related Pronouncements

Questions and Answers



**Governmental Accounting Standards Board**  
of the Financial Accounting Foundation

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# Guide to Implementation of GASB Statement 34 and Related Pronouncements

## Questions and Answers



**Governmental Accounting Standards Board**

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## FOREWORD

This guide was developed to assist financial statement preparers and attestors in the implementation and application of the new reporting model, including GASB Statements No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, No. 35, *Basic Financial Statements—and Management’s Discussion and Analysis—for Public Colleges and Universities*, No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, No. 37, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*.

Since the release of Statement 33 in December 1998, many questions have been posed to GASB staff regarding the implementation of that Statement and its application in various reporting situations. Although a significant number of those questions addressed initial implementation and transition issues, most of the questions have ongoing applicability. Because staff responses to individual technical inquiries reach only a small portion of the GASB’s constituents, the GASB adopted the Implementation Guide concept to broaden the application of staff guidance.

Guidance in an Implementation Guide is limited to clarifying, explaining, or elaborating on an underlying standard (usually a Statement, Interpretation, or Technical Bulletin). The topics addressed may include issues raised by constituents in due process or as a result of subsequent application of a standard, as well as issues anticipated by the GASB staff. An Implementation Guide may also address issues related to the application of a standard to specific industries. Generally, a GASB Statement, Interpretation, or Technical Bulletin would be more appropriate to address new issues or to amend existing guidance on issues previously addressed.

The governments that have implemented the model-related Statements early have been particularly helpful in raising issues that will benefit other governments as they begin implementation.

The GASB’s Implementation Guides are classified as category (d) in the hierarchy of generally accepted accounting principles, as set forth in paragraph 12d of AICPA Statement on Auditing Standards No. 69, *The Meaning of “Present Fairly in Accordance with Generally Accepted Accounting Principles” in the Independent Auditor’s Report* (SAS 69). Category (d) includes “practices or pronouncements that are widely recognized as being generally accepted because they represent prevalent practice in a particular industry, or the knowledgeable application to specific circumstances of pronouncements that are generally accepted.” SAS 69 specifically states in the “Application to State and Local Governmental Entities” section that “category (d) includes implementation guides (Qs and As) published by the GASB staff. . . .” However, the illustrative examples and exercises accompanying the text of this Implementation Guide are nonauthoritative guidance.

This guide was prepared and published in accordance with the GASB’s Implementation Guide procedures. These procedures require public announcement of the project, exposure of the proposed guide to the Board and an advisory committee, and approval of the final guide by the director of research. Moreover, an Implementation Guide will not be published if a majority of Board members object to its issuance.

The publication of this guide would not have been possible without the concerted efforts of the GASB staff and the advisory committee. Senior project manager Kenneth R. Schermann served as the primary author of the guide, with project managers Joseph C. Blythe, Wesley A. Galloway, and Roberta E. Reese making substantial contributions by developing various questions, illustrations, and exercises. Terry Patton, research manager, also provided valuable input during his review of the guide. As with all of the model-related Statements, this truly was an entire staff effort with everyone contributing in some form to the process.

The application of GASB pronouncements is an ongoing process. A guiding principle in the GASB’s mission statement addresses the need to review the effects of past decisions and to provide additional guidance when appropriate. This staff Implementation Guide represents just one of the many methods that the GASB uses to fulfill this important responsibility.

In addition, several organizations are in the process of developing nonauthoritative companion guides for specific types of governmental entities and other books and materials related to Statement 34. All of these efforts will assist in the implementation and ongoing application of the new reporting model.

Norwalk, Connecticut  
December 2001

David R. Bean  
Director of Research

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## PREFACE

This Implementation Guide is intended to help preparers and auditors understand and implement the provisions of a series of GASB standards centering around Statement 34. Although the focus of the questions is primarily on the requirements of Statement 34, we also cover a variety of issues from Statements 33 through 38. In April 2000, we published the *Guide to Implementation of GASB Statement 34 on Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments* to provide immediate guidance for governments that were implementing the Statement early. Since the release of that guide, dozens of governments have completed implementation (and a few have two years under their belts), and in that process have generated a substantial body of new questions that need answers. It is our intent to answer those questions in this guide. The questions are not hypothetical; they generally come from governments that have completed implementation or are currently in the process of doing so. The initial guide included 291 questions, and this sequel answers 171 more. Nevertheless, we know that there will be more questions, and we expect to continue to address implementation issues for the next several years through the GASB’s formal technical inquiry system on our website. Readers of this guide should keep in mind that some of the questions are based on specific situations, and as the facts change, so too might the answer to the question.

During the preparation of this guide, we had the invaluable support of an advisory group whose members commented on preliminary drafts. Their comments, suggestions, and recommendations were very helpful and contributed greatly to the quality and usefulness of this document. The advisory group members were:

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The members of the advisory group do not necessarily approve of or agree with the answers provided in the Implementation Guide. Likewise, they are not responsible for the accuracy of the information provided.

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We would like to acknowledge and thank several others who made noteworthy contributions to this document. Carol Pightling and Karen Mabry from Tulare County, California, agreed to let us use their county's financial statements as the model for our illustrative statements and helped us with the conversion. Michelle Czerkowski of the GASB staff reviewed the illustrative financial statements and notes. Ellen Falk, Greta DeAngelis, and Patti Waterbury provided their expert assistance in formatting, editing, and polishing the material in the guide. Finally, special recognition and thanks are given to the Production department for their dedication to publishing this guide on a very tight time schedule (as usual).

Joe Blythe  
Wes Galloway  
Roberta Reese  
Ken Schermann

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## IMPLEMENTATION GUIDE

### Guide to Implementation of GASB Statement 34 and Related Pronouncements

#### Questions and Answers

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The Governmental Accounting Standards Board has authorized its staff to prepare Implementation Guides that provide timely guidance on issues encountered during the implementation and application of GASB pronouncements. The GASB has reviewed this Implementation Guide and does not object to its issuance.

The information in this Implementation Guide need not be applied to immaterial items.

## QUESTIONS AND ANSWERS

### Assessing Materiality in Preparing Financial Statements

1. Q—In preparing financial statements, how should those financial statements be viewed for determining materiality?

A—Governmental activities, business-type activities, and each major fund are considered to be quantitatively material.

Decisions about what should be reported separately in the basic financial statements were based on the understanding that users need financial statements or information to be provided for certain reporting units within a primary government. Some information is required to be reported because of its *quantitative* significance; other information may be required for *qualitative* reasons rather than its monetary significance. Materiality determinations, both quantitative and qualitative, made in preparing financial statements should be responsive to, and consistent with, those requirements. That is, requirements in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, to provide separate financial statements or information are based on the belief that particular reporting units are “material.”

Paragraph 14 of Statement 34 reinforces the concept in Statement No. 14, *The Financial Reporting Entity*, that the focus of government-wide statements should be on the primary government—as opposed to its component units or the financial reporting entity as a whole. Paragraph 15 of Statement 34 establishes that a primary government is composed of its governmental activities and its business-type activities, and that financial statements for each of those two types of activities should be displayed. Paragraph 75 states that the focus of governmental and proprietary fund financial statements is on *major* funds; that paragraph requires governments to separately report the financial statements or information of certain individual governmental and enterprise funds (based on quantitative measures). The significance of governmental and business-type activities and major funds is further emphasized in the note disclosure requirements of Statement 34. Paragraph 113 states that the notes to financial statements “should focus on the primary government—specifically, its governmental activities, business-type activities, major funds, and nonmajor funds in the aggregate.”

Despite the primacy of governmental activities, business-type activities, and major funds, Statement 34 nevertheless provides display requirements for *all* funds and activities. Paragraph 75 states that nonmajor governmental and enterprise funds should be aggregated and each aggregation should be displayed in a *single* column in the appropriate fund financial statements. In addition, paragraph 96 requires governments to use a *single* column in the proprietary fund financial statements to display internal service funds. Finally, paragraph 106 requires that fiduciary fund financial statements include a *separate* column for each fiduciary fund type. These display requirements, while appearing to similarly require “separate” reporting, differ from those for major funds and governmental and business-type activities because they address how to report the financial statements of funds that are *outside* of the primary focuses discussed above.

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The components of the remaining fund information—nonmajor funds, internal service funds, and fiduciary funds—may or may not be quantitatively material. The determination of how the data presented for those reporting units should be assessed should be based on professional judgment *considering relevant qualitative factors* and the relationship of the remaining fund reporting units to other appropriate information in the financial statements. For example:

- Quantitative materiality for the aggregated nonmajor (governmental or enterprise) funds or internal service funds could be based on the significance of the column compared to all governmental and proprietary funds.
- The aggregated internal service funds and the nonmajor enterprise funds also could be evaluated against all proprietary funds. Similarly, the nonmajor governmental funds column might be compared to total governmental funds.
- The quantitative materiality determination for each fiduciary fund type could be made based on the significance of those funds to all fiduciary funds of the reporting government, or it could be based on the significance of those funds to all funds of the government.

In all cases, *qualitative* materiality aspects should be appropriately considered.

2. Q—How should the information in the reconciliations be assessed when determining materiality?

A—Reconciliations explain the differences between results and balances in fund financial statements and their counterpart measurements in the government-wide statements. The reconciliations present details of assets, liabilities, revenues, and expenses that *should be* reported only in the government-wide statements and financing sources and uses that *should not be* reported in the government-wide statements. Consequently, the reconciliations are links to the government-wide statements and should be considered in conjunction with those statements when assessing materiality.

3. Q—Paragraph 76 of Statement 34 permits governments to report as a major fund any other governmental or enterprise fund that the government’s officials believe is particularly important to financial statement users. Are those “voluntary” major funds accorded the same materiality status as the funds that are *required* to be reported separately based on the percentage criteria in paragraph 76?

A—Yes. After a fund is determined to be major, there is no distinction between those that were required to be reported as major and those that were voluntarily designated as major. As discussed in the answer to Q1, materiality assessments should consider both quantitative and *qualitative* characteristics.

4. Q—Are major component units equivalent to major funds with regard to assessing materiality?

A—No. There are similarities, but major funds and major component units are not equivalent. Financial statements for major funds and financial information for major component units are required to be separately reported in the basic statements. Even though the separate reporting requirements of major component units and major funds appear to be similar, the criteria used to determine major funds differ from the considerations involved in selecting major component units, and there are other important differences—for example:

- Paragraph 75 of Statement 34 requires governments to present each major *fund* in a separate column in the appropriate fund financial statements. Governments can meet the major *component unit* reporting requirements of Statement 14 in *three* ways: by using multiple columns and rows in the government-wide financial statements, by including combining statements in the basic statements, or by presenting condensed financial information in the notes.
- Paragraph 125 states that the component unit *overview* reporting requirements in Statement 14 are met by discrete presentation in the government-wide statements. If major component units are not displayed

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separately in the government-wide statements, major component unit reporting (in combining statements or notes) provides the *supporting details* of that *overview* presentation, as indicated in paragraphs 11 and 51 of Statement 14. In contrast, major *funds* are regarded as separate reporting units rather than supporting details of a fund category or the government-wide statements.

- Disclosures for a major component unit are required if deemed essential for fair presentation of the *reporting entity's* financial statements (paragraph 63 of Statement 14). Disclosures for major funds are accorded a higher level of significance in paragraph 113 of Statement 34, which states that “the notes should focus on the primary government—specifically, its governmental activities, business-type activities, *major funds*, and nonmajor funds in the aggregate” (emphasis added).
- Separate audited financial statements are generally issued for major (and nonmajor) component units. The information presented in the reporting entity’s financial statements may be taken from those separate financial statements without substantive modification.

Those differences should be considered in making materiality determinations for major component units when preparing the reporting entity’s financial statements.

5. Q—In preparing financial statements, how should the financial information of major component units be assessed for determining materiality?

A—Major individual discretely presented component units should be assessed considering the characteristics of major component unit information discussed in the answer to Q4, and based on an evaluation of both:

- a. The component unit’s significance relative to the total discretely presented component units
- b. The nature and significance of the unit’s relationship to the primary government.

6. Q—If there are no major component units, all that is required by Statement 14 is discrete presentation of the aggregated (or in some instances, a *single*) nonmajor component units in the government-wide statements. How should materiality be assessed for component unit information when there are no major component units?

A—Determining how that information should be assessed should be based on professional judgment, *considering relevant qualitative factors* and the relationship of the nonmajor component unit information to other appropriate information in the financial statements. For example, quantitative materiality of the component unit information might be determined based on its significance compared to governmental activities and business-type activities. Alternatively, it could be compared to major funds.

## Management’s Discussion and Analysis (MD&A)

7. Q—Paragraph 11 of Statement 34, as amended, explains what should be in MD&A and states that only the most relevant information should be included. Based upon that notion, should paragraph 11d be interpreted to mean that only *major funds* are required to be addressed?

A—The analysis of balances and transactions of individual funds, as required by paragraph 11d, would normally be confined to *major funds*. Nevertheless, governments are not precluded from discussing transactions or changes in account balances of nonmajor funds.

# [Completely Superseded]

8. Q—Paragraph 11f of Statement 34 requires governments to include in MD&A a discussion of *long-term debt* activity during the year. Should that discussion include special assessment debt for which the government is not obligated in any manner?

A—No. Special assessment debt for which the government is not obligated in any manner is not debt of the government (under Statement No. 6, *Accounting and Financial Reporting for Special Assessments*, such special assessment debt is only disclosed, not displayed) and is not required to be included in the discussion of long-term debt activity. However, such debt might be discussed in connection with capital asset activity if, for example, the proceeds were used to build or acquire significant infrastructure assets for the government.

9. Q—In the discussion of significant general fund budget variances, is it sufficient to state that the original budget was increased to cover higher-than-expected expenditures?

A—No. MD&A is required to provide an analysis of significant budget variances. The analysis should discuss *reasons* for those variances including those that are expected to significantly affect future services or liquidity. MD&A should explain *why* the variances occurred (for example, the factors that contributed to expenditures exceeding budgeted amounts). The analysis may refer the reader to discussions of those reasons presented in other sections of the MD&A.

## Government-wide Financial Statements

### Statement of Net Assets

10. Q—If a government elects to use the classified format in its government-wide statement of net assets, is it required to separately display restricted assets of governmental activities?

A—Statement 34 does not require *separate presentation* of restricted assets in the government-wide statement of net assets for either governmental activities or business-type activities; however, the decision to use the classified format may result in the presentation of a portion of restricted assets as “noncurrent.” The classified format distinguishes between current and noncurrent assets and liabilities as defined in Chapter 3 of Accounting Research Bulletin (ARB) 43, *Restatement and Revision of Accounting Research Bulletins*. One of the requirements of that approach is that current assets should *exclude* assets that will not be used in current operations, are restricted for acquisition or construction of noncurrent assets, or are restricted for liquidation of long-term debt.

Resources accounted for in the general fund, special revenue funds, and debt service funds are generally expected to be used in current operations or to liquidate current obligations and thus generally would be considered current assets. Conversely, a portion of the resources accounted for in capital projects funds and permanent funds may meet the criteria for assets that should not be reported as current assets.

Question 82 in the *Guide to Implementation of GASB Statement 34 on Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments: Questions and Answers* discusses reporting restricted assets when the “order of liquidity” format is used. (Hereafter, that Implementation Guide is referred to as Q&A 34.)

11. Q—A general state statute pertaining to local government finances requires that “revenues derived from a fee or charge shall not be used for any purpose other than that for which the fee or charge was imposed.” If certain fees of a local government in that state have been charged for the specific purpose of future infrastructure replacement, should those accumulated fees be reported as *restricted* net assets in the statement of net assets?

A—Yes. The general statute applies to all jurisdictions in the state and creates a legally enforceable restriction on the use of resources raised through fees and charges. Therefore, in this example, the residual net assets should be displayed in a restricted net assets account.

## [Completely Superseded]

12. Q—A state government imposes a new (or incremental) tax through legislation that includes a legally enforceable restriction on the use of the resulting tax revenues. Five years later, the state legislature passes a new, equally enforceable law that changes the purpose for which those taxes can be used. Are net assets generated by the tax under the new law restricted?

A—Yes. Even though the new restriction is not established by the original “enabling” legislation, the net assets are nevertheless subject to a legally enforceable restriction on their use. *Net assets resulting from taxes raised under the initial enabling legislation remain restricted for the original purpose*, and the net assets resulting from taxes raised under the new law are restricted for a different purpose.

Paragraph 327 of the Basis for Conclusions of Statement 34 emphasizes the *substance* of the legislation as the determining factor when considering whether net assets are restricted. If resources are indeed restricted by virtue of a legally enforceable and binding action of the legislature, the substance is the same, regardless of whether the limitations were imposed in the initial enabling legislation or in a subsequent amendment. The substance is that resources are being held pursuant to legally enforceable, binding restrictions. Paragraph 34 would consider those resources “restricted.”

In this illustration, the amendment to the original enabling legislation does not restrict the use of previously unrestricted resources, nor does it simply “earmark” (signifying management’s intent) the original revenue source. In those instances, the accumulated resources would be *designated* rather than *restricted*.

13. Q—Paragraph 58 of Statement 34 states that internal balances should be eliminated from the total primary government column. However, because some governments have blended component units with different fiscal years, the internal accounts may be “out of balance” at the reporting date due to the timing difference. In those situations, is it acceptable to report an internal balance in the total primary government column?

A—Yes. In those instances, the total primary government column would report an internal balance. Paragraph 60 of Statement 14 requires the reason for the imbalance to be disclosed in the notes.

14. Q—A “Street Repair and Maintenance” special revenue fund accounts for revenues derived from a state-shared motor fuel tax that is restricted by the state for use in maintaining streets. The fund also receives an annual subsidy in the form of a transfer from the general fund. When fund balance is converted to net assets for the government-wide statement of net assets, how should the government allocate the net assets between restricted and unrestricted?

A—The government should establish policies regarding the application of restricted and unrestricted resources. Paragraph 115h of Statement 34 requires disclosure of the accounting policy used. As a result, if the government elects to first use restricted resources, a portion of the remaining net assets would likely be unrestricted. On the other hand, if the opposite were true and unrestricted resources were applied first, a portion of the balance in net assets would probably be restricted. Either approach is acceptable, and neither is preferred over the other.

15. Q—Should capital debt that is related to capital assets that are not being reported, as might occur prior to retroactively reporting infrastructure or for phase 3 governments that choose not to retroactively report infrastructure, be classified in net assets invested in capital assets, net of related debt?

A—Yes. Net assets invested in capital assets, net of related debt, should include all debt associated with capital assets. (See Q16 about reporting negative net assets.)

## [Completely Superseded]

16. Q—If outstanding capital debt exceeds the carrying value of capital assets reported, what caption should be used for the net assets component?

A—The account title “Invested in capital assets, net of related debt” should still be used, even if the amount is negative. Reporting in that manner informs the financial statement reader that there is capital debt.

17. Q—Restricted assets have been accumulated to pay the current maturity of bonds payable that are classified as capital-related debt. Which component of net assets should the current portion of the debt reduce—restricted net assets or invested in capital assets, net of related debt?

A—Paragraph 33 of Statement 34 states that bonds issued for the acquisition, construction, or improvement of capital assets should be regarded as capital-related debt. Despite the fact, in this example, that financial resources have been set aside in a restricted account to pay the current installment, the debt meets the definition of capital-related debt and should be treated as such in the calculation of the net assets components.

18. Q—If assets in a “restricted” fund exceed the requirements of the restrictions placed on that fund, should the excess be reported as unrestricted in the statement of net assets?

A—Yes. Assets in a restricted fund that exceed the amounts required to be restricted by the external parties or the enabling legislation would not be considered restricted for the statement of net assets.

19. Q—Which component(s) of net assets do unamortized debt issue costs and deferred amounts from refundings affect—invested in capital assets, net of related debt; restricted net assets; or unrestricted?

A—Unamortized debt issue costs and deferred amounts from refundings “follow the debt” in calculating net asset components for the statement of net assets. That is, if debt is capital-related, the deferred amounts would be included in the calculation of “invested in capital assets, net of related debt.” If the debt is restricted for a specific purpose and the proceeds are unspent, the net proceeds would affect “restricted net assets.” Reporting both within the same element of net assets prevents one classification from being overstated while another is understated by the same amount. If the debt proceeds are not restricted for capital or other purposes, the unamortized costs would be included in the calculation of unrestricted net assets.

20. Q—A local government issued *general obligation bonds* for the purpose of constructing capital facilities for an enterprise fund. The government’s officials have determined that the enterprise fund will make the principal and interest payments on the bonds. On the government-wide statement of net assets, would the government report governmental activities with debt but no asset, and business-type activities with the asset with no debt?

A—No. NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, paragraph 42, states that bonds, notes, and other long-term liabilities directly related to and expected to be paid from proprietary funds should be included in the accounts of such funds. Therefore, in this situation, the debt should be reported as enterprise fund (and consequently BTA) debt, because it is expected that the enterprise fund will repay the debt. If that were not the case, however, in the government-wide statement of net assets, business-type activities would report an asset and no debt, and governmental activities would report debt and no asset. (See Q24 for guidance about reclassifying the debt within a total column.)

## [Completely Superseded]

21. Q—In the preceding question, if the recipient of the capital assets is a discretely presented component unit, rather than an enterprise fund, should the component unit include the debt in its financial statements?

A—A government (the component unit, in this case) should report the general obligation debt of another government as a liability only if it is legally obligated to repay it. This answer differs from the response to the preceding question because the debt is an obligation of the primary government (a separate legal entity), and within its legal entity, the government may *assign* the debt to the fund from which repayment is expected. On the other hand, a component unit is an entity legally separate from the primary government and a similar “assignment” of debt cannot be made. Both Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and Statement 34 regard transactions with discretely presented component units as *external* transactions.

22. Q—In computing the “restricted” component of net assets, are governments required to “close” nominal accounts into that component? That is, is it necessary to account for the change in the net asset balance by adding restricted revenues and deducting expenses incurred for the specified purposes?

A—No. Statement 34 follows a change in *total net assets* approach and does not require presentation of a statement of changes in the *components* of net assets, nor does it require disclosure of the changes in restricted net assets. The concept of “restricted” net assets focuses on *balances* rather than transactions. “Restricted net assets” is composed of restricted assets, as defined in paragraph 34, reduced by reported claims against those assets. Therefore, if a government has net assets at year-end that are *subject to a legally enforceable restriction on their use*, those net assets should be reported as restricted in the statement of net assets.

23. Q—Are governments required to use the “consumption” method of accounting for inventories in the government-wide statement of net assets?

A—Yes. The consumption method of inventory accounting is consistent with the economic resources measurement focus and the accrual basis of accounting required in the government-wide statements. Thus, if the government uses the purchases method in its governmental funds and the consumption method produces different results, the difference should be included in the reconciliations of governmental funds to governmental activities.

24. Q—A county government issues debt to finance the construction of school facilities for the local school district, a discretely presented component unit of the county. The county reports the debt and the school district reports the capital assets (see Q21); therefore, the debt is not considered to be “capital-related” debt of the county. In the reporting entity financial statements, if the county elects to present an optional “reporting entity” total column, can the debt be reported as capital debt in that total column?

A—Yes. When the total reporting entity is presented as the reporting unit, the debt *is* related to capital assets within that reporting unit. Consequently, *unrestricted net assets* and *net assets invested in capital assets, net of related debt*, of the reporting entity are not equal to a simple combination of those net asset components of the primary government and its component units. An explanation of the reclassification could be presented in the notes to the financial statements.

# [Completely Superseded]

## Capital Assets and Infrastructure

### Capitalization Amount and Policy

25. Q—Footnote 67 states that the government that has the primary responsibility for managing an infrastructure asset should report the asset. What is the significance of ownership to the responsibility for managing and maintaining an asset?

A—The guidance in footnote 67 applies only in instances when ownership is unclear. Ownership of land and buildings, for example, can usually be clearly determined through review of appropriate documents, such as deeds, easements, and contracts. Ownership of infrastructure associated with land, such as roads, sidewalks, and sewers, may not be as clearly documented. In such cases, the government with primary responsibility for managing the asset should report the asset.

26. Q—Is title to an asset always equivalent to ownership?

A—From a legal perspective, ownership is a collection of rights to “use and enjoy” property, including the right to transmit it to others. For assets held for public benefit, such as roads, the right to use and enjoy property includes the right to determine how the property is used. All rights may not be vested in a single entity. The term *title* is used to refer to the right to or ownership of an asset and is also used to refer to the evidence of such ownership. Title is evidence of legal ownership, although that ownership may be held for the entity’s own benefit or for the benefit of another entity. Generally, holding title to an asset equates to ownership, and the entity that holds title to an asset should report the asset in its financial statements. However, the facts and circumstances of the situation should be considered. There may be instances in which title is held by one entity, yet some rights of ownership are held by another entity. For example, the lessee reports assets under capital lease although the lessor holds title.

27. Q—The federal government often retains a reversionary interest in capital assets purchased by state and local governments with federal awards. Should state and local governments report these capital assets?

A—Yes. Although property records may indicate that the capital assets were acquired with federal funds and the federal government retains a reversionary interest in the salvage values of the assets, the state or local government is the party that uses the assets in its activities and makes the decisions regarding when and how the assets will be used and managed. The historical cost of these assets should be reported in the state or local government’s statement of net assets, and depreciation expense, if applicable, for these assets should be included in the expenses for the function that uses the assets.

28. Q—A city ordinance requires property owners to repair the sidewalks adjacent to streets when needed and to permit them to be used as a public walkway. The ownership of the sidewalks is unclear. Should the city report these sidewalks as infrastructure?

A—No. Footnote 67 states that in cases when ownership is unclear, a government should report a capital asset when it has responsibility for managing (often, primarily responsible for maintenance) that asset. The property owners have responsibility for maintaining sidewalks adjacent to streets. They decide what maintenance will be performed, and when. They are financially responsible for maintenance including potential liabilities for failure to perform maintenance. The city’s actions to establish regulations governing minimum standards for sidewalks should not be considered taking responsibility for managing the sidewalk. Therefore, the city should not report the sidewalks.

## [Completely Superseded]

29. Q—If one government is responsible for maintaining a capital asset and a different government is responsible for replacing the same asset, which government should report the capital asset?

A—When ownership is unclear, the government with the responsibility for managing the asset should report it. In this circumstance, the government that maintains the asset is the one that has responsibility for managing the asset and, therefore, should report the asset.

30. Q—Should a government’s capitalization policy be applied only to individual assets or can it be applied to a group of assets acquired together? Consider a government that has established a capitalization threshold of \$5,000 for equipment. If the government purchases 100 computers costing \$1,500 each, should the computers be capitalized?

A—Authoritative pronouncements do not address the manner in which a capitalization policy should be established and applied. However, capitalization policies adopted by a government should find an appropriate balance between ensuring that all material capital assets, collectively, are capitalized and minimizing the cost of record keeping for capital assets. It may be appropriate for a government to establish a capitalization policy that would require capitalization of certain types of assets whose individual acquisition costs are less than the threshold for an individual asset. Computers, classroom furniture, and library books are assets that may be immaterial for capitalization on an individual basis, yet might be considered material collectively.

31. Q—A city requires developers of new residential neighborhoods to build the infrastructure and then donate it to the city at the completion of the project. The city does not receive reliable and timely data from these developers about the cost of the donated infrastructure. How should the city determine the cost for these assets?

A—Per paragraph 18 of Statement 34, donated capital assets should be reported at estimated fair value at the date of donation. The developer’s cost for the infrastructure in new residential neighborhoods would be an acceptable estimate of fair value, but other estimates—for example, one made by the city’s public works department—would also be acceptable.

32. Q—Streets that have been constructed by a developer and donated to a government comprise both the infrastructure and the right-of-way or land upon which the infrastructure sits. The infrastructure should be reported at the fair value at the date of donation. Should an additional amount be reported for the right-of-way associated with the donated infrastructure?

A—Yes. The right-of-way should be reported at fair value at the time of acquisition in accordance with paragraph 18.

### ***Depreciation Methods***

33. Q—Statement 34 and Q&A 34 illustrate composite depreciation methods only in conjunction with infrastructure assets. Can the composite method be applied to other capital assets?

A—Yes. Statement 34 and Q&A 34 use infrastructure assets as examples of assets that may be depreciated using composite methods in order to emphasize the options available for infrastructure assets. Use of the composite method can be applied to other types of capital assets.

## [Completely Superseded]

34. Q—Can composite depreciation be used for a diverse group of capital assets, such as a group including buildings, building improvements, equipment, furniture, and vehicles?

A—Although composite depreciation is applied to groups of dissimilar assets, it should not be applied across classes of assets. Paragraph 161 indicates that depreciation may be calculated for a class of assets, a network or subsystem of assets, or individual assets. For example, all buildings could be grouped together and a single composite rate applied to all. Or each building could be depreciated separately using a composite rate reflecting the estimated useful lives of the various components of the building. When considering appropriate asset groups for composite depreciation, a government should also consider the requirement in paragraph 44 for including depreciation expense for capital assets that can specifically be identified with a function in its direct expenses and the requirement in paragraph 117d to disclose the amount of current-period depreciation expense charged to each function. Assets should not be grouped in a way that would prevent a government from meeting the requirements of paragraphs 44 and 117d.

### **Modified Approach**

35. Q—Parks are capital assets that are long-lived and stationary in nature, two characteristics of infrastructure assets. Can parks be considered infrastructure networks and, therefore, be eligible for the modified approach?

A—No. Because parks consist primarily of land, which is not considered to be infrastructure, parks should not be considered infrastructure networks. Some of the subsystems within a park, such as roads, trails, or sewers, could be considered infrastructure and could be eligible to use the modified approach. Some of the other components of a park, such as buildings and sports facilities, are depreciable capital assets.

36. Q—A county that uses the modified approach to report its road network transfers a street to a city. Should the street that is removed from the county’s road network be written off?

A—Yes. The street should be written off in the government-wide and enterprise fund financial statements, as applicable, in the period that it is transferred to the city. A functional expense (for example, public works) should be reported for the historical cost of the road, and the related asset account (for example, streets) should be reduced by the same amount.

37. Q—A sanitary district completed a seven-year inspection cycle for its sewers in June 1999. Based on the results, cost considerations, and expected lives, the next cycle was split into two schedules. Sewers in “very good” condition will be inspected on a ten-year cycle and all others on a three-year cycle (15–20% of all sewers). Could such an assessment completed in June 1999 satisfy the requirements of an initial assessment under Statement 34? Is the three-year requirement for completing condition assessments absolute, or will other considerations allow for an extension based on the extensive life of some classes of assets?

A—Three years is the maximum length of a condition assessment cycle for all types of infrastructure. The initial condition assessment performed over a period of seven years does not meet the requirements to begin using the modified approach. Paragraph 24 requires that condition assessments be performed at least every three years. Footnote 19 indicates that these condition assessments may be performed using statistical sampling and may be performed on a cyclical basis. The assessment can be performed in a single year during the three-year period or may be performed continuously over the three-year period. In either case, three years is the maximum time over which a complete condition assessment is required to be completed. The ongoing plan for condition assessment does not meet the requirements to use the modified approach due to the fact that some assets are being assessed on a ten-year cycle. Every sewer need not be assessed during the three-year period. However, every sewer should have an equal chance of being selected for testing during the three-year period as part of a statistical sampling plan.

## [Completely Superseded]

38. Q—A government has had an asset management system in place for a particular infrastructure network for a number of years and has made significant expenditures in the past few years to improve the condition of the network. The overall condition assessments for the network, on a scale of 0 to 100, are 50 for the second prior year, 60 for the prior year, and 70 for the current year. The government has established a minimum condition level of 70 for the network. Can the government use the modified approach for the network in the first year that the condition assessment is at the established condition level of 70, or should the government wait until there are three condition assessments that demonstrate that the network is being preserved at the condition level established by management as stated in paragraph 24b?

A—Consideration of three years of condition assessments was not intended to set an unreasonably high hurdle for those initially adopting the modified approach. The transition provisions in paragraph 152 allow a government to use the modified approach if only one condition assessment is available. This paragraph is intended to mean that if only one condition assessment shows that the network is at the condition level established by management, the modified approach can be used.

39. Q—A government adopts the modified approach and underspends the estimated amount needed to maintain its infrastructure at the condition level established by the government. Should the government stop using the modified approach and adopt depreciation accounting?

A—Attaining a certain level of spending on maintenance and preservation is not a criterion for determining if a government is required to switch from the modified approach to depreciation. The conclusive indicator of a government's failure to preserve its infrastructure would be a decline in condition level such that the infrastructure is no longer at or approximately at the level established by the government. Some reasons for underspending—such as mild weather, unexpected decline in usage, change in technology, and the economies that could derive from effective asset management—may not be indicative of a decline in condition level.

40. Q—Governments that apply the modified approach should report as required supplementary information (RSI) the estimated amounts needed to maintain and preserve the asset at (or above) the established condition level and the amounts actually expensed for each of the past five reported periods. Are these amounts required to be based on accrual standards?

A—Actual expenses should be reported on the accrual basis of accounting. The estimated amounts produced by the asset management system could be on a nonaccrual basis. If estimated maintenance and preservation information is not based on the accrual basis of accounting, that basis may be disclosed in a note to required supplementary information.

### **Reporting Works of Art, Historical Treasures, and Similar Assets**

41. Q—What are some examples of organizations that hold collections of works of art and historical treasures?

A—"Collections," as used in Statement 34, generally has the same meaning as in FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made*. As used in that Statement, collections "generally are held by museums, botanical gardens, libraries, aquariums, arboretums, historic sites, planetariums, zoos, art galleries, nature, science and technology centers, and similar educational, research, and public service organizations that have those divisions; however, the definition is not limited to those entities nor does it apply to all items held by those entities" (paragraph 128).

## [Completely Superseded]

42. Q—Should the animals in a city zoo be considered capital assets and, therefore, be capitalized and depreciated over the estimated lives of the animals? Could zoo animals be considered a collection?

A—Zoo animals should be considered to be capital assets because they meet the definition in paragraph 19—assets used in operations that have a useful life of greater than one year. They may also be considered a collection. Collections of works of art, historical assets, and similar assets need not be capitalized in the circumstances described in paragraph 27. Only successful breeding colonies of zoo animals would likely meet the requirements in paragraph 27b that collections be preserved.

43. Q—Should all items added to a collection be capitalized regardless of whether they meet the capitalization threshold?

A—No. Collections are capital assets for which application of a capitalization threshold is generally appropriate.

44. Q—The items in a collection, such as a mural painted on the wall of city hall, are permanently installed and cannot be removed without destroying them or greatly reducing their value. To meet the criteria for a noncapitalized collection, would a government still need to adopt a written policy that states that the proceeds from the sale of such items be used to acquire other items for the collection?

A—No. The accounting requirements for collections were derived from those in FASB Statement 116. Paragraph 129 in the Basis for Conclusions of that Statement says, in part: “The [FASB] decided that having an organizational policy that requires that the proceeds from collection items sold be used to acquire other items for collections demonstrates a commitment and a probability that the collections will and can be maintained.” The nature of collection items that cannot be removed for sale without their destruction or a significant reduction in their value sufficiently demonstrates a commitment and a probability that they will be maintained.

45. Q—Should the adjustment to report previously uncapitalized collections when Statement 34 is implemented be reported as a correction of an error?

A—No. The GASB provided guidance on reporting collections of works of art and historical treasures for the first time in Statement 34. This adjustment should be reported as adoption of a new accounting principle, which is accounted for as a prior-period adjustment. It is not appropriate to identify it as a correction of an error because there was no previous guidance on reporting works of art and historical treasures.

46. Q—The donation of a historical treasure in 1975 was not previously recorded. Its estimated value in 1975 was \$500,000; its current value is estimated to be \$1,500,000. When this asset is reported as part of the implementation of Statement 34, should it be reported at \$500,000 or \$1,500,000?

A—Donated assets should be reported at the fair market value at the date of donation as stated in paragraph 18. The value of \$500,000 is the appropriate amount at which to record the historical treasure donated in 1975.

# [Completely Superseded]

## Statement of Activities

### Level of Detail

47. Q—What are the criteria for determining which activities accounted for in enterprise funds are sufficiently *different* to require separate reporting in the statement of activities?

A—Statement No. 37, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments: Omnibus*, did not provide specific criteria that should be applied in determining whether one enterprise fund activity is different from another—some professional judgment may be necessary. Generally, the difference between activities is in the goods, services, or programs provided. Usually, the distinction is clear and the decision is straightforward—for example, unemployment compensation is different from a housing loan program, and each should be reported separately. Sometimes, however, *difference* is more subtle and judgment may need to be applied. For example, is an intercollegiate athletic program *different* from higher education, or is it an integral component of it? Professional judgment should be guided by the needs of the users of the financial statements. Preparers should present the level of detail that provides the most meaningful information to meet user needs.

48. Q—A city’s water department manages four separate water districts. The city uses separate enterprise funds to account for the activities of each of the four districts. Is the city required to report each district as a separate function or program in the statement of activities?

A—No. The city may report them separately, but is not required to do so. Statement 37 establishes the minimum level of detail for activities accounted for in enterprise funds as *different identifiable activities*. In this case, even though there is a separate and identifiable *accounting* for each district, the *activity* in the districts is the same—production, treatment, and distribution of water. The city can combine the four districts as “Water Utilities,” for example.

49. Q—A city uses a single enterprise fund to account for its water and electric utilities. Separate accounts are used for capital assets, liabilities, revenues, and expenses of the two utility operations. Can the city report a single “utilities” function in the statement of activities?

A—No. Provision of water and generation and distribution of electricity are *different* activities. The separate accounting satisfies the *identifiable* criterion. The city should report, for example, “Water Utility” and “Electric Utility” as separate functions or programs in the statement of activities.

50. Q—Component units that are engaged only in business-type activities are not required to present a statement of activities in their separately issued financial statements. Consequently, those component units that follow the guidance in paragraph 138 of Statement 34 do not distinguish between program and general revenues, even though that information will be displayed in the reporting entity’s statement of activities. How should the operations of those component units be included in the reporting entity’s statement of activities?

A—Component units that are not program-oriented, and would likely not report their operations in a net program cost format, can be presented in the reporting entity’s statement of activities as if the component unit itself were a single function/program. As a result, all revenues, except those that should be reported as general revenues (taxes, for example), derive from the program and may be reported as program revenues. The specific program revenue classifications can generally be inferred from the manner in which the revenues are reported in the component unit’s operating statement—for example, capital contributions would be reported in the capital grants and contributions column, operating and nonoperating grants would be included in the operating grants and contributions column, and so forth.

# [Completely Superseded]

## Expenses

51. Q—Statement 37 clarified that construction-period interest on assets used in governmental activities should not be capitalized. If capital assets that will be used in *enterprise* funds are financed with general long-term debt, should a portion of the interest on that debt be capitalized as construction-period interest?

A—Generally, no. Paragraph 46 of Statement 34 states that interest on general long-term debt generally should not be allocated to functions or programs as a direct expense. Therefore, unless the debt is expected to be retired by the enterprise fund (see Q20), it is considered *general long-term debt*, and construction-period interest should not be included in the cost of the capital assets constructed.

The interest capitalization requirement in FASB Statement No. 34, *Capitalization of Interest Cost*, does not require or anticipate matching specific debt to specific assets. Generally, that Statement requires a portion of all interest expense to be allocated to the costs of *all* assets under construction during the period. Therefore, if the enterprise fund has any type of debt, the portion of the interest expense that theoretically could have been avoided should be capitalized as part of the cost of assets constructed during the period.

52. Q—Should capitalized interest be removed from the cost of capital assets that are “transferred” from an enterprise fund to be used in governmental activities?

A—No. The assets transferred should be reported at their depreciated historical cost (net book value). Construction-period interest is not capitalized on general governmental capital assets primarily because of the requirement in paragraph 46 of GASB Statement 34 to report *interest expense* separately in the statement of activities as a period cost. Removing the capitalized interest element from the cost of the asset transferred would not affect the interest expense reported for governmental activities in the statement of activities.

53. Q—Should capitalized interest be removed from the cost of capital assets of enterprise funds that are reported as *governmental* activities in the government-wide statements?

A—No. Paragraph 18 of GASB Statement 34 requires capital assets to be reported in the statement of net assets at their historical cost. The historical cost of enterprise fund capital assets may include a capitalized interest element.

54. Q—If city-wide vehicle maintenance expenditures are accounted for in the general fund, do the expenses associated with specific functions or programs (police, public works, garbage collection, for example) need to be reported as direct expenses of the various functions in the statement of activities?

A—Yes. If the maintenance expenses can be specifically identified with separately reported functions or programs, paragraph 41 of Statement 34 requires those expenses to be included in the direct expenses of the functions or programs. Vehicle maintenance is an internal operation or cost center, rather than a separate function or program. The expenses that are not specifically identified with separately reported functions or programs (including depreciation of the maintenance facilities) would be reported with “general government” or a similar indirect cost center. If the city chooses to allocate those indirect expenses to its programs, it should do so by using the separate indirect expense column in the statement of activities.

## [Completely Superseded]

55. Q—A city currently charges all nonenterprise fund employee benefit costs to a “general administration” account in the general fund. Can those employee benefit expenses for employees whose salaries and wages are charged to functions such as Public Safety, Public Works, and Sanitation be reported as “general government” in the statement of activities, or should they be reclassified as direct expenses of the various functions or programs?

A—Employee benefit costs are specifically associated with the separately reported functions mentioned and should be included in the direct expenses of the various functions or programs. These expenses are as “direct” as the salaries that they are based on. As a practical approach, the city could use a standard rate to add the employee benefits to the various operating functions and reclassify them from the general government function.

56. Q—A local government has negotiated indirect cost rates with various departments of the federal government. In establishing the rates, the government considers certain personnel, administrative, and other costs that are not specific budget line items in the grant and contract agreements. The rates are used as the basis for a charge from the general fund to the various funds that account for the grant programs. Thus, significant indirect charges are included in the expenditures of several governmental funds, and certain expenditures in the general fund are reduced by the reimbursements. Should the “Expenses” column on the government-wide statement of activities for the various functions include the amounts charged to the funds as indirect cost?

A—No. If indirect costs have been allocated to the funds and the government also wants to include them in the functions or programs in the statement of activities, the indirect allocations should be reported in a separate column. The reimbursements in the general fund should be reported as a negative amount in the separate column (in the “general government” function, for example) so that the total of the indirect expense column is zero. Paragraphs 41 and 42 of Statement 34 establish the requirements for reporting direct and indirect expenses. However, if the government chooses not to allocate indirect costs in the statement of activities, the allocations should be completely reversed so that the indirect expenses are included in “general government” or its equivalent. (See also Q76.)

57. Q—Is interest expense of business-type activities and discretely presented component units required to be reported separately in the statement of activities?

A—No. The requirement in paragraph 46 of Statement 34 relates only to interest on *general long-term liabilities* of the primary government. Interest expense on enterprise fund debt should be included in the direct expenses of the appropriate functions or programs reported in the statement of activities. Similarly, interest expense of discretely presented component units is not required to be reported separately in the reporting entity’s statement of activities.

58. Q—A state constitution prohibits the issuance of debt. Therefore, general obligation debt is issued only by constitutional amendments approved by the voters. Such amendments are highly specific as to which capital projects will be built, so identification of the program is obvious. Because management has no discretion in allocating the financial resources to other programs, is it misleading to exclude that interest from direct program expenses of the governmental functions where those capital assets will be used?

A—No. Interest expense generally should not be included in the direct expenses of a function or program within governmental activities, even in this instance when the interest arises from borrowing to finance specific capital assets. Paragraph 46 of Statement 34 makes it clear that the direct expense situation will be rare. If the state is concerned that the total cost of a program should include interest expense directly attributable to capital assets used in that program, the indirect expense column should be used to allocate the interest expense. (See the preceding question about reporting interest on enterprise fund and component unit debt.)

# [Completely Superseded]

## Revenues

59. Q—Are governments allowed to report fines and forfeitures separately from other revenues in the charges-for-services category?

A—Yes. As explained in paragraph 54 of the Basis for Conclusions of Statement 37, a government may present significant components of program revenue categories in separate columns under the category heading. For example, if fines and forfeitures are significant, a government may choose to present a separate column for fines and forfeitures under the “Charges for Services” heading, or retitle the single column to be more descriptive—for example, “Charges for Services, Fees, Fines, and Forfeitures.”

60. Q—State law explicitly prohibits using revenue from fines to finance the expenditures of a public safety, police, or traffic enforcement function. In this circumstance, should fines be reported as *general* revenue, because they cannot be used to offset the expenses of the specific function that may have generated those revenues?

A—No. Charges for services, which include fines, should be reported as a program revenue of the function that generates it, regardless of whether there are restrictions or limitations on the use of that revenue. Fees, fines, and charges do not have to be based on the cost of the underlying program or function. The concept of “net cost” reporting in the statement of activities is based on the notion that all functions or programs require the use of government resources, and some contribute to the government’s resources by generating revenues through fees, fines, and charges or by accepting grants and contributions from parties outside the government. The “net cost” of a function or program is the difference between (a) expenses and (b) the charges, fees, and fines that derive directly from it and the grants and contributions that are restricted to it.

61. Q—In some communities, revenues from fines can be substantial, and may even be one of the most significant revenues in the general fund. Because these communities rely on fines as an important source of financing for many activities, would it be more appropriate to report fines as *general* revenues, similar to other revenues that fund multiple programs?

A—No. As indicated in the answer to the preceding question, the *use* of revenues from fees, fines, and charges does not affect the classification as a program revenue. The only consideration for nontax revenues is *from which function does the revenue derive?*

62. Q—A school district reports its operations by *functional categories* in its statement of activities. The district frequently receives grants from the state and federal governments that meet the definition of program revenue in paragraph 50 of Statement 34. However, many of those grants are restricted to *programs* rather than functions. In other words, the grants specify amounts for specific programs that may be spread among multiple functions. For example, funding restricted to special education covers expenses reported in instruction, administrative support, transportation, and other categories. Is the special education grant *general* revenue because it is not attributed to a specific functional category?

A—No. If the grant meets the definition of program revenue in paragraph 50, it should be reported accordingly. Revenues that meet that definition should be reported as program revenues regardless of the compatibility with the detail presented in the statement of activities. Two school districts that receive identically structured grants should classify the revenues in the same manner even if one district uses “functions” and the other uses “programs” in their statements of activities. The content and format of the financial statement does not define which revenues are program revenues and which are general revenues. In this illustration, the grant is detailed by program and the statement of activities is detailed by function. Thus, one program may be allocated over multiple functions. The solution is to use a reasonable allocation method to assign the program revenues to the

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appropriate functions—for instance, relative percentages of expenses. Therefore, a grant restricted to special education may be allocated to “Instruction,” “Administration,” and “Transportation,” even if that level of categorization is not provided for in the grant application or award.

63. Q—A city issues and renews business licenses based on a fee schedule established in a specific city ordinance. As a condition of maintaining the license, business establishments also are required to pay the city a “business license tax” that is based on their gross receipts. How should the city report those revenues in its statement of activities?

A—The initial license and the subsequent renewals constitute program revenues—charges for services. The license constitutes a fee for the privilege of operating in the community. The “business license tax” is, nevertheless, a *tax* and should be reported as general revenue.

64. Q—A developer is near completion of an industrial park. In accordance with city laws and regulations, the developer is required to make a one-time contribution of resources to the city when the industrial park’s infrastructure is substantially complete to assist the city in maintaining the infrastructure. The resources required to be contributed are based on the assessed value of the developed property. How should the contribution by the developer be reported?

A—The contribution should be reported as general revenue (and may be reported separately as “restricted for infrastructure maintenance”). Even though the contribution appears to meet the definition of a *program-specific grant* in paragraph 50 of Statement 34, it nevertheless arises from an imposed nonexchange transaction that is, in substance, a tax. The unspent resources should be reported as restricted net assets (for example, restricted for infrastructure maintenance) in the city’s statement of net assets.

65. Q—In order to provide adequate space for complete comparative statements of activities, can a government report its program revenues in a single column with the required details provided in the notes to the financial statements?

A—No. Paragraph 48 of Statement 34 is explicit. It states that the statement of activities *should separately report three categories of program revenues*. Therefore, each category of program revenue should be displayed in one or more columns. Disclosure is not a substitute for display. Comparative statements are not required, but question 15 in Q&A 34 discusses how governments might present comparative data and statements.

66. Q—Is there a direct relationship between *program revenues* and restricted net assets?

A—No. Not all program revenues are restricted. Grants and contributions that are reported as program revenues are restricted by definition, whereas charges for services may be unrestricted or may be restricted to the program that generates the revenue or to a completely unrelated program. In addition, some *general revenues* are restricted—taxes levied for pension contributions or debt service payments, for example—and may be reported separately as “restricted” within the general revenue section of the statement of activities.

67. Q—A state government accounts for certain assets in a permanent fund. The fund is managed and controlled by officials in the *transportation* function, but a portion of the earnings on the permanent fund investments is restricted for *public safety* purposes. How should the state report the public safety portion of the earnings—as

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program revenue of the transportation function because they are generated from within that function, or as program revenue of the public safety function because they are restricted to it?

A—The investment earnings should be reported as program revenue of the public safety function. Legally restricted investment earnings are similar in nature to program-specific grants and contributions. Paragraph 48 of Statement 34, as amended by Statement 37, emphasizes that grants and contributions are program revenues of the function to which they are restricted.

68. Q—A government issues pension obligation bonds to eliminate the unfunded actuarial liability of its employee retirement plan. As a result, a negative NPO (asset) is created. How should the government report the resulting balances and activity in the government-wide statements of net assets and activities?

A—The pension obligation bonds should be reported as a liability of the governmental activities in the statement of net assets. The asset should be recognized in the statement of net assets in accordance with paragraph 17 of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. The amortization of the asset should be included in the government’s annual pension costs as direct expenses in the statement of activities. The measurement of annual pension costs when an employer has an NPO or negative NPO is discussed in paragraphs 11 through 13 of Statement 27. Internal payments made from the various funds to the debt service fund (in lieu of pension contributions) should be reported as transfers rather than retirement expenditures. (See the illustrative financial statements.)

69. Q—A local school district charges tuition for out-of-district students in the regular curriculum, and for some students in special education, vocational education, and adult education programs. The tuition-paying students enjoy the full benefits of enrollment and receive the same support services as other students. Thus, their tuition “covers” administrative and support services as well as instruction. Is the district required to allocate tuition revenue over the various *noninstruction* functional categories?

A—No. The tuition is generated by specific *instruction* functions and should be reported as a program revenue—charges for services—of the appropriate instruction categories.

70. Q—If a state receives a grant from the federal government and subsequently “passes through” that grant to local government secondary recipients for capital purposes, should the state report its revenue in accordance with Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, as a *capital grant*?

A—No. The grant should be reported as “capital” only if it is restricted to the acquisition, construction, or improvement of the state’s capital assets. The state should report the revenue as an operating grant (program revenue) and the subsequent pass-through to the local governments as an expense.

71. Q—Some functions, a library for example, raise revenues by levying a special tax. Can that revenue be reported in the charges-for-services category of program revenues?

A—No. The library does not “generate” the revenue. Paragraph 52 of Statement 34 clearly states that all taxes, even if levied for a specific purpose, are general revenues. In this example, the tax is paid by *all* taxpayers, regardless of whether they use the library facilities; thus, it is not comparable to a charge for services. (See also Q73.)

## [Completely Superseded]

72. Q—If the change in fair value of investments is separately reported, as described in paragraph 13 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, is it subject to the same program revenue considerations as interest earnings in paragraph 51 of Statement 34? How should a decrease in fair value be reported?

A—An increase in the fair value of investments should be reported as general revenue, unless the earnings on the investments are restricted for a specific purpose. Earnings and increases in fair value that are restricted should be reported as program revenues of the function or program to which they are restricted. Similarly, a decrease in fair value should be reported as a loss in the general revenue section of the statement of activities unless the investments are restricted. If restricted, the decrease in fair value would reduce program revenues of the program or function to which the earnings (or losses) are restricted.

73. Q—Are taxes on sales of alcohol by a state alcoholic beverage control board (ABC board) considered program revenue because they are *generated* by the ABC board's activities?

A—No. The state's liquor tax is no different from other state *sales* taxes and should be reported as general revenue in accordance with paragraph 52 of Statement 34. However, the revenue from the sale of alcoholic beverages is program revenue.

74. Q—In a tax-increment financing situation, incremental property or sales tax revenues arise from, and are directly attributable to, specific properties or taxpayers. Can the incremental sales or property taxes be reported as program revenues?

A—No. Incremental sales and property taxes should be reported as general revenues in accordance with paragraph 52 of Statement 34. In a typical tax-increment financing situation, a specific portion of a property or sales tax base is enhanced with the expectation that additional taxes will be generated. There is no additional property tax levy—the same levies and rates that apply government-wide produce greater revenue because of the higher assessed valuations of the enhanced properties in the tax-increment district. Similarly, there is no additional surcharge paid by specific retail customers; additional revenues are attributable to the normal sales tax rate applied to additional sales within the improved tax-increment district.

75. Q—A school district receives significant amounts of unrestricted grants and local property taxes. Can the district display more than one category of general revenue and report subtotals for the change in net assets after each category?

A—Yes. Paragraph 38 of Statement 34 requires only that the change in net assets for the period be displayed. Although multiple categories and subtotals are not illustrated in paragraph 54, they can be presented in addition to the required “change in net assets for the period.”

### **Internal Activity**

76. Q—How should internal activity be reported in the government-wide statement of activities?

A—The objective in the statement of activities is to avoid “grossing up” expenses and revenues because of internal activity. With regard to expenses, the issue is whether the amount charged or allocated to a program is a direct expense or an indirect expense. For example, if it is a *direct* expense of Program A that was paid for by Program B, the amount should be included in the direct expenses of Program A. On the other hand, if it is an *indirect* expense—allocating the utility bill for the administration building, for instance—the allocation should

## [Completely Superseded]

either be reversed completely or be reversed and then reported in a separate indirect expense column in the statement of activities.

With regard to the provider of the goods or services, the question is whether the amount received is a program revenue or a reimbursement that reduces the expenses of the “charging ” program. In other words, is one program the “customer” of another program, or is the reason for the transaction simply to “spread” a common expense over several programs or functions? It also might be helpful to consider whether the sale of the goods or services is a normal operating activity of the function that makes the charge. (See also Q56.)

77. Q—A state Department of Administration pays the state’s phone bill to the telephone company. The department is subsequently reimbursed through interagency billings (to the various state agencies). Are the payments to the department from the agencies program revenues or reimbursements? Are the charges direct expenses of the agencies?

A—The Department of Administration’s telephone expense would be reduced by the internal charges (a reimbursement). The department is not a telephone company and the agencies are not its telephone customers; thus, reporting the amount as program revenue would be inappropriate. To the extent that charges can reasonably be identified to specific functions (by actual usage information, for example), they should be included in the direct expense of the functions.

78. Q—A state’s Division of Human Resources (DHR) allocates the entire cost of its operations to other state agencies based upon agency “full-time equivalent” personnel count. DHR receives all of its “funding” through this allocation mechanism. Should this internal activity be treated as reimbursements, or do the charges represent program revenue of DHR? Are the charges to the various state agencies direct or indirect expenses?

A—Because of the standard allocation formula used by DHR, it is unlikely that the expenses are “directly attributable” to the various agencies. Thus, they should be treated as indirect expenses and the allocations should either be reversed completely for the statement of activities or be reversed and displayed in the separate column. The charges appear to be designed to “spread” costs and therefore constitute reimbursements rather than program revenues.

79. Q—A central agency buys goods and “charges” other state agencies, through the general fund, for their respective shares (at a minimal markup to handle administrative expenses). Would this be considered a *reimbursement* situation?

A—The “reselling” of goods by a central agency to other state agencies represents a typical reimbursement situation. The definition in paragraph 112b(2) of Statement 34 states that reimbursements are “repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements should not be displayed in the financial statements.” Paragraph 43 of Statement 34 states that governments are not required to remove the “markup.”

80. Q—A “lead” state agency obtains a federal grant and passes a portion through to another state agency. For the state’s financial statements, would the lead agency consider the federal reimbursement (of the subrecipient agency’s expenditures) that it passes through to be a reimbursement, or revenue and expense per Statement 24?

A—Because it is an internal transaction, there is no “pass-through” to invoke the requirements of Statement 24; therefore, the state function that includes the lead agency would not include revenue or expense from the grant. The federal reimbursement should be reported as a program revenue of the function that includes the agency (the subrecipient) that reports the reimbursed expenses in the statement of activities.

# [Completely Superseded]

## Fund Financial Statements

### Major Funds

81. Q—If a government uses only governmental funds and has no enterprise funds, should both of the major fund percentages (10 percent or 5 percent) be applied to the fund element totals?

A—No. Determining which funds should be reported as major funds normally is a two-step process. The first step should always be to compare individual fund assets, liabilities, revenues, and expenditures against *10 percent* of the combined element totals for the relevant fund type or category (enterprise or governmental funds). An individual fund is required to first exceed the 10 percent criterion before the second step, the 5 percent test, is undertaken. If an individual element does not surpass the 10 percent cutoff, the 5 percent comparison is not required. Therefore, the government in this question need not make the 5 percent calculation because the category totals do not change and any element that exceeds 10 percent will automatically also exceed 5 percent.

82. Q—A small municipality’s fund structure consists of its general fund, two special revenue funds, and a debt service fund. The general fund and the two special revenue funds qualify as major funds, leaving only the debt service fund as a nonmajor fund. The debt service fund will be displayed in a separate column. Do the major fund reporting requirements apply to it?

A—The major fund reporting requirements do not apply to the debt service fund in this example unless the government designates it as a major fund. To provide clarity, the government should clearly distinguish between major and nonmajor funds. One approach would use a “Major Funds” heading across the major fund columns and identify the debt service fund as “Other Fund” or “Nonmajor Fund.” For example:

	Major Funds		Other Fund	
General Fund	Special Revenue A	Special Revenue B	Debt Service	Total

83. Q—For determining major funds, should revenue be at gross, or net of discounts and allowances?

A—Major funds are determined based on revenues reported using the measurement focus and basis of accounting required by generally accepted accounting principles (GAAP) for governmental or enterprise funds, as appropriate. Therefore, because revenues are required to be reported net of discounts and allowances, the major fund determination should also be based on net, rather than gross, revenues.

84. Q—For determining major enterprise funds, should the analysis of revenues and expenses include gains, losses, capital contributions, additions to permanent endowments, and special items?

A—Yes. Those items, although required to be reported separately from other revenues and expenses, are indicators of the significance of the activities accounted for in individual funds. However, footnote 37 of Statement 34 specifically excludes *extraordinary items* from the major fund determination.

85. Q—Should the major fund test be done before or after year-end and audit adjustments have been made?

A—Major funds should be determined based on the balances that are reported in the fund financial statements—after year-end and audit adjustments have been made. However, as a preliminary determination, it may be useful to apply the major fund criteria before adjustments so that the funds that are likely to be deemed major are identified as soon as possible in the financial reporting process.

## [Completely Superseded]

86. Q—Is the determination of major funds made before or after eliminating the effect of internal service fund activities in accordance with paragraph 59 of Statement 34?

A—Eliminating the effect of internal service fund activities as discussed in paragraph 59 is an adjustment for the statement of activities and does not affect the fund financial statements. Therefore, major funds are determined without regard to the internal service funds' balances and the possible "look-back" adjustments.

### **Governmental Funds**

87. Q—A state government establishes a separate fund to account for financial resources that are restricted by enabling legislation. Language in that legislation limits the fund's expenditures so that a minimum fund balance (determined by formula) is maintained; thus, a portion of the fund's resources is considered "permanently invested." Should this fund be classified as a special revenue fund or a permanent fund?

A—A special revenue fund could be used with reservations of fund balance reported for the amounts that are not available for appropriation because they cannot be spent, or a permanent fund could be used with the opposite modification to its fund balances; that is, amounts not restricted would be reported as such.

88. Q—A city currently charges all general fund employee benefits to a "general government" cost center. Those employee benefit expenditures are allocated as direct expenses in the government-wide statement of activities to the different functions such as public safety and public works. For consistency, is the city also required to allocate the employee benefit expenditures to those functional categories in the general fund statement of revenues, expenditures, and changes in fund balances?

A—No. The requirement for reporting direct expenses in paragraph 41 of Statement 34 applies only to the government-wide statement of activities. The city may *choose* to make similar reclassifications in the fund financial statements, but is not required to do so. However, reclassifying the expenditures in the fund financial statements to improve consistency with the government-wide statement of activities may have the opposite effect on comparability with the general fund budget.

### **Budgetary Comparisons**

89. Q—Does Statement 34, as amended, change the level at which budgetary compliance should be reported?

A—No. The minimum reporting level is established in NCGA Interpretation 10, *State and Local Government Budgetary Reporting*, and was not changed by Statement 34. Paragraph 14 of that Interpretation requires disclosure "at the level of budgetary control" (except in extreme cases when separate reports are required).

90. Q—Statement 34, paragraph 131, as amended by Statement 37, requires disclosure of excesses of expenditures over appropriations in the general fund and each major special revenue fund that has a legally adopted annual budget. Is disclosure required for similar excesses in other governmental funds?

A—Disclosure *may* be required. NCGA Interpretation 6, *Notes to the Financial Statements Disclosure*, paragraph 4, as amended, requires disclosure in the notes to the financial statements of significant violations of finance-related legal and contractual provisions. Therefore, disclosure of the excess of expenditures over appropriations is required for *any* fund, including nonmajor special revenue funds, capital projects funds, or debt service funds, *if the overexpenditure constitutes a significant violation of finance-related legal and contractual provisions*. In addition, Statement No. 38, *Certain Financial Statement Note Disclosures*, paragraph 9, requires governments to disclose actions taken to address such violations.

## [Completely Superseded]

91. Q—A local government has a fund that is included in its annual budget as a special revenue fund. However, the fund is required to be reported as an enterprise fund, based on the criteria in paragraph 67 of Statement 34. The fund meets the major fund criteria. Should that fund be included in the RSI budget-to-actual comparison as a major *special revenue* fund?

A—No. The RSI budget-to-actual comparison is based on the major special revenue funds as presented in the fund financial statements. Although the fund is treated as a special revenue fund for internal accounting purposes, it is required to be reported as an enterprise fund in the external financial statements. Budgetary fund classifications do not influence the requirements of paragraph 130 of Statement 34.

92. Q—A government presents its budgetary comparison in a schedule as RSI. Can a budget-to-actual comparison for a *nonmajor* special revenue fund be included in that schedule?

A—No. By definition, the information presented in RSI is limited to that which is *required*. Paragraph 130 of Statement 34 sets the scope of the budgetary comparison as the general fund and *major* special revenue funds. Therefore, because the budgetary comparison schedule can only include *major* special revenue funds, *any special revenue fund presented is a major fund*, regardless of whether it otherwise would be required to be reported as a major fund pursuant to the percentage criteria in paragraph 76. Thus, the consequence of presenting additional special revenue funds in the budgetary comparison schedule is that those funds are subject to all major fund reporting requirements and are, therefore, not considered *nonmajor*.

93. Q—A government presents its budgetary comparison in a schedule as RSI. Can budget-to-actual comparisons for capital projects and debt service funds be included in that schedule?

A—No. Paragraph 130 of Statement 34 clearly limits the comparison to special revenue funds with legally adopted annual budgets—specifically those that are deemed to be “major.” (See the preceding question.) Including capital projects funds and debt service funds in the budgetary comparison schedule would be in conflict with the limitations of that requirement.

### Enterprise Funds

94. Q—Paragraph 391 in the Basis for Conclusions of Statement 34 states that unemployment compensation programs are similar to public entity risk pools. Does that imply that governments should follow all of the provisions of Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, including the requirement to make risk management–type note disclosures for the changes in claims liabilities?

A—No. Paragraph 391 is not meant to imply that unemployment compensation funds are subject to all of the requirements of Statement 10. That paragraph explains the reasons for requiring governments to use the enterprise fund model for unemployment compensation funds and refers to risk-retention operations as “similar.” However, it is not meant to change the way governments (that are already using enterprise funds) report their unemployment compensation programs.

95. Q—Should administrative costs be reported in a state’s unemployment compensation enterprise fund?

A—No. That activity should be included in the general fund, unless legal requirements exist that require the accounting and financial reporting of the resources in another fund, as required by NCGA Interpretation 9, *Certain Fund Classifications and Balance Sheet Accounts*, paragraph 9. The administrative activity is not required to be accounted for in the unemployment compensation enterprise fund—such a requirement would invalidate the reasoning that an enterprise fund is required, as noted in footnote 34 of Statement 34. The charges are not designed to recover the costs of administration.

## [Completely Superseded]

96. Q—For a public entity risk pool, can interest earnings on the pool’s investments be considered operating revenue because those earnings are a significant resource needed to pay claims?

A—Footnote 42 of Statement 34 provides that if “investing” is the entity’s principal ongoing operation, investment earnings could be reported as operating revenues. In the typical risk pool situation, however, the principal ongoing activity is not likely to be *investing*, but rather risk financing. In those situations, earnings from investments should be reported as nonoperating revenues.

97. Q—Does special assessment debt for which the government is not obligated in any manner invoke the requirement in paragraph 67a to use an enterprise fund because it is secured solely by a pledge of the net revenues from fees and charges of the activity?

A—No. The criterion in paragraph 67a was not intended to cause governments to change the way they account for special assessment projects. There is no “activity” for which external users are “charged a fee for goods or services.” Rather, capital assets are constructed, enhancing the value of certain properties whose owners reimburse the government for the amounts necessary to pay principal and interest on the bonds. Paragraph 7 of Statement No. 6, *Accounting and Financial Reporting for Special Assessments*, describes a typical debt-financed special assessment situation, and paragraph 19 of that Statement establishes the requirement to use an agency fund to account for special assessment debt service activity when the government is not obligated in any manner for the debt.

98. Q—If a government has exercised the option of Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, paragraph 7, to apply all FASB pronouncements (including those issued after November 30, 1989) in an enterprise fund, do the “other comprehensive income” reporting requirements of FASB Statement No. 130, *Reporting Comprehensive Income*, apply?

A—No. All governmental and business-type activities—regardless of whether they follow the provisions of paragraph 7 of Statement 20—should report neither *other comprehensive income* nor *accumulated other comprehensive income* (or any similarly designated component of net assets). These provisions conflict with the reporting requirements set forth in paragraphs 97 through 103 of Statement 34. Gains and losses that FASB pronouncements classify as elements of other comprehensive income should be reported no differently than other gains and losses in the statement of revenues, expenses, and changes in fund net assets (and in the statement of activities). In the statement of net assets, the items that otherwise would make up accumulated other comprehensive income would be included in unrestricted or restricted net assets, as appropriate.

99. Q—Footnote 41 of Statement 34 states that proprietary fund revenues should be reported net of discounts and allowances. Does that requirement relate only to sales discounts and sales allowances, or does it also entail an adjustment to revenue for uncollectible accounts?

A—Revenues in proprietary funds should be reported net of *all* related allowances—sales discounts and allowances and amounts pertaining to uncollectible accounts. That is, revenues should be reported net of the increase or decrease in the estimate of uncollectible accounts.

100. Q—How should a government report a change in the allowance for uncollectible accounts that relates to *loans receivable* and is therefore not related to a *revenue* account?

A—The change in an uncollectible loan allowance account should be reported as an expense—there is no related revenue account to reduce. A forgiven or uncollectible loan becomes, in substance, a gift or contribution, and is properly reported as an expense.

## [Completely Superseded]

101. Q—How should an enterprise fund report capital contributions received from other funds of the government?

A—Contributions of *financial* resources would be reported as “transfers” in the fund financial statements and in the government-wide statement of activities, regardless of the purpose for which the transfer was made. If the assets transferred are *capital* assets, however, the enterprise fund would report the transaction as a capital contribution (in the last section of the statement of revenues, expenses, and changes in net assets) and the governmental funds would not report the event because there has been no flow of current financial resources. In the statement of activities, both sides of the capital asset transfer would be reported as “transfers,” requiring a reconciling item in the governmental funds’ reconciliation because a difference is created between the change in fund balances and the change in total net assets.

102. Q—A city government receives in its general fund an annual payment in lieu of taxes (PILOT) from the water and sewer utility enterprise fund. The PILOT is determined each year by multiplying the estimated assessed valuation of the water and sewer plant by the city’s property tax rate. Prior to implementing Statement 34, the city reported the payment as a quasi-external transaction—an expense of the utility fund and a revenue in the general fund. Should the city continue that reporting under Statement 34?

A—No. Under the prior model (NCGA Statement 1, paragraphs 102–106), payments in lieu of taxes were considered by some governments as quasi-external transactions and were reported as revenues and expenses. That notion was based on the premise that the charge is equivalent to taxes levied against “organizations external to the governmental unit.” However, the quasi-external transaction classification has been eliminated from the Statement 34 model and is replaced with a similar, but narrower, concept of “interfund services provided and used.” *Interfund services provided and used* is narrower in the sense that it implies an exchange or exchange-like transaction. Paragraph 112b of Statement 34 requires internal PILOTs to be reported as transfers, rather than interfund services provided and used, *unless the payments are reasonably equivalent in value to services provided.*

The fact that the interfund charge is based on the normal tax rate is not relevant based on Statement 34. If the PILOT is calculated like a tax, rather than a bill for goods and services, it would not meet the criterion for revenue/expense treatment in paragraph 112a(2). Therefore, even though it still appears to be quasi-external, it should be reported as a transfer because it is not exchange or exchange-like. Paragraph 52 in the Basis for Conclusions of Statement 33 discusses the nonexchange characteristic of taxes as follows: “[A]lthough some may believe that property owners ‘exchange’ property taxes for certain services, such as public safety and sanitation, there is no direct relationship between the values provided by homeowners (taxes paid) and the services provided; the tax generally is not based on the cost or value of the services.”

103. Q—Under the direct method for reporting cash flows from operating activities, are governments required to separately report transactions with discretely presented component units?

A—No. Paragraph 31 of Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, as amended, requires separate reporting of cash flows from interfund services provided and used, but does not require a similar distinction for transactions with component units. Governments may provide those additional details but are not required to do so. However, paragraph 128 of Statement 34 requires disclosure of the nature and amount of significant transactions between the primary government and each major component unit.

# [Completely Superseded]

## Internal Service Funds

104. Q—A state investment board is responsible for managing the investments of several state funds, including pension funds, internal service funds, enterprise funds, and governmental funds. The board is funded solely by service fees charged to these other funds and is reported as an internal service fund. A high percentage of the Board's activity pertains to the pension funds. Because fiduciary funds are not presented in the government-wide statements, should this internal service fund be included with governmental or business-type activities?

A—The balances of the internal service funds should be included with *governmental* activities in the government-wide statement of net assets. The balances would be included with business-type activities only if *enterprise funds* are the predominant or only participants.

105. Q—A government has several internal service funds that provide goods and services to fiduciary funds. Are these fiduciary funds considered “outsiders” and not included in the elimination of internal activities as required by paragraph 59 of Statement 34?

A—Transactions with fiduciary funds are considered to be “internal” for purposes of determining if an activity qualifies for reporting as an internal service fund. However, because fiduciary funds are not included in the statement of activities, they are treated as “external” when eliminating the effect of internal transactions.

106. Q—The assets and liabilities of a city's internal service fund are reported with governmental activities in the government-wide statement of net assets. However, the “look-back” adjustment for the internal service fund includes a significant “undercharge” involving the water utility enterprise fund. As a result, the *internal balances* reported in the statement of net assets are adjusted, as illustrated in Exercise #4 of Q&A 34. Should that internal balance adjustment be reversed as part of the next year's look-back adjustment?

A—Yes. The adjustment of internal balances is for government-wide reporting purposes only and affects net assets of both governmental and business-type activities. The succeeding year's look-back adjustment (to cause the internal charges to break even, as discussed in paragraph 314 of the Basis for Conclusions of Statement 34) should consider the effect of the prior year's internal balance adjustment. That is, the enterprise fund's “breakeven” point is the total of its respective share of the current year's expenses *plus or minus* the internal balance adjustment from the prior year.

107. Q—Does the requirement to eliminate interfund reimbursements in paragraph 112b(2) apply to internal service funds?

A—No. Cost reimbursement, as explained in paragraph 68 of Statement 34, is an essential characteristic of internal service funds. The reimbursements from other funds constitute the revenues of an internal service fund. For government-wide reporting purposes, however, the requirement in paragraph 59 of Statement 34 to eliminate the “doubling-up” effect of internal service fund activity causes those internal service fund revenues to be treated as if they were reimbursements.

108. Q—A city maintains an internal service fund to account for its risk financing activities. The charges to participating funds include a reasonable provision for future catastrophe losses, in accordance with paragraph 66c of Statement 10. Paragraph 59 of Statement 34 requires the city to eliminate the effect of internal service fund activity. How does the requirement in paragraph 59 affect the reporting of the internal charges and the accumulated resources?

A—As explained in paragraph 314 of the Basis for Conclusions of Statement 34, eliminating the effect of internal service fund activity requires preparers to “look back” and adjust the internal service fund's internal charges to break even. Thus, the excess amounts charged to the funds to provide for future catastrophe losses would be

## [Completely Superseded]

eliminated in the look-back adjustment, so that the expenses reported by the functions or programs in the statement of activities are in accordance with the expense recognition requirements of paragraphs 53 through 57 of Statement 10. The additional charge to the funds to provide for future catastrophe losses does not constitute an *expense* in the statement of activities, but rather is a transfer device for accumulating resources for a designated purpose. The accumulated resources in the internal service fund represent *designated* net assets and should be disclosed in the notes in accordance with paragraph 67 of Statement 10.

109. *Q*—An internal service fund sells some of its capital assets to another government. How should the loss or gain on the sale be reported on the statement of activities?

*A*—The amount would be reported in the same fashion as other sales to outsiders—that is, as a direct expense or as a general revenue—or if “special,” as a special item. However, if the gain or loss is not material, the difference could be adjusted through the internal service fund’s current-year depreciation expense.

### Fiduciary Funds

110. *Q*—What are the allowable methods for reporting escheat property?

*A*—Escheat property may include amounts that (a) will be paid to heirs or beneficiaries, (b) are temporarily held for other governments, or (c) will revert to the government itself, in the absence of rightful heirs or claimants. A governmental or proprietary fund may be used to account for the entire amount (a, b, and c), with liabilities for the amounts that will be paid to claimants or other governments. Alternatively, a governmental or proprietary fund may be used to account for only the amount that will eventually revert to the government, with the amounts held for claimants accounted for in a private-purpose trust fund, and amounts held for other governments in an agency fund.

111. *Q*—Amounts receivable from or payable to fiduciary funds are considered *interfund* balances in the fund financial statements, but are not reported as *internal* balances in the government-wide statement of net assets. Are governments required to explain that difference in the notes to the financial statements?

*A*—No. Disclosure of the difference is not required, but governments may choose to include an explanation in the interfund balances note required by paragraph 14 of Statement 38. Governments can also display, in the fund financial statements, amounts due to/from fiduciary funds separately from balances due to/from other funds, so that the relationship of *interfund* balances and *internal* balances is clear.

112. *Q*—A county sheriff’s department collects commissions on pay telephones used by inmates. The commissions are accounted for in a separate fund and are used to provide benefits to the inmates. Expenditures include uniforms, meals, medical care, and construction and maintenance of a law library and video visitation center. Should the fund be classified as a private-purpose trust fund?

*A*—No. Even though the purpose of the fund seems to be to “benefit individuals,” the benefits are not specific benefits for specific individuals, but rather are in the context of the county’s responsibility for prisoner care and welfare—in effect, the funds serve to reduce the amount of resources the county would otherwise have to raise to pay for those expenditures. The benefits are part of the “corrections” function and are for the inmate population in general, not to individuals. If a separate fund is required, it should be a special revenue fund.

## [Completely Superseded]

113. *Q*—A county issues bonds to finance the construction of a building for its discretely presented component unit. The bonds are a liability of the county, but the building will be reported as an asset of the component unit. The county disburses funds to the component unit to pay for construction costs as they are incurred. At year-end, the county has unspent bond proceeds. Should the county account for the unspent proceeds in an *agency* fund?

*A*—No. In substance, the county’s financing of the component unit’s construction is similar to an expenditure-driven grant. The amounts paid to the component unit, and construction costs incurred but not yet reimbursed, represent the amount of the grant for the year. The unearned portion—the unspent proceeds—is an asset of the county.

### Note Disclosures

114. *Q*—Paragraph 115 of Statement 34 requires governments to provide additional disclosures, if applicable, in the summary of significant accounting policies. Subparagraph c deals with the policy for eliminating internal activity in the statement of activities. What is the policy that should be disclosed?

*A*—The disclosure is intended to give readers a *general* understanding of how internal activity is reported in the statement of activities. For example, the policy could explain that direct expenses (charges based on actual use) are not eliminated, whereas indirect expense allocations made in the funds are reversed (unless reported in the separate column). Similarly, the note could explain *generally* which internal payments are reported as program revenues and which ones reduce the expenses of the reimbursed programs.

115. *Q*—A city operates under an internal policy that requires separate accounting for assets, liabilities, revenues, and expenses related to any activity that raises revenues pledged as security for debt. Is the city required to disclose segment information relative to those activities?

*A*—No. Paragraph 17 of Statement 37 clarifies that the separate accounting requirement should be imposed by an *external* party. The city should not include its “segment-like” information in the required segment disclosure, but may present the information in a separate note or as supplementary information without referring to the condensed financial information as “segment” information.

116. *Q*—Paragraph 115e requires disclosure of a government’s capitalization policy. What information should be included?

*A*—There are no specific requirements for capitalization policies. However, capitalization policies may include (a) capitalization thresholds, (b) the methods used for estimating historical cost or fair value, and (c) the extent of infrastructure capitalization including, for phase 1 and phase 2 governments, whether infrastructure acquired prior to fiscal years ended after June 30, 1980 are reported, and for phase 3 governments, whether infrastructure acquired prior to implementation of Statement 34 are reported.

117. *Q*—What disclosures should a phase 3 government that does not elect to retroactively report infrastructure make for infrastructure that is not included in the basic financial statements?

*A*—The requirements related to the selection of accounting policies and methods from existing acceptable alternatives in paragraph 12 of Accounting Principles Board (APB) Opinion No. 22, *Disclosure of Accounting Policies*, and the paragraph 115e requirement to disclose the policy for capitalizing assets would apply. Phase 3 governments should include a statement in their summary of significant accounting policies on an ongoing basis such as “General infrastructure assets acquired prior to July 1, 2003 are not reported in the basic financial statements,” “General infrastructure assets include all roads and bridges and other infrastructure assets acquired subsequent to July 1, 2003,” or other language that indicates how infrastructure was capitalized.

# [Completely Superseded]

118. *Q*—Paragraph 10b of Statement 38 requires debt service requirements to be shown “separately.” Does the word *separately* refer to (a) the separate presentations for each of the five subsequent years and in five-year increments thereafter, (b) the separation of principal from interest, or (c) separation of debt service requirements for each debt issue?

*A*—The word *separately* refers to both (a) the separate presentations for each of the five subsequent years and in five-year increments thereafter and (b) the separation of principal from interest, above. Statement 38 does not require disclosure of debt service requirements for each debt issue.

## Special-Purpose Governments

119. *Q*—A government engaged only in business-type activities uses multiple enterprise funds. Is that government required to combine its funds and use a single column in its financial statements?

*A*—No. Paragraph 138 of Statement 34 addresses the requirements for basic financial statements and states that the financial statements required for enterprise funds should be presented. It does not require multiple-fund BTAs to aggregate their funds similar to a separate “government-wide” approach. However, a total enterprise funds *column* is required by paragraph 96 of Statement 34.

120. *Q*—If a multiple-enterprise fund BTA combines its funds to provide for a single-column presentation, are underlying fund financial statements also required to be included in the basic financial statements?

*A*—Yes. Part b of paragraph 138 requires the presentation of enterprise *fund* financial statements. The specific requirements for the content and form of enterprise fund financial statements are set forth in paragraphs 91 through 105 (“Required Financial Statements—Proprietary Funds”). Paragraph 96 refers to the major fund reporting requirements in paragraph 75 and further requires the presentation of a combined total column for enterprise funds. The required combined total columns may be presented on the same pages as the enterprise fund financial statements or on separate pages.

## Component Units

121. *Q*—A government uses the combining statement method to present its major component unit information in accordance with paragraph 126 of Statement 34. In the combining statements, should the government “recast” the financial statement data of business-type component units into a statement of activities format, or can it present a combining statement of revenues, expenses, and changes in net assets?

*A*—The answer depends on the level of detail presented in the reporting entity’s government-wide statement. (See also Q50 about reporting business-type component units in the statement of activities.)

If the business-type component units are combined with component units engaged in governmental activities, the combining statement should follow the statement of activities format. (However, the government could display a single BTA line on the combining statement of activities, with a supporting combining statement of revenues, expenses, and changes in net assets.)

If business-type component units are reported separately in the reporting entity’s statement of activities, the combining statement may be presented in the statement of revenues, expenses, and changes in net assets format with the combined totals recast into the reporting entity’s statement of activities.

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122. Q—Paragraph 127 of Statement 34 establishes the minimum level of detail required for condensed financial information of major component units presented in the notes. Does that guidance also apply to major component units presented in combining statements?

A—No. Paragraph 126, as amended by Statement 37, states that the major component unit information should be the entity totals derived from the component units' statements of net assets and activities. There is no additional provision allowing governments to *condense* that information to the levels indicated in some parts of paragraph 127. However, some governments may need to combine or retitle certain accounts for consistency and comparability across component units in the combining statements.

123. Q—If some, but not all, major component unit information is displayed separately in the government-wide statements, what is required to be presented in the combining statements or disclosed in the notes? For example, the reporting entity's statement of activities uses a separate line for each major component unit, but reports the net expense/revenue totals and changes in net assets in a single "component units" column.

A—Paragraph 127 requires presentation of a condensed *statement of activities* in the notes. Therefore, presentation of only a portion of the statement of activities would not satisfy that disclosure requirement, even though some of the required data from within the statement is displayed on the face of the basic financial statements.

124. Q—What are the display/disclosure options when there is only one discretely presented component unit?

A—Paragraph 125 of Statement 34 requires component unit information to be displayed in the reporting entity's government-wide statements. Therefore, when there is only one component unit, the options discussed in paragraph 126—to present major component unit information in combining statements or in the notes—are inapplicable because the major component unit reporting requirements are met by discrete presentation in the government-wide statements.

### Public Colleges and Universities

125. Q—Is an institution, reporting as a BTA, required to use a single column, or can it present its activities in more than one column in the statement of net assets; in the statement of revenues, expenses, and changes in net assets; and in the statement of cash flows?

A—Institutions that elect to report as BTAs, pursuant to the provisions in paragraph 138 of Statement 34, may consider the full scope of their activities to be a single business-type activity and, accordingly, would use a single column in the basic statements. On the other hand, some institutions may prefer to report as multiple BTAs and use more than a single column (separately reporting auxiliary enterprises or healthcare facilities, for example) in the basic financial statements. However, other disaggregations, such as classes of net assets, do not constitute separate business-type activities and should not be reported in separate columns. (See also Q119 and Q120 about using multiple columns for BTAs.)

126. Q—Can an institution establish a policy, as provided for in paragraph 102 of Statement 34, to include *state appropriations* in operating revenues?

A—No. The policy discussed in paragraph 102 should be consistent with the objective of distinguishing between operating and nonoperating revenues and expenses. That objective is to provide a reporting format that displays the extent to which an enterprise's operating expenses were covered by revenues *generated by* its principal

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ongoing operations. State appropriations are not “generated” by an institution, but instead are provided to the institution to help cover the “net” operating expense. Paragraph 52 of Statement No. 35, *Basic Financial Statements—and Management’s Discussion and Analysis—for Public Colleges and Universities*, discusses the deliberations regarding reporting state appropriations.

127. Q—A state university’s food service facilities were financed by revenue bonds. The bond indenture includes a requirement to provide to the trustee a financial statement showing the coverage of the pledged revenues to the operating expenses of the facilities. Is the university required to make the segment disclosures set forth in paragraph 122 of Statement 34?

A—No. Paragraph 122, as amended by Statement 37, states that an activity is a segment if its revenues, expenses, gains and losses, and assets and liabilities are required to be accounted for separately. Therefore, because the requirement in this case is limited to only revenues and expenses, the university would not be required to make segment disclosures for its food service operations.

128. Q—How should transactions between a university and its auxiliary enterprises be reported? Should they be eliminated for the statement of revenues, expenses, and changes in fund net assets?

A—If the university reports its activities as both governmental and business-type, internal activity should be reported in accordance with the provisions of paragraph 112 of Statement 34, and eliminations made as required by paragraphs 59 and 60. However, if the university is reported as a single-column business-type activity, internal transactions between the university and its auxiliary enterprises should be eliminated in the consolidation process.

129. Q—Are public colleges and universities able to use the phase-in periods for implementation of Statement 35?

A—If they qualify based on the revenue criteria of the first fiscal year ending after June 15, 1999 contained in paragraph 143 of Statement 34, public colleges and universities that report as special-purpose governments and that are *not* a part of, or a component unit of, another primary government can use the phase-in periods for their implementation. However, regardless of the format they choose, public institutions that are part of, or a component unit of, another government should implement the requirements of Statement 35 no later than their primary government. (See also Q146 about the applicability of the infrastructure phase-in provisions to public colleges and universities.)

130. Q—Paragraphs 124 through 128 of Statement 34 provide guidance for including component units in a primary government’s financial reporting entity. Paragraph 127 discusses disclosing condensed financial information of the component units in the notes to the financial statements. If the note disclosure approach is used, is the institution relieved of any display requirements in the basic statements?

A—No. The guidance in paragraphs 124 through 128 refers to “major” component units as described in paragraph 51 of Statement 14. Discretely presented component units may be aggregated into a single-column presentation on the face of the financial statements; however, details of major component units included in this aggregation should be presented either in combining statements or in notes to the financial statements. Disclosure (and the combining statement approach) supplements, but does not replace, the display of component unit information on the face of the financial statements. (See Q123 relating to the condensed financial statements required in combining statements or notes to the financial statements.)

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131. *Q*—A component unit associated with a public college or university is a tax-exempt organization that reports under another GAAP reporting model. How should the financial statements of a component unit that uses a nongovernmental GAAP reporting format be included in the reporting entity’s financial statements?

*A*—The answer to question 104 of the *Guide to Implementation of GASB Statement 14 on the Financial Reporting Entity: Questions and Answers* states, in part: “Any noncompatible or additional statements required by the component unit’s reporting model would not be combined with either governmental or proprietary component units, but instead would be presented as separate statements in the [basic financial statements].” Consequently, financial statements on a different GAAP format may be presented separately from the primary government and labeled as component units in the reporting entity’s basic financial statements.

132. *Q*—Statement 35 supersedes Statement No. 19, *Governmental College and University Omnibus Statement*, which required Pell Grants to be reported as restricted current fund revenues. Because Statement 19 will no longer apply after Statement 35 is effective, can public colleges and universities report Pell Grants as agency transactions?

*A*—No. Statement 24 contains guidance that pass-through grants should be reported as revenues and expenses/expenditures in the recipient government’s financial statements if that government has any administrative or direct financial involvement in the program. A recipient government has administrative involvement if it determines eligible secondary recipients or projects, even if using grantor-established criteria. Therefore, because of their administrative involvement with Pell Grant requirements, public institutions should record Pell Grant receipts as revenues in their financial statements, and any amounts applied to student receivable accounts should be recorded as scholarship discounts or allowances.

133. *Q*—How should public colleges and universities report split-interest agreements under Statements 34 and 35?

*A*—Split-interest agreements usually provide that the public institution acts as trustee for the gift assets, with the requirement that an annual distribution be made to a specified beneficiary. Normally, these distributions are for a fixed dollar amount (annuity trust) or a fixed percentage of the trust’s fair market value (unitrust). The more common types of split-interest agreements operate similarly.

The public institution should recognize an asset for the fair value of the trust assets and a liability for the obligation to the beneficiary, with the difference between the asset and liability recognized as gift revenue. Changes (for example, changes in actuarial assumptions, revaluations of the present value of the trust assets, or adjustments to discount amortization) should be reflected in the statement of revenues, expenses, and changes in net assets or the statement of activities, depending upon the special-purpose government reporting format used by the public institution. Upon termination of the trust, either through death or through expiration of the trust term, the liability should be removed with the offset to a change in the value of the trust in the statement of revenues, expenses, and changes in net assets or the statement of activities.

134. *Q*—The requirement in Statement 35 that capital assets be capitalized and depreciated eliminates the classification previously used to indicate expenditures for capital assets in the unexpended plant fund or the renewal and replacement fund. However, many departments within a public institution continue to purchase department-specific equipment. How are these purchases accounted for under Statement 35?

*A*—If the amount is equal to or greater than the capitalization threshold, the asset purchased should be capitalized and depreciated. Expenditures that fall below the threshold for capitalization should be reported in the expense category in which the department reports. For example, for instruction or research, or for those public institutions that report their expenses using the object category, an expense line item for supplies and equipment or some similar description should be used.

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135. Q—Can investment income on endowments ever be operating income?

A—Paragraph 27c of Statement 9 indicates that interest income is defined as investing activities and should be reported as such in the statement of cash flows. Paragraph 16 of Statement 9 indicates that operating activities include transactions that are *not* defined as capital and related financing, noncapital financing, or investing activities. Therefore, unless an organization’s principal activity is investing, income earned from investments or endowments should be reported as nonoperating revenue. (See also Q96.)

136. Q—Is it appropriate to report investment income restricted to increase permanent or term endowments as “additions to permanent or term endowments”?

A—No. Income from permanent or term endowments should be recorded as nonoperating revenue. Contributions to permanent or term endowments should be reported in the statement of revenues, expenses, and changes in net assets as a separate item after nonoperating revenues and expenses, rather than as direct additions to a contributed capital equity account, as under previous standards. It should be noted that all items that increase or decrease net assets are revenues, expenses, gains, or losses.

137. Q—Are revenues from tuition and fees for an academic term that encompasses two fiscal years required to be allocated between the two years?

A—Yes. These revenues should be accrued during the period earned.

138. Q—Can a public college or university reporting as a special-purpose government engaged only in business-type activities present its expenses using either natural or functional classifications?

A—Yes. Neither Statement 34 nor Statement 35 specifically requires a special-purpose government engaged only in business-type activities to report using either natural or functional classifications. It should be noted that paragraph 11b(7) of Statement 34 requires condensed financial information for the current and prior years to be presented as “program expenses, at a minimum by function” when included in MD&A. However, paragraph 138a of Statement 34 indicates that paragraphs 8 through 11 of MD&A apply to special-purpose governments engaged only in business-type activities “as appropriate.” Therefore, if an organization reports its expenses using natural classifications, the comparative information in MD&A should be presented in the same manner as that included in the basic financial statements.

139. Q—Are public colleges and universities that report as special-purpose governments engaged only in business-type activities allowed to report only acquisitions or significant reconstructions of infrastructure assets for fiscal years ending after June 30, 1980 and use infrastructure transition provisions?

A—No. The retroactive date for reporting infrastructure assets is not available to public institutions that report as special-purpose governments engaged only in business-type activities, or to the business-type activities for public institutions engaged in both governmental and business-type activities. Public institutions that reported using the AICPA College model were required to report infrastructure assets under that model. Those public institutions that report as special-purpose governments engaged in both governmental and business-type activities will be allowed to use the retroactive date for their “general” infrastructure assets (defined in footnote 66 of Statement 34); however, the transition provisions are not available for infrastructure assets in their business-type activities. (See also Q146.)

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## Transition

140. *Q*—Prior to the implementation of Statement 34, a component unit of a local government prepared its financial statements in accordance with the AICPA Industry Audit Guide, *Audits of Voluntary Health and Welfare Organizations* (the Not-for-Profit model, or NFP model). Statement 34 supersedes certain paragraphs of Statement No. 29, *The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities*, not including paragraph 5 which states that the NFP model and the Governmental model are *both* acceptable methods. Does the component unit have to adopt the Statement 34 financial reporting model, or can it continue to use the NFP model?

*A*—When Statement 34 becomes applicable, *no* governmental organization will follow the AICPA NFP model. Paragraph 147 of Statement 34 allows governmental organizations that were using the NFP model (at June 30, 1999) to use the enterprise fund model in Statement 34 even if they do not meet the criteria in paragraph 67 for reporting as an enterprise fund.

141. *Q*—Can a government selectively report portions of infrastructure networks that were acquired prior to the July 1, 1980 date? For example, if a government can determine the historical cost of infrastructure assets in its road network acquired since 1970, can it report those assets only, or would it then be required to determine the historical cost (or estimate those costs) for assets acquired since 1970 for all other infrastructure networks?

*A*—The 1980 date in paragraph 154 is set as a minimum threshold for reporting infrastructure assets. Paragraph 156 encourages reporting nonmajor networks, and question 285 of Q&A 34 encourages reporting assets or portions of assets acquired prior to the 1980 date. Paragraphs 150 and 151 indicate that partial reporting of infrastructure should be done on a network-by-network basis. For example, it would be permissible to report for the road network all assets acquired after 1970 and to report for the dam network only those assets acquired after 1980. It would not be permissible, however, to report the portion of the road or dam networks acquired after 1980 in one year, and then report the portion acquired between 1970 and 1980 in the subsequent year.

142. *Q*—The transition provisions in paragraph 154 specifically address infrastructure assets. Can these transition provisions be applied to noninfrastructure capital assets—for example, land and easements associated with infrastructure or buildings?

*A*—No. All capital assets other than general infrastructure assets should already have been reported. Therefore, Statement 34 did not provide any transition capitalization accommodations for noninfrastructure assets.

143. *Q*—What amount should be reported for the construction-in-progress classification for infrastructure projects at the date Statement 34 is implemented?

*A*—As a practical matter, construction in progress for infrastructure projects could be reported at the date Statement 34 is implemented, rather than at the date of retroactive reporting of infrastructure. For example, consider a government that is implementing Statement 34 for the year ended June 30, 2002 and expects to retroactively report infrastructure in the June 30, 2006 financial statements. The government has two different new road construction projects—Project A, which incurred costs of \$15 million through June 30, 2001, incurred an additional \$5 million in costs and was completed during the year ended June 30, 2002; and Project B, which incurred costs of \$5 million through June 30, 2001, incurred an additional \$10 million in costs during the year

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ended June 30, 2002, and was still in progress at that date. Neither project was reported in the general fixed assets account group in the June 30, 2001 financial statements because infrastructure was not reported. Project A could be reported in the June 30, 2002 statement of net assets as a capital asset at its entire construction cost of \$20 million. Project B could be reported as construction in progress at its entire cost to date of \$15 million.

144. *Q*—If deflated current replacement cost is used to estimate the historical cost of infrastructure, what considerations should be made with respect to changes to applicable codes, standards, and ordinances that have occurred since the acquisition date?

*A*—The examples of estimating historical cost using deflated replacement cost included in paragraph 159 and Exercise #8 in Q&A 34 assumes that changes in construction methods or specifications from acquisition date to present are not significant. If these changes are significant, appropriate adjustments should be made in the estimation of historical cost.

145. *Q*—In the process of calculating accumulated depreciation for general capital assets at transition, a government discovers that some of its assets still in use are older than their assigned estimated useful lives and would be fully depreciated. Should these assets be reported as fully depreciated (at a net book value of zero or salvage value)?

*A*—If the assets are significant, the estimated useful lives assigned to capital assets should be reconsidered. Assets still in use should not be reported as fully depreciated. At transition, the estimated useful life of an asset includes both the years the asset has been in service and the estimated number of years of service remaining.

146. *Q*—Do the infrastructure transition provisions in paragraphs 148 and 149 apply to infrastructure associated with activities previously reported in governmental funds that will be reported in enterprise funds after the implementation of Statement 34?

*A*—No. These transition provisions apply only to general infrastructure—assets that support functions reported as governmental activities. For example, a university that has previously used the governmental model and will report under Statement 34 as a special-purpose government engaged in a business-type activity should report all infrastructure assets, not just those acquired after its fiscal year ending after June 30, 1980, at the date it adopts Statement 34.

147. *Q*—Although phase 1 and phase 2 governments should retroactively report major general infrastructure assets no later than four years after they implement Statement 34, paragraph 148 encourages retroactive reporting of major general infrastructure at the implementation date of Statement 34. When governments retroactively report infrastructure, they should at a minimum report assets acquired in years ending after June 30, 1980. Is the encouragement to retroactively report infrastructure limited to assets acquired in years ending after June 30, 1980?

*A*—No. Governments are encouraged to retroactively report infrastructure at the date they implement Statement 34 and are also encouraged to include assets acquired prior to years ending after June 30, 1980.

148. *Q*—Should retroactively reported infrastructure assets be capitalized at net book value?

*A*—Capital assets, including retroactively reported infrastructure, may be reported net of the face of the statement of net assets. Gross historical cost or estimated historical cost and accumulated depreciation from the acquisition date to the date at which the assets are being reported should be disclosed in the notes to the financial statements.

## Nonexchange Transactions

### Scope and Applicability

149. Q—Are research grants exchange transactions or nonexchange transactions?

A—Some research grants are exchange transactions, others are nonexchange transactions, and some have both exchange and nonexchange elements. Each grant should be evaluated for elements that qualify as exchanges—for example, patent rights that accrue to the grant provider, or rights to exclusive use of the research results for a period of time. Professional judgment is required to determine if the values exchanged are essentially equal. Elements that do not have the characteristics of an exchange transaction should be accounted for as voluntary nonexchange transactions. Example 22 in Statement 33 illustrates a research grant that has the characteristics of an exchange transaction.

150. Q—Are drivers' licenses and business permits exchange or exchange-like transactions, or are they nonexchange transactions?

A—Licenses and permits are generally exchange or exchange-like transactions. Paragraph 1 of Statement 33 says that in an exchange or exchange-like transaction, “each party [directly] receives or gives up essentially equal values.” Paragraph 50 further describes exchange-like transactions as follows: “. . . In an exchange-like transaction, there *is* an identifiable exchange between the reporting government and another party, but the values exchanged may not be quite equal or the direct benefits of the exchange may not be exclusively for the parties to the exchange. Examples include *certain fees for regulatory or professional licenses and permits . . .*” (italics added).

Many license and permit fees are designed specifically to offset the cost of processing the license or permit. Drivers' licenses and business permits are generally exchange or exchange-like transactions because the cost of a license or permit typically does not exceed the value of the services and rights received in exchange (the cost of processing the license or permit and the value of the right to drive on public roads or conduct business).

151. Q—Does Statement 33 apply to donated services?

A—No. Statement 33 applies to nonexchanges involving only financial or capital resources, not to contributed services.

152. Q—Are donated food commodities within the scope of Statement 33?

A—Yes. Statement 33 applies to nonexchange transactions involving capital or financial resources. The fair value of donated commodities should be recognized as revenue in the period when all eligibility requirements are met (typically, the period when the commodities are received).

### General Provisions

153. Q—Paragraph 11 of Statement 33 states that recognition of nonexchange transactions “is required unless the transactions are not *measurable* (reasonably estimable) or are not *probable of collection*” (footnote omitted). Paragraphs 16, 18, and 21 require each of the classes of nonexchange transactions to be recognized “net of

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estimated uncollectible amounts.” What is the difference between the *probable-of-collection* criterion and the requirement to recognize each class of nonexchange transaction *net of estimated uncollectible amounts*?

A—The *probable-of-collection* criterion in paragraph 11 establishes an initial hurdle for recognition; that is, recognition of the transaction (both the receivable and the revenue) is not required if the entire transaction is not probable of collection. Although applicable to all nonexchange transactions, for practical reasons it generally applies to those transactions that, in practice, are individually recorded (for example, separate donations) rather than those that are recorded in the aggregate (for example, sales taxes).

Conversely, the requirement in paragraphs 16, 18, and 21 applies to nonexchange transactions that have met the probable-of-collection criterion (for example, separate grants that historical evidence indicates are partially uncollectible in the aggregate even though the particular grants that are partially uncollectible may not be identifiable). It requires *revenue* for each class of nonexchange transactions to be recognized net of estimated uncollectible amounts and results in an increase to an allowance account (for example, allowance for doubtful accounts) rather than a reduction of the receivable.

154. Q—Paragraph 14 of Statement 33 requires recipients of resources with purpose restrictions to report the resulting net assets (or fund balance, as appropriate) as restricted (or reserved, as appropriate) until the purpose restrictions are met. Can the recipient spend unrestricted resources for programs that are also supported by grants and continue to report the grant resources as restricted?

A—Yes. Governments should have a policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. (Subparagraph 115h of Statement 34 requires governments to disclose that policy.)

155. Q—Are governments required to estimate their sales tax accruals if actual data is not known?

A—Yes. Paragraph 27 of Statement 33 discusses situations where one government administers and collects other governments' local option sales taxes. It states that, because those other governments impose the tax or other revenue source, “they should have or can reasonably estimate the accrual-basis information necessary to comply with the requirements of [the] Statement for derived tax revenues or imposed nonexchange revenues.” If accrual information is estimable when another government collects the tax, it is also estimable when a government collects its own tax. (See also Q156.)

### Derived Tax Revenue Transactions

156. Q—Example 1 in Appendix D of Statement 33 introduces the notion of practical considerations into the accounting for sales tax revenues. Specifically, the example states that a government that imposes a sales tax “will likely base the amount to be recognized on total merchants' sales as reported or estimated for the weeks or quarters that make up the [government's] fiscal year.” Does this mean that governments can report sales taxes when the merchant sales reports are available rather than accruing sales taxes at year-end?

A—No. Governments are required to accrue sales taxes at the end of the period (subject to the availability criterion in governmental funds). Example 1 illustrates that the amount to be accrued will likely be *based* on merchants' sales reported or *estimated*. Thus, the accrual is not limited to the data in merchant sales reports and may involve additional estimates if actual data is not available. Example 1 further illustrates that the amount accrued will be based on sales data for the weeks or quarters that make up the government's fiscal year. Even if the quarters covered by merchants' sales reports do not coincide with the quarters of the government's fiscal year, year-end accruals are still required.

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Examples 2 and 3 discuss similar practical considerations that may result in yearly recognition of hotel taxes and income taxes. Likewise, those practical considerations do not override the requirement to accrue those taxes at year-end.

157. *Q*—When should resources received from tax audits be recognized?

*A*—Sales taxes and income taxes to be recovered in tax audits should be recorded, if measurable, in the same period as the underlying exchange regardless of when they will be collected (deferred in governmental funds if not *available*). Put another way, assessments from subsequent tax audits, if reasonably estimable, are integral to the estimate of uncollectible sales and income taxes.

Assessments in tax audits typically result from unreported or underreported sales or income. These are examples of exchange transactions underlying derived tax revenue transactions (for example, sales taxes and income taxes). Paragraph 16 of Statement 33 provides that revenues from derived tax revenue transactions should be recognized, “net of estimated refunds and estimated uncollectible amounts,” when the underlying exchange transaction occurs.

## Imposed Nonexchange Revenue Transactions

158. *Q*—Should revenue from traffic tickets, fines, and other violations be recorded when the ticket is issued, when the judge rules, or when payments are made?

*A*—Undisputed fines should be recognized when payments are made. Disputed fines should be recognized when the appropriate legal authority (for example, traffic court) rules that the fine is valid (legally enforceable) and should be recognized net of estimated refunds from rulings overturned on appeal. Paragraph 17 of Statement 33 requires governments to “recognize *assets* from imposed nonexchange revenue transactions in the period when an enforceable legal claim to the assets arises or when resources are received, whichever occurs first.” Paragraph 18 requires revenue to be recognized, net of estimated refunds, “in the same period that the assets are recognized unless the enabling legislation includes time requirements.” Legal enforceability generally occurs when the parties pay their fines or, if disputed, when a court later rules that the fine is enforceable.

159. *Q*—Paragraph 18 of Statement 33 states that “governments should recognize *revenues* from property taxes, net of estimated refunds and estimated uncollectible amounts, *in the period for which the taxes are levied . . .*” (subject to the availability criterion in governmental funds). An independent school district files a property tax levy. The levy is processed and collected by a county that has a different fiscal period. The levy is assessed on property owned during yet another fiscal period. What is the period for which the taxes are levied?

*A*—The laws and regulations governing the levy determine the period for which the taxes are levied. That period will generally coincide with the budget or fiscal period of the entity initiating the levy. All governments subject to the same laws and regulations should use the same period.

160. *Q*—An entity levies amounts in its *current* property tax levy for *future* debt service payments. Should the amounts levied for the future-period debt service payments be reported as deferred revenue until those future periods start?

*A*—No. Governments often include amounts in their property tax levies that will be accumulated and not paid out until future periods (for example, other postemployment benefits). Unless a legal requirement specifies otherwise, the period for which these amounts are levied is the same as the period for which the rest of the taxes are levied.

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## Government-Mandated and Voluntary Nonexchange Transactions

161. Q—What should be considered in determining if a grant has a reimbursement requirement (is expenditure-driven)?

A—If the grant agreement indicates that the resources belong to the provider until allowable costs are incurred, the grant is expenditure-driven. If the grant agreement is silent, the government should review the laws or regulations that cover the grant (for example, the U.S. Office of Management and Budget’s Compliance Supplement and applicable sections of the *Code of Federal Regulations*).

162. Q—Does Statement 33 change revenue recognition requirements for reimbursement-based (expenditure-driven) grants under the modified accrual basis of accounting?

A—As noted in paragraph 29, Statement 33 does not change modified accrual basis revenue recognition requirements. Paragraph 11 of NCGA Statement 2, *Grant, Entitlement, and Shared Revenue Accounting by State and Local Governments*, required that all grants, including expenditure-driven grants, be recognized as revenue in governmental funds only when “both measurable and available” (as defined in paragraph 62 of NCGA Statement 1). For expenditure-driven grants it added an additional requirement that “revenues should be recognized when the expenditure is made.” However, the second criterion often was applied without regard to the first criterion and revenue was recognized whether or not resources were available. Subparagraph 30d of Statement 33 requires revenue recognition “in the period when all applicable eligibility requirements have been met *and* the resources are available.”

163. Q—A state reimburses local governments for certain grant expenditures. Should the state accrue a liability for reimbursements based on (a) claims submitted or (b) claims submitted and claims incurred but not reported?

A—For reimbursement-based (expenditure-driven) grants, paragraph 21 of Statement 33 requires providers to recognize liabilities (or decreases in advances) when all eligibility requirements are met. Reimbursement eligibility requirements are met when recipients incur allowable costs, not when those costs are submitted for reimbursement. Therefore, on either the accrual or the modified accrual basis of accounting, the state should recognize a liability for the *estimated amount* of allowable costs incurred by potential recipients, based on both claims submitted and estimated claims incurred but not reported, provided that all other eligibility requirements are met.

164. Q—A city receives a grant from the state. The city meets all of the eligibility requirements (for example, the period when the resources are required to be used has begun, reimbursable costs are incurred), but the state has not yet appropriated resources for the grant. Can the city recognize grant revenue?

A—No. The state should appropriate resources before the city can recognize the grant revenue. Paragraph 74 in the Basis for Conclusions of Statement 33 states that, “[w]hen the provider is a *government*, the required period of disbursement often is specified through the appropriation of resources under the enabling legislation, rather than as part of that legislation or related regulations. The Board believes that, in those cases, a government appropriation is *not* equivalent to an authorization to pay an *existing* liability, such as the approval of a vendor’s invoice for payment related to an exchange transaction that has occurred. Rather, an appropriation is *essential* to make the enabling legislation effective for a particular period of time. In these circumstances, the Board believes that a government does not have a liability to transmit resources under a particular program, and a recipient does not have a receivable, unless an appropriation for that program exists and the period to which the appropriation applies has begun. Once those requirements (and all other applicable eligibility requirements) have been met, a provider government should recognize a liability and a qualified recipient should recognize a receivable. . . .”

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165. Q—Using the same facts as the prior question, except that state law requires the state treasurer to pay the grant whether or not the legislature appropriates resources, when should the city recognize the grant?

A—The city should recognize grant revenue in the current period without regard to when the legislature appropriates resources. In this case, the required period of disbursement is not specified through the appropriation of resources. Rather, it is specified by the enabling legislation or its related regulations. An appropriation is not essential to make the enabling legislation effective for a particular period of time and, if made, is equivalent to an authorization to pay an existing liability as discussed in paragraph 74 of the Basis for Conclusions of Statement 33.

166. Q—A government is awarded an expenditure-driven grant for construction of a facility. Could revenue recognition be delayed until construction is complete, similar to the completed-contract method?

A—No. Revenue from expenditure-driven (reimbursement) grants, including those used for capital projects, should be recognized as expenditures are incurred, provided all other eligibility requirements are met (subject to availability in governmental funds).

167. Q—Example 21a of Statement 33 illustrates a grant receivable being recorded at the discounted present value of the future payments. Are grant receivables required to be reported at their discounted present value as illustrated in the example and as discussed in paragraph 12 of Accounting Principles Board (APB) Opinion 21, *Interest on Receivables and Payables*?

A—No. Although Example 21a illustrates that receivables *can be* discounted, it does not require discounting. Paragraph 12 of APB Opinion 21 covers accounting for receivables and payables arising from *exchange* transactions, not nonexchange transactions.

168. Q—Would a government ever record a receivable for a permanent endowment, term endowment, or similar transaction?

A—No. Permanent endowments, term endowments, and similar transactions are examples of voluntary nonexchange revenue transactions. Accordingly, recipients should not recognize a receivable until all of the eligibility requirements, including time requirements, are met. Footnote 12 of Statement 33 states that “the time requirement is met as soon as the recipient begins to honor the provider’s stipulation not to sell, disburse, or consume the resources and continues to be met for as long as the recipient honors that stipulation.” Therefore, the time requirement cannot be met until the resources are actually received. Hence, paragraph 73 of the Basis for Conclusions of Statement 33 states: “Therefore, providers and recipients should not recognize liabilities or receivables in these kinds of transactions. Rather, they should recognize cash or other assets as expenses when paid (providers) and as revenues when received (recipients) [provided that all other eligibility requirements have been met].”

169. Q—Paragraph 24 of Statement 33 provides that, if a governmental provider does not specify a time requirement, the applicable period for recognition is the provider’s fiscal year. What is the applicable period if the provider is *not* a government?

A—Paragraph 78 of the Basis for Conclusions of Statement 33 states that, “when a nongovernmental provider does not specify otherwise, [the] Statement requires recipients to recognize the awards in full in the first period that use is permitted and all other applicable eligibility requirements have been met [subject to availability in governmental funds].”

# [Completely Superseded]

## Current Financial Resources Recognition

170. Q—How should donations of capital assets to governments be recorded in governmental funds?

A—The measurement focus of governmental funds is on current financial resources (resources available for spending). Therefore, if a capital asset is donated to a governmental fund and is held for use, no asset or revenue is recorded in the fund.

## Transition

171. Q—Paragraph 106 of NCGA Statement 1 states: “Residual equity transfers to proprietary funds should be reported as additions to contributed capital; those from proprietary funds should be reported as reductions of retained earnings or contributed capital, as appropriate in the circumstances.” However, footnote 18 of Statement 33 states: “This Statement requires governments to recognize capital contributions to proprietary funds and to other governmental entities that use proprietary fund accounting as *revenues*, not contributed capital. However, governments should not restate contributed capital arising from periods prior to implementation of this Statement until the Board issues one or more Statements requiring restatement of those prior-period balances.” Does Statement 33 change the accounting for residual equity transfers?

A—No. Prior to implementation of Statement 34, residual equity transfers to and from proprietary funds continue to affect contributed capital as discussed in paragraph 106 of NCGA Statement 1. However, Statement 34 eliminates the category of residual equity transfers and requires restatement of prior contributed capital.

[Completely Superseded]

Appendix

**ILLUSTRATIVE FINANCIAL STATEMENTS FOR COUNTY GOVERNMENT**

This appendix illustrates the financial reporting requirements of Statements 33 through 38. It is presented for illustrative purposes only and is nonauthoritative. These sample financial statements and disclosures are presented to assist financial statement preparers in understanding the requirements of Statements 33 through 38. **In some instances, amounts that may be considered immaterial are used to illustrate specific requirements or approaches. No inferences about determining materiality should be drawn from these illustrations.**

This appendix illustrates the minimum requirements for a “complete” set of financial statements in accordance with GAAP and required supplementary information. However, an illustrative management’s discussion and analysis (MD&A), required to be presented as RSI, is not presented. A “typical” set of basic financial statements, notes to the financial statements, and RSI other than MD&A are included. **In addition, certain supplementary information, not required by Statement 34, is presented.** Combining statements for nonmajor funds, internal service funds, and agency funds are illustrated to provide underlying fund details that may be helpful in understanding certain aspects of the basic financial statements.

Alternative approaches to some of the displays and disclosures in this appendix are permitted, and some alternatives were illustrated in Appendix 3 of Q&A 34. Preparers should select alternatives, where appropriate, considering what is most relevant and useful, based on the requirements set forth in Statement 34 and the needs of their own financial statement users.

# [Completely Superseded]

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[Completely Superseded]

# Basic Financial Statements

**Common County  
Statement of Net Assets  
June 30, 2002**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Pooled cash and investments (Note 2)	\$ 54,795,200	\$ 31,003,016	\$ 85,798,216
Investments, plus accrued interest (Note 2)	7,455,708	—	7,455,708
Accounts receivable, net	1,891,555	1,301,656	3,193,211
Taxes receivable, net	2,000,000	—	2,000,000
Notes receivable, net	1,296,745	875,399	2,172,144
Health plan contributions receivable, net	14,733,173	—	14,733,173
Due from other governments	27,464,800	—	27,464,800
Inventories and prepaid expenses	1,022,119	—	1,022,119
Restricted assets—noncurrent (Note 2)	9,599,316	26,596,649	36,195,965
Pension assets (Note 7)	40,259,000	—	40,259,000
Capital assets (Note 3):			
Land and construction in progress	63,009,780	4,257,884	67,267,664
Infrastructure, net	584,810,374	—	584,810,374
Building and improvements, net	75,414,530	10,671,153	86,085,683
Equipment and vehicles, net	25,629,727	2,630,700	28,260,427
Total capital assets	748,864,411	17,559,737	766,424,148
Total assets	909,382,027	77,336,457	986,718,484
<b>LIABILITIES</b>			
Accounts payable	21,782,319	476,170	22,258,489
Internal balances	393,496	(393,496)	—
Due to other governments	3,715,414	—	3,715,414
Salaries and benefits payable	3,242,681	251,268	3,493,949
Deferred revenue	13,820,551	—	13,820,551
Accrued interest	1,065,950	—	1,065,950
Long-term liabilities (Notes 6 and 8):			
Portion due or payable within one year:			
Claims payable	2,650,000	—	2,650,000
Certificates of participation (COPs) payable	3,050,000	14,000	3,064,000
Bonds and notes payable	8,220,000	600	8,220,600
Capital leases	3,000,000	—	3,000,000
Compensated absences	856,000	—	856,000
Portion due or payable after one year:			
Claims payable	2,450,000	—	2,450,000
COPs payable	84,068,143	1,700,180	85,768,323
Bonds and notes payable	46,326,918	64,206	46,391,124
Capital leases	8,400,882	—	8,400,882
Compensated absences	9,427,121	—	9,427,121
Accrued landfill closure/postclosure care costs (Note 9)		26,596,649	26,596,649
Total liabilities	212,469,475	28,709,577	241,179,052
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	649,403,468	15,780,751	665,184,219
Restricted for:			
Capital projects	5,664,726	—	5,664,726
Debt service	10,961,357	—	10,961,357
Road projects	4,386,138	—	4,386,138
Redevelopment	2,160,075	—	2,160,075
Other purposes	2,212,297	—	2,212,297
Unrestricted	22,124,491	32,846,129	54,970,620
Total net assets	\$ 696,912,552	\$ 48,626,880	\$ 745,539,432

Significant components of receivables and payables have been presented on the face of this statement. This detail may, alternatively, be provided by note disclosure, as discussed in paragraph 13 of Statement 38.

Worksheet C presents a schedule that shows how the net asset components were determined.

Common County  
Statement of Activities  
For the Year Ended June 30, 2002

Activities:	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental:</b>							
General government	\$ 17,570,842	\$ 15,030,242	\$ 518,456	\$ 525,530	\$ (1,496,614)	\$	\$ (1,496,614)
Public protection:							
District attorney	20,255,385	489,119	13,732,422	—	(6,033,844)	—	(6,033,844)
Probation	14,506,407	1,299,113	4,487,771	—	(8,719,523)	—	(8,719,523)
Sheriff and coroner	42,040,101	4,149,675	2,764,342	400,000	(34,726,084)	—	(34,726,084)
Trial court	8,591,642	6,013,147	346,525	—	(2,231,970)	—	(2,231,970)
Fire protection	9,450,618	289,105	—	200,822	(8,960,691)	—	(8,960,691)
Other	16,417,447	1,135,267	3,523,072	—	(11,759,108)	—	(11,759,108)
Public ways and facilities	44,917,710	6,057,919	3,385,940	5,868,992	(29,604,859)	—	(29,604,859)
Health and sanitation	61,521,861	7,669,727	40,340,851	—	(13,511,283)	—	(13,511,283)
Public assistance	171,370,511	16,386,459	134,869,880	815,500	(19,298,672)	—	(19,298,672)
Education	2,815,571	152,649	465,720	—	(2,197,202)	—	(2,197,202)
Culture and recreation	1,552,175	251,975	119,686	—	(1,180,514)	—	(1,180,514)
Interest and fiscal charges	9,727,637	—	—	—	(9,727,637)	—	(9,727,637)
Total governmental activities	420,737,907	58,924,397	204,554,665	7,810,844	(149,448,001)	—	(149,448,001)
<b>Business-type:</b>							
Solid waste	8,494,969	10,510,247	—	—	—	\$ 2,015,278	2,015,278
Other programs	1,564,125	521,664	—	18,853	—	(1,023,608)	(1,023,608)
Total business-type activities	10,059,094	11,031,911	—	18,853	—	991,670	991,670
Total Common County	\$ 430,797,001	\$ 69,956,308	\$ 204,554,665	\$ 7,829,697	(149,448,001)	991,670	(148,456,331)

  

General revenues:							
Taxes:							
Property taxes, levied for general purposes					31,598,045	—	31,598,045
Property taxes, levied for fire protection					4,708,422	—	4,708,422
Property taxes, levied for library					1,748,309	—	1,748,309
Tax increments for redevelopment districts					1,164,935	—	1,164,935
Sales taxes					23,992,788	697,962	24,690,750
Grants and contributions not restricted to specific programs					30,431,877	—	30,431,877
Earnings on investments					5,687,047	2,765,944	8,452,991
Miscellaneous					18,517,899	—	18,517,899
Transfers					106,000	(106,000)	—
Total general revenues and transfers					117,955,322	3,357,906	121,313,228
Change in net assets					(31,492,679)	4,349,576	(27,143,103)
Net assets—beginning					728,405,231	44,277,304	772,682,535
Net assets—ending					\$ 696,912,552	\$ 48,626,880	\$ 745,539,432

The level of detail displayed for the *Public protection* functional category is not required. However, paragraph 40 encourages governments to provide data "at a more detailed level if the additional detail provides more useful information without significantly reducing the reader's ability to understand the statement."

**Common County  
Balance Sheet  
Governmental Funds  
June 30, 2002**

See Exhibit 11 for an illustration of an optional combining statement for nonmajor funds.

See Worksheet A.

	<b>General Fund</b>	<b>Realignment Fund</b>	<b>Public Facility Corporation Debt Service</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>					
Cash	\$ 112,230	\$ —	\$ —	\$ —	\$ 112,230
Pooled cash and investments (Note 2)	36,419,118	5,098,741	—	9,303,983	50,821,842
Investments, plus accrued interest (Note 2)	—	—	11,343,051	3,354,153	14,697,204
Accounts receivable, net	184,054	—	7,250	1,700,251	1,891,555
Taxes receivable, net	1,500,000	—	—	500,000	2,000,000
Notes receivable, net	758,741	—	—	538,004	1,296,745
Due from other county funds (Note 4)	4,402,673	—	—	1,160,956	5,563,629
Due from other governments	19,240,733	1,911,880	—	6,312,187	27,464,800
Inventories	436,336	—	—	229,084	665,420
Prepaid items	139,699	—	—	217,000	356,699
Health plan contributions receivable, net	14,733,173	—	—	—	14,733,173
<b>Total assets</b>	<b>\$ 77,926,757</b>	<b>\$ 7,010,621</b>	<b>\$ 11,350,301</b>	<b>\$ 23,315,618</b>	<b>\$ 119,603,297</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Warrants payable	\$ 6,365,060	\$ —	\$ —	\$ 46,436	\$ 6,411,496
Accounts payable	9,275,493	—	—	5,854,012	15,129,505
Due to other county funds (Note 4)	1,952,678	2,070,538	—	1,987,240	6,010,456
Due to other governments	3,715,414	—	—	—	3,715,414
Deposits from others	124,648	—	—	—	124,648
Salaries and benefits payable	2,903,176	—	—	311,688	3,214,864
Deferred revenue	10,364,468	4,940,083	—	516,000	15,820,551
<b>Total liabilities</b>	<b>34,700,937</b>	<b>7,010,621</b>	<b>—</b>	<b>8,715,376</b>	<b>50,426,934</b>
<b>Fund balances:</b>					
<b>Reserved for:</b>					
Inventories	436,336	—	—	229,084	665,420
Prepaid items	139,699	—	—	217,000	356,699
Noncurrent assets	15,491,914	—	11,350,301	538,004	27,380,219
Unreserved	27,157,871	—	—	—	27,157,871
<b>Unreserved, reported in nonmajor:</b>					
Special revenue funds	—	—	—	7,274,422	7,274,422
Debt service funds	—	—	—	677,006	677,006
Capital project funds	—	—	—	5,664,726	5,664,726
<b>Total fund balances</b>	<b>43,225,820</b>	<b>—</b>	<b>11,350,301</b>	<b>14,600,242</b>	<b>69,176,363</b>
<b>Total liabilities and fund balances</b>	<b>\$ 77,926,757</b>	<b>\$ 7,010,621</b>	<b>\$ 11,350,301</b>	<b>\$ 23,315,618</b>	<b>\$ 119,603,297</b>

Significant components of receivables and payables have been presented on the face of this statement. This detail may, alternatively, be provided by note disclosure, as discussed in paragraph 13 of Statement 38.

The required reconciliation is presented on the next page as a continuation of this financial statement. It could, however, be shown on the face of this statement.

**Common County  
Reconciliation of the Governmental Funds Balance Sheet  
to the Statement of Net Assets  
June 30, 2001**

Total *fund balances* for governmental funds (Exhibit 3) \$ 69,176,363

Total *net assets* reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$	6,955,661	
Construction in progress		56,054,119	
Infrastructure, net of \$480,996,249 accumulated depreciation		584,810,374	
Buildings and improvements, net of \$32,320,512 accumulated depreciation		75,414,530	
Equipment, net of \$4,850,382 accumulated depreciation		9,007,853	
Vehicles, net of \$11,081,248 accumulated depreciation		16,621,874	
Total capital assets (See Note 3.)			748,864,411

The pension assets resulting from contributions in excess of the annual required contribution in 2000 are not financial resources and therefore are not reported in the funds. (See Note 7.) 40,259,000

Internal service funds (see Exhibit 5) are used by the County to charge the cost of liability, malpractice, and worker's compensation insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. Internal service fund net assets are: 2,427,792

Some of the County's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred revenue in the funds. 2,000,000

Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities—both current and long-term—are reported in the statement of net assets. Also, during the year the County refunded some of its existing debt. The amount borrowed is received in the governmental funds and increases fund balance. The amount that was sent to the paying agent (\$46,222,462) to be escrowed for payment of the old debt (\$41,875,000) as it comes due is paid out of governmental funds and reduces fund balance. The difference between those amounts (\$4,347,462) will be amortized as an adjustment of interest expense in the statement of activities over the remaining life of the refunded debt. In addition, the County received a premium of \$2,411,557 on Certificates of Participation with a face value of \$46,438,415. The premium will be amortized as an adjustment of interest expense in the statement of activities over the remaining life of the new debt. Balances at June 30, 2002 are:

Accrued interest on bonds			(1,065,950)
Certificates of participation	\$	(88,768,415)	
Bonds and note payable		(54,546,918)	
Capital leases		(11,400,882)	
Compensated absences		(10,283,121)	
Claims and judgments not accounted for in the internal service fund		(1,400,000)	
Deferred amount on refunding		3,881,662	
Unamortized premiums		(2,231,390)	
Total long-term liabilities (See Note 6.)			(164,749,064)

Total net assets of governmental activities (Exhibit 1) \$ 696,912,552

Paragraph 77 of Statement 34 states that if aggregated information in the reconciliation obscures the nature of individual elements of a particular reconciling item, a more detailed explanation should be provided in the notes. In this illustration, sufficient detail is provided so that additional disclosure in the notes is not required.

**Common County  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2002**

	See Worksheet A.	See Exhibit 12 for an illustration of an optional combining statement for nonmajor funds.			
	General Fund	Realignment Fund	Public Facility Corporation Debt Service	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>					
Property taxes	\$ 31,312,479	\$ —	\$ —	\$ 7,907,232	\$ 39,219,711
Sales taxes	—	23,992,788	—	—	23,992,788
Motor fuel taxes	—	—	—	3,878,249	3,878,249
Licenses and permits	5,829,552	—	—	6,360	5,835,912
Fines, forfeitures, and penalties	6,718,777	—	—	6,587	6,725,364
Interest, rents, and concessions	3,490,156	—	829,148	1,097,604	5,416,908
Intergovernmental	230,436,074	—	—	27,137,411	257,573,485
Charges for services	39,868,067	—	—	2,465,827	42,333,894
Disaster costs recovered	—	—	—	790,082	790,082
Miscellaneous	4,754,254	—	—	985,530	5,739,784
Total revenues	<u>322,409,359</u>	<u>23,992,788</u>	<u>829,148</u>	<u>44,274,882</u>	<u>391,506,177</u>
<b>EXPENDITURES</b>					
Current:					
General government	18,810,638	—	—	464,123	19,274,761
Public protection	101,480,029	—	—	11,516,736	112,996,765
Public ways and facilities	—	—	—	15,171,844	15,171,844
Health and sanitation	59,158,818	—	—	2,487,543	61,646,361
Public assistance	156,561,061	—	—	15,268,543	171,829,604
Education	469,172	—	—	2,259,350	2,728,522
Culture and recreation	1,390,051	—	—	—	1,390,051
Debt service:					
Principal payments	1,692,345	—	3,270,000	9,455,096	14,417,441
Interest and fiscal charges	376,004	—	4,749,224	3,601,787	8,727,015
Debt issuance costs	—	—	813,954	—	813,954
Defeasance costs	—	—	4,347,462	—	4,347,462
Capital outlay	—	—	—	27,447,251	27,447,251
Total expenditures	<u>339,938,118</u>	<u>—</u>	<u>13,180,640</u>	<u>87,672,273</u>	<u>440,791,031</u>
Excess (deficiency) of revenues over expenditures	<u>(17,528,759)</u>	<u>23,992,788</u>	<u>(12,351,492)</u>	<u>(43,397,391)</u>	<u>(49,284,854)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Capital leases	3,256,248	—	—	1,943,845	5,200,093
Certificates of participation issued	—	—	43,474,810	2,963,605	46,438,415
Premiums on debt issued	—	—	2,411,557	—	2,411,557
Payments to escrow agent	—	—	(41,875,000)	—	(41,875,000)
Transfers in (Note 4)	37,300,522	13,215,696	5,628,134	42,635,151	98,779,503
Transfers out (Note 4)	(42,473,518)	(37,208,484)	—	(18,991,501)	(98,673,503)
Total other financing sources and uses	<u>(1,916,748)</u>	<u>(23,992,788)</u>	<u>9,639,501</u>	<u>28,551,100</u>	<u>12,281,065</u>
Net change in fund balances	<u>(19,445,507)</u>	<u>—</u>	<u>(2,711,991)</u>	<u>(14,846,291)</u>	<u>(37,003,789)</u>
Fund balances—beginning	62,671,327	—	14,062,292	29,446,533	106,180,152
Fund balances—ending	<u>\$ 43,225,820</u>	<u>\$ —</u>	<u>\$ 11,350,301</u>	<u>\$ 14,600,242</u>	<u>\$ 69,176,363</u>

The required reconciliation is presented on the next page as a continuation of this financial statement. It could, however, be shown on the face of this statement.

# [Completely Superseded]

Exhibit 4.1

**Common County  
Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances of Governmental Funds  
to the Statement of Activities  
For the Year Ended June 30, 2002**

Net change in *fund balances*—total governmental funds (Exhibit 4) \$ (37,003,789)

The change in *net assets* reported for governmental activities in the statement of activities is different because:

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 and reported as depreciation expense. This is the amount by which depreciation (\$44,230,302) exceeded capital outlays (\$42,053,833) in the current period. (See Note 3.) (2,176,469)

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets. (See Note 6.)

Debt issued:			
Refunding certificates of participation	\$	(46,438,415)	
Premium on the refunding debt		(2,411,557)	
Repayments:			
To paying agent:			
For certificate principal		41,875,000	
Additional amount—deferred interest		4,347,462	
To bond, certificate, and note holders		14,417,441	
Net adjustment			11,789,931

Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability. (See Note 6.) (5,200,093)

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the net changes of six balances. (See Notes 6 and 7.)

Compensated absences	\$	84,514	
Toxic clean-up agreement		1,000,000	
Amortization of debt premium		180,167	
Amortization of pension assets		(725,000)	
Amortization of advanced refunding difference		(465,800)	
Accrued interest on bonds		98,965	
Combined adjustment			172,846

Internal service funds (See Exhibit 6.) are used by the County to charge the costs workers' compensation insurance to individual funds. The net revenue of internal service funds of liability, malpractice, and is reported with governmental activities. 924,895

Change in net assets of governmental activities (Exhibit 2) \$ (31,492,679)

Paragraph 77 of Statement 34 states that if aggregated information in the reconciliation obscures the nature of individual elements of a particular reconciling item, a more detailed explanation should be provided in the notes. In this illustration, sufficient detail is provided so that additional disclosure in the notes is not required.

**Common County  
Statement of Net Assets  
Proprietary Funds  
June 30, 2002**

See Worksheet A.

See Exhibits 17 and 20 for illustrations of optional combining statements for nonmajor funds.

	Enterprise Funds		Total	Internal Service Funds
	Solid Waste Fund	Other Enterprise Funds		
<b>ASSETS</b>				
Current assets:				
Cash	\$ 191,499	\$ 9,947	\$ 201,446	\$ —
Pooled cash and investments (Note 2)	29,658,481	1,143,089	30,801,570	6,218,948
Receivables, net	1,228,509	73,147	1,301,656	—
Notes receivable, net	875,399	—	875,399	—
Due from other county funds (Note 4)	802,988	1,324	804,312	—
Deposits with others	—	23,963	23,963	—
Total current assets	<u>32,756,876</u>	<u>1,251,470</u>	<u>34,008,346</u>	<u>6,218,948</u>
Noncurrent assets:				
Restricted assets	26,596,649	—	26,596,649	—
Capital assets (Note 3):				
Land	3,687,054	570,830	4,257,884	—
Buildings and improvements, net	2,473,377	8,197,776	10,671,153	—
Equipment, net	2,500,744	129,956	2,630,700	—
Total noncurrent assets	<u>35,257,824</u>	<u>8,898,562</u>	<u>44,156,386</u>	<u>—</u>
Total assets	<u>68,014,700</u>	<u>10,150,032</u>	<u>78,164,732</u>	<u>6,218,948</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	292,679	183,491	476,170	63,189
Salaries and benefits payable	251,268	—	251,268	27,817
Due to other county funds (Note 4)	6,256	404,560	410,816	150
Deposits from others	—	23,963	23,963	—
Claims payable	—	—	—	1,250,000
Bonds, notes, and COPs payable	—	14,600	14,600	—
Total current liabilities	<u>550,203</u>	<u>626,614</u>	<u>1,176,817</u>	<u>1,341,156</u>
Noncurrent liabilities (Note 6):				
Claims payable	—	—	—	2,450,000
Bonds, notes, and COPs payable	—	1,764,386	1,764,386	—
Accrued landfill closure/postclosure care costs (Note 9)	26,596,649	—	26,596,649	—
Total noncurrent liabilities	<u>26,596,649</u>	<u>1,764,386</u>	<u>28,361,035</u>	<u>2,450,000</u>
Total liabilities	<u>27,146,852</u>	<u>2,391,000</u>	<u>29,537,852</u>	<u>3,791,156</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	8,661,175	7,119,576	15,780,751	—
Unrestricted	32,206,673	639,456	32,846,129	2,427,792
Total net assets	<u>\$ 40,867,848</u>	<u>\$ 7,759,032</u>	<u>\$ 48,626,880</u>	<u>\$ 2,427,792</u>

Significant components of receivables and payables have been presented on the face of this statement. This detail may, alternatively, be provided by note disclosure, as discussed in paragraph 13 of Statement 38.

**Common County**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2002**

See Worksheet A.

See Exhibits 18 and 21 for illustrations of optional combining statements for nonmajor funds.

	Enterprise Funds			Internal Service Funds
	Solid Waste Fund	Other Enterprise Funds	Total	
<b>OPERATING REVENUES</b>				
Charges for services	\$ 10,444,407	\$ 512,632	\$ 10,957,039	\$ 7,155,511
Miscellaneous	39,040	5,229	44,269	31,139
Total operating revenues	<u>10,483,447</u>	<u>517,861</u>	<u>11,001,308</u>	<u>7,186,650</u>
<b>OPERATING EXPENSES</b>				
Salaries and benefits	2,514,815	—	2,514,815	204,479
Services and supplies	3,352,301	1,080,926	4,433,227	1,430,966
Landfill closure/postclosure care costs	1,921,626	—	1,921,626	—
Insurance premiums	—	—	—	4,323,686
Claims	—	—	—	572,763
Depreciation	706,227	367,634	1,073,861	—
Total operating expenses	<u>8,494,969</u>	<u>1,448,560</u>	<u>9,943,529</u>	<u>6,531,894</u>
Operating income (loss)	<u>1,988,478</u>	<u>(930,699)</u>	<u>1,057,779</u>	<u>654,756</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Sales and use taxes	—	693,521	693,521	—
Special assessments	—	23,294	23,294	—
Investment earnings	2,712,221	53,723	2,765,944	270,139
Rents and concessions	26,800	3,803	30,603	—
Interest expense	—	(115,565)	(115,565)	—
Total nonoperating revenue (expenses)	<u>2,739,021</u>	<u>658,776</u>	<u>3,397,797</u>	<u>270,139</u>
Income (loss) before transfers	<u>4,727,499</u>	<u>(271,923)</u>	<u>4,455,576</u>	<u>924,895</u>
<b>TRANSFERS OUT</b>				
Change in net assets	<u>(106,000)</u>	<u>—</u>	<u>(106,000)</u>	<u>—</u>
Change in net assets	<u>4,621,499</u>	<u>(271,923)</u>	<u>4,349,576</u>	<u>924,895</u>
Total net assets—beginning	<u>36,246,349</u>	<u>8,030,955</u>	<u>44,277,304</u>	<u>1,502,897</u>
Total net assets—ending	<u>\$ 40,867,848</u>	<u>\$ 7,759,032</u>	<u>\$ 48,626,880</u>	<u>\$ 2,427,792</u>

**Common County  
Statement of Cash Flows  
Proprietary Funds  
For the Year Ended June 30, 2002**

See Exhibits 19 and 22 for illustrations of optional combining statements for nonmajor funds.

See Worksheet A.

	Enterprise Funds			Internal Service Funds
	Solid Waste Fund	Other Enterprise Funds	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 9,796,624	\$ 509,689	\$ 10,306,313	\$ 5,002,888
Payments to suppliers	(1,570,396)	(837,798)	(2,408,194)	(5,934,964)
Payments to employees	(2,586,557)	—	(2,586,557)	(216,301)
Internal activity—payments from (to) other funds	(1,643,657)	(214,688)	(1,858,345)	1,785,661
Other receipts	39,040	5,229	44,269	31,139
Net cash provided (used) by operating activities	4,035,054	(537,568)	3,497,486	668,423
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Property, sales, and use taxes	—	716,815	716,815	—
Rents and concessions	26,800	3,803	30,603	—
Transfers out	(106,000)	—	(106,000)	—
Interfund loans—proceeds and collections	396,750	33,678	430,428	150
Net cash provided by noncapital financing activities	317,550	754,296	1,071,846	150
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchases and construction of capital assets	(3,264,207)	—	(3,264,207)	—
Principal paid on capital debt	—	(21,272)	(21,272)	—
Interest paid on capital debt	—	(115,565)	(115,565)	—
Net cash used by capital and related financing activities	(3,264,207)	(136,837)	(3,401,044)	—
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest and dividends	2,712,221	53,723	2,765,944	270,139
Net increase in cash and cash equivalents	3,800,618	133,614	3,934,232	938,712
Balances—beginning of the year	52,646,011	1,019,422	53,665,433	5,280,236
Balances—end of the year	\$ 56,446,629	\$ 1,153,036	\$ 57,599,665	\$ 6,218,948
Displayed as:				
Cash	\$ 191,499	\$ 9,947	\$ 201,446	\$ —
Pooled cash and investments	29,658,481	1,143,089	30,801,570	6,218,948
Restricted assets	26,596,649	—	26,596,649	—
	\$ 56,446,629	\$ 1,153,036	\$ 57,599,665	\$ 6,218,948
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>				
Operating income (loss)	\$ 1,988,478	\$ (930,699)	\$ 1,057,779	\$ 654,756
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	706,227	367,634	1,073,861	—
Landfill closure/postclosure care expense	1,921,626	—	1,921,626	—
Change in assets and liabilities:				
Receivables, net	(647,783)	(2,943)	(650,726)	316,101
Prepaid items	—	—	—	4,819
Accounts and other payables	66,506	28,440	94,946	(307,253)
Net cash provided (used) by operating activities	\$ 4,035,054	\$ (537,568)	\$ 3,497,486	\$ 668,423

Common County  
Statement of Fiduciary Assets and Liabilities  
Fiduciary Funds  
June 30, 2002

	<u>Agency Funds</u>
<b>ASSETS</b>	
Temporary investment in treasury pool	\$ 314,457,766
Due from other funds	53,481
Due from other governments	<u>1,830,305</u>
Total assets	<u>316,341,552</u>
<b>LIABILITIES</b>	
Accounts payable	15,817,240
Due to other governments	245,605,743
Due to others	<u>54,918,569</u>
Total liabilities	<u>316,341,552</u>
<b>NET ASSETS</b>	<u><u>\$ —</u></u>

See Exhibit 23 for an illustration of an optional combining statement.

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# **Notes to the Financial Statements**

# [Completely Superseded]

Common County

## NOTES TO THE FINANCIAL STATEMENTS

June 30, 2002

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# [Completely Superseded]

## NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 1-A. Reporting Entity

The accompanying financial statements present the activities of Common County (the County) and its four component units, legally separate organizations for which the County is financially accountable. These component units are so intertwined with the County that they are, in substance, the same as the County and, therefore, are blended and reported as if they were part of the County. The County Board of Supervisors also serves as the governing board for the Redevelopment Agency, the Sewer Maintenance District, and the Flood Control District. Although the board members of the Public Facilities Corporation are appointed by the County Board, the corporation exists solely to finance the acquisition and construction of equipment and facilities for the County.

<u>Component Unit</u>	<u>Included in the Reporting Entity Because:</u>	<u>Separate Financial Statements</u>
County Redevelopment Agency (CRA): conducts capital improvement projects for sewer and storm-drainage systems and makes community improvements such as youth and community facilities, sidewalks, and graffiti abatement	Board of Supervisors composes board of CRA	Available at the County Clerk's Office in the Courthouse
County Sewer Maintenance District (CSMD): develops, expands, and maintains the CSMD wastewater treatment and disposal facility	Board of Supervisors composes board of CSMD	Available at the County Clerk's Office in the Courthouse
County Flood Control District (CFCD): provides flood control-related services to County residents	Board of Supervisors composes board of CFCD	Available at the County Clerk's Office in the Courthouse
County Public Facilities Corporation (CPFC): acquires equipment and facilities financed by the proceeds of borrowings for lease to the County	County appoints and may remove members of board of CPFC	CPFC Offices 6766 Mesquite Dr. County Seat, ST 92277

### 1-B. Basis of Presentation, Basis of Accounting

#### Basis of Presentation

*Government-wide Statements:* The statement of net assets and the statement of activities display information about the primary government (the County) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the County. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the County and for each function of the County'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 expense allocations that have been made in the funds have been reversed for the

# [Completely Superseded]

statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) 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 County's funds, including its fiduciary funds and blended component units. Separate statements for each fund category—*governmental*, *proprietary*, and *fiduciary*—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The County reports the following major governmental funds:

*General Fund.* This is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

*Realignment Fund.* This fund accounts for the County's matching requirements for federal awards, sales tax revenues, and transfers to/from the General Fund associated with certain health and welfare expenditures.

*CPFC Debt Service Fund.* This fund accounts for the resources accumulated and payments made for principal and interest on general long-term debt associated with equipment and facilities leased to the County.

The County reports the following major enterprise fund:

*Solid Waste Fund.* This fund accounts for the operation, maintenance, and development of various landfills and disposal sites.

The County reports the following fund types:

*Internal Service Funds.* These funds account for general liability and malpractice, and workers' compensation insurance coverages provided to other departments on a cost-reimbursement basis.

*Agency Funds.* These funds account for monies held on behalf of school districts, special districts, and retirement boards that use the County as a depository; property taxes collected on behalf of other governments; and surety bonds and performance deposits.

## **Measurement Focus, Basis of Accounting**

*Government-wide, Proprietary, and Fiduciary Fund Financial Statements.* The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using 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 County gives (or receives) value without directly

# [Completely Superseded]

receiving (or giving) equal value in exchange, 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 Fund Financial Statements.* 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 County considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property taxes, sales taxes, franchise taxes, licenses, and interest are considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the County funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the County's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

All governmental and business-type activities and enterprise funds of the County follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

## **1-C. Assets, Liabilities, and Equity**

### **Deposits and Investments**

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. The pool's investments are reported at fair value at June 30, 2002, based on market prices. The individual funds' portions of the pool's fair value are presented as "Pooled Cash and Investments." Earnings on the pooled funds are apportioned and paid or credited to the funds quarterly based on the average daily balance of each participating fund.

### **Cash and Cash Equivalents**

The County considers cash and cash equivalents in proprietary funds to be cash on hand and demand deposits. In addition, because the Treasury Pool is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

### **Receivables and Payables**

All trade and property tax receivables are shown net of an allowance for uncollectibles.

Notes receivable in governmental funds consist of rehabilitation and redevelopment loans that are generally not expected or scheduled to be collected in the subsequent year.

# [Completely Superseded]

## Property Tax Calendar

The County is responsible for the assessment, collection, and apportionment of property taxes for all jurisdictions including the schools and special districts within the County. The Board of Supervisors levies property taxes as of September 1 on property values assessed on July 1. Secured property tax payments are due in two equal installments. The first is generally due November 1 and is delinquent with penalties on December 10, and the second is generally due on February 1 and is delinquent with penalties on April 10. Secured property taxes become a lien on the property on January 1.

## Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

## Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2001 consist of the road network assets that were acquired or that received substantial improvements subsequent to July 1, 1980 and are reported at estimated historical cost using deflated replacement cost. The County's other major infrastructure network—bridges—has not yet been reported. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	50
Building improvements	20
Vehicles	2–15
Office equipment	3–15
Computer equipment	3–15

## Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary fund statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

# [Completely Superseded]

## NOTE 2—DEPOSITS AND INVESTMENTS

### 2-A. Summary of Deposit and Investment Balances

Following is a reconciliation of the County's deposit and investment balances as of June 30, 2002:

	<u>Pooled Cash and Investments</u>	<u>Other</u>	<u>Total</u>
Bank deposits	\$ 11,600,177	\$ 80,373	\$ 11,680,550
Investments	398,129,103	29,350,004	427,479,107
Accrued interest	4,747,998	—	4,747,998
Total	<u>\$414,477,278</u>	<u>\$ 29,430,377</u>	<u>\$443,907,655</u>

  

	<u>Government-wide Statement of Net Assets</u>	<u>Fiduciary Funds Statement of Net Assets</u>	<u>Total</u>
Pooled cash and investments	\$ 85,798,216	\$314,457,766	\$400,255,982
Investments	7,455,708	—	7,455,708
Restricted assets (noncurrent)	36,195,965	—	36,195,965
Total	<u>\$129,449,889</u>	<u>\$314,457,766</u>	<u>\$443,907,655</u>

### 2-B. Cash Deposits

As of June 30, 2002, the carrying amount of the County's bank deposits was \$11,680,550 and the respective bank balances totaled \$17,635,912. Of the total bank balance, \$694,514 was insured through the Federal Depository Insurance Corporation (FDIC). The remaining \$16,941,398 was collateralized with pooled securities held by the financial institutions' trust departments. These securities are held in the name of the financial institution and not that of the County.

### 2-C. Investments

The County's investment policy, in compliance with state statutes, authorizes the Treasurer to invest in the following:

- Bankers' acceptances eligible for purchase by the Federal Reserve System
- Bonds issued by Common County
- Commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record
- Medium-term corporate notes rated "A" or better
- Mutual funds
- Negotiable certificates of deposit
- Obligations of federal agencies or U.S. government-sponsored enterprises
- Obligations of the State
- Obligations of the U.S. Treasury
- Repurchase and reverse repurchase agreements

# [Completely Superseded]

The County's investments have been classified into the following three categories of credit risk:

- (1) Insured or registered, or securities held by the County or its agent in the County's name
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the County's name
- (3) Uninsured and unregistered, with securities held by the counterparty, or by the counterparty's trust department or agent, but not in the County's name.

The following schedule classifies the investments of the County as of June 30, 2002, into the above noted categories:

	<b>Category</b>			<b>Carrying Amount</b>
	<b>1</b>	<b>2</b>	<b>3</b>	
U.S. Treasury obligations	\$ 28,728,527	\$ —	\$ —	\$ 28,728,527
Federal agency obligations	110,273,759	—	2,700,000	112,973,759
Municipal obligations	23,896,279	—	—	23,896,279
Medium-term corporate notes and bonds	62,060,869	—	—	62,060,869
Negotiable certificates of deposit	—	25,000,000	—	25,000,000
Commercial paper	19,789,616	19,541,718	—	39,331,334
Repurchase agreements	74,509,519	—	—	74,509,519
	<u>\$319,258,569</u>	<u>\$44,541,718</u>	<u>\$2,700,000</u>	<u>366,500,287</u>
Investment in money market funds				30,978,820
Investment in State Local Agency Investment Fund				<u>30,000,000</u>
Total investments				<u>\$427,479,107</u>

## NOTE 3—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2002, was as follows:

	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balances</b>
<b>Governmental activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 6,955,661	\$ —	\$ —	\$ 6,955,661
Construction in progress	35,129,600	28,721,108	(7,796,589)	56,054,119
Total capital assets not being depreciated	<u>42,085,261</u>	<u>28,721,108</u>	<u>(7,796,589)</u>	<u>63,009,780</u>
<i>Capital assets being depreciated:</i>				
Road network	1,063,763,593	6,530,027	(4,486,997)	1,065,806,623
Buildings and improvements	100,103,193	7,796,589	(164,740)	107,735,042
Equipment	13,946,442	401,574	(489,781)	13,858,235
Vehicles	22,709,210	6,401,124	(1,407,212)	27,703,122
Total capital assets being depreciated	<u>1,200,522,438</u>	<u>21,129,314</u>	<u>(6,548,730)</u>	<u>1,215,103,022</u>
Less accumulated depreciation for:				
Road network	449,691,311	35,791,935	(4,486,997)	480,996,249
Buildings and improvements	29,726,759	2,758,493	(164,740)	32,320,512
Equipment	3,815,757	1,524,406	(489,781)	4,850,382
Vehicles	8,332,992	4,155,468	(1,407,212)	11,081,248
Total accumulated depreciation	<u>491,566,819</u>	<u>44,230,302</u>	<u>(6,548,730)</u>	<u>529,248,391</u>
Total capital assets being depreciated, net	<u>708,955,619</u>	<u>(23,100,988)</u>	<u>—</u>	<u>685,854,631</u>
Governmental activity capital assets, net	<u>\$ 751,040,880</u>	<u>\$ 5,620,120</u>	<u>\$(7,796,589)</u>	<u>\$ 748,864,411</u>

# [Completely Superseded]

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Business-type activities:</b>				
<b>Solid waste:</b>				
Land	\$ 3,187,054	\$ 500,000	\$ —	\$ 3,687,054
<i>Capital assets being depreciated:</i>				
Buildings and improvements	22,046,423	2,625,997	(1,312,999)	23,359,421
Equipment	4,124,626	138,210	(69,105)	4,193,731
Total capital assets being depreciated	<u>26,171,049</u>	<u>2,764,207</u>	<u>(1,382,104)</u>	<u>27,553,152</u>
Less accumulated depreciation for:				
Buildings and improvements	21,634,061	564,982	(1,312,999)	20,886,044
Equipment	1,620,847	141,245	(69,105)	1,692,987
Total accumulated depreciation	<u>23,254,908</u>	<u>706,227</u>	<u>(1,382,104)</u>	<u>22,579,031</u>
Total capital assets being depreciated, net	<u>2,916,141</u>	<u>2,057,980</u>	<u>—</u>	<u>4,974,121</u>
Solid waste capital assets, net	<u>6,103,195</u>	<u>2,557,980</u>	<u>—</u>	<u>8,661,175</u>
<b>Other business-type activity programs:</b>				
Land	570,830	—	—	570,830
<i>Capital assets being depreciated:</i>				
Buildings and improvements	11,764,288	—	—	11,764,288
Equipment	816,967	—	—	816,967
Total capital assets being depreciated	<u>12,581,255</u>	<u>—</u>	<u>—</u>	<u>12,581,255</u>
Less accumulated depreciation for:				
Buildings and improvements	3,272,405	294,107	—	3,566,512
Equipment	613,484	73,527	—	687,011
Total accumulated depreciation	<u>3,885,889</u>	<u>367,634</u>	<u>—</u>	<u>4,253,523</u>
Total capital assets, being depreciated, net	<u>8,695,366</u>	<u>(367,634)</u>	<u>—</u>	<u>8,327,732</u>
Other enterprise funds capital assets, net	<u>9,266,196</u>	<u>(367,634)</u>	<u>—</u>	<u>8,898,562</u>
Business-type activities capital assets, net	<u>\$15,369,391</u>	<u>\$2,190,346</u>	<u>\$ —</u>	<u>\$17,559,737</u>

Depreciation expense was charged to functions as follows:

General government	\$ 2,214,307
Public protection:	
District attorney	256,826
Probation	184,592
Sheriff and coroner	1,206,739
Trial court	120,386
Fire protection	1,251,437
Other	240,773
Public ways and facilities, including depreciation of general infrastructure assets	37,174,910
Health and sanitation	948,788
Public assistance	345,985
Education	108,893
Culture and recreation	176,666
	<u>\$44,230,302</u>

Depreciation expense charged to separately identifiable business-type activities is evident on the face of the fund financial statements, and therefore is not included here.

**NOTE 4—INTERFUND BALANCES AND ACTIVITY**

**4-A. Balances Due to/from Other Funds**

Balances due to/from other funds at June 30, 2002, consist of the following:

\$1,764,689	Due to the General Fund from other governmental funds representing short-term loans
2,070,538	Due to the General Fund from the Realignment Fund for transfer of health and welfare program federal receipts
1,087,933	Due to other governmental funds from the General Fund for capital projects expenditures
<u>1,498,262</u>	Other balances
<u>\$6,421,422</u>	Total

Summary of balances due from other funds reported in fund financial statements:

\$5,563,629	Due from other funds, Balance Sheet—Governmental Funds
804,312	Due from other funds, Statement of Net Assets—Proprietary Funds
53,481	Due from other funds, Statement of Fiduciary Assets and Liabilities—Fiduciary Funds
<u>\$6,421,422</u>	Total

This summary of balances is not a disclosure required by Statement 38. It is included to assist in identifying the balances in the fund financial statements to which the disclosure above relates.

**4-B. Transfers to/from Other Funds**

Transfers to/from other funds at June 30, 2002, consist of the following:

\$12,215,696	From the General Fund to the Realignment Fund to demonstrate maintenance of effort
5,628,134	From the General Fund to the Public Facility Corporation Debt Service Fund to provide resources for repayment of certificates of participation
9,668,533	From the General Fund to other governmental funds to pay debt service on health insurance financing bonds
3,505,669	From the General Fund to other governmental funds to pay debt service on pension obligation bonds
11,455,486	From the General Fund to other governmental funds to supplement other funds sources
36,208,484	From the Realignment Fund to the General Fund for reimbursement of eligible realignment expenditures
18,005,463	Between other governmental funds to supplement other funds sources
<u>2,092,038</u>	Other transfers
<u>\$98,779,503</u>	Total

**NOTE 5—SHORT-TERM DEBT**

The County issued and repaid \$20,000,000 of tax revenue anticipation notes during the year ended June 30, 2002. The purpose of this short-term debt is to provide liquidity for governmental operations financed by property taxes, which are collected in semiannual payments due November 1 and February 1.

# [Completely Superseded]

## NOTE 6—LONG-TERM OBLIGATIONS

The County issues certificates of participation (COPs) to provide funds for the acquisition and construction of major capital facilities. COPs have been issued for both governmental and business-type activities. In addition, COPs have been issued to refund earlier certificates with higher interest rates. Pension bonds were issued to fund the net actuarial accrued liability at June 30, 2000. Other bonds and notes have been issued to provide funds for a redevelopment project and for sewer and water projects.

### 6-A. Long-term Obligation Activity

Changes in long-term obligations for the year ended June 30, 2002, are as follows:

	<u>July 1, 2001</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2002</u>
<b>Governmental activities:</b>				
Claims	\$ 3,509,000	\$ 572,763	\$ (381,763)	\$ 3,700,000
Toxic clean-up agreement	2,400,000	—	(1,000,000)	1,400,000
COPs	87,475,000	46,438,415	(45,145,000)	88,768,415
Deferred amount on refunding	—	(4,347,462)	465,800	(3,881,662)
Unamortized premiums	—	2,411,557	(180,167)	2,231,390
Pension obligation bonds	41,460,000	—	(385,000)	41,075,000
Health insurance financing bonds	21,500,000	—	(8,970,000)	12,530,000
Notes	941,918	—	—	941,918
Capital leases	7,993,230	5,200,093	(1,792,441)	11,400,882
Compensated absences	10,367,635	3,452,422	(3,536,936)	10,283,121
	<u>\$175,646,783</u>	<u>\$53,727,788</u>	<u>\$(60,925,507)</u>	<u>\$168,449,064</u>
<b>Business-type activities:</b>				
<b>Other enterprise funds:</b>				
COPs	\$ 1,735,452	\$ —	\$ (21,272)	\$ 1,714,180
Notes	64,806	—	—	64,806
	<u>\$ 1,800,258</u>	<u>\$ —</u>	<u>\$ (21,272)</u>	<u>\$ 1,778,986</u>

If the statement of net assets had not already disclosed the portion of each class of long-term liability that is due within one year of the statement date as required by Statement 34, paragraph 119c, that detail would have been provided here.

Compensated absences typically have been liquidated in the general and other governmental funds. Claims liabilities typically have been liquidated in the general and internal service funds. Payments under the toxic clean-up agreement have been made by the General Fund.

# [Completely Superseded]

## 6-B. Debt Service Requirements

Debt service requirements on long-term debt at June 30, 2002, are as follows:

<u>Year Ending June 30,</u>	<b>Governmental Activities</b>			
	<b>COPs</b>		<b>Bonds and Notes</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2003	\$ 3,050,000	\$ 4,365,711	\$ 8,220,000	\$ 5,012,409
2004	3,300,000	3,514,429	4,810,000	4,272,883
2005	3,550,000	3,372,429	340,000	3,302,853
2006	3,800,000	3,220,429	400,000	3,272,053
2007	4,050,000	3,058,429	460,000	3,236,553
2008–2012	24,000,000	12,512,143	40,025,000	9,385,691
2013–2017	27,380,000	7,118,943	291,918	78,659
2018–2022	19,638,415	2,408,607	—	—
	<u>\$88,768,415</u>	<u>\$39,571,120</u>	<u>\$54,546,918</u>	<u>\$28,561,101</u>

  

<u>Year Ending June 30,</u>	<b>Business-type Activities</b>			
	<b>COPs</b>		<b>Bonds and Notes</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2003	\$ 14,000	\$ 84,499	\$ 600	\$ 4,573
2004	14,000	83,799	832	4,543
2005	14,000	83,099	1,064	4,501
2006	14,000	82,399	1,296	4,448
2007	14,000	81,699	1,528	4,383
2008–2012	70,000	400,795	11,120	20,960
2013–2017	70,000	394,495	16,920	19,286
2018–2022	70,000	383,995	23,120	17,270
2023–2028	1,434,180	260,993	8,326	3,035
	<u>\$ 1,714,180</u>	<u>\$ 1,855,773</u>	<u>\$ 64,806</u>	<u>\$ 82,999</u>

## 6-C. Advance Refunding of Debt

On October 21, 2001, COPs were issued to refund portions of earlier issues. Proceeds from the sale were placed in an irrevocable trust that is to be used to service the future debt requirements of the (old) debt. This refunding resulted in an economic gain as well as savings from refunding. The economic gain realized in this refunding was \$1,757,028 and the savings resulting from the refunding was as follows:

Cash flow requirements to service (old) debt	\$ 70,650,790
Less: Cash flow requirements for new debt	<u>(68,079,345)</u>
Net savings from refunding	<u>\$ 2,571,445</u>

In prior years, the County defeased certain COPs by placing the proceeds of new COPs in an irrevocable trust to provide for all future debt service payments on the old COPs. Accordingly, the trust account assets and the liability for the defeased COPs are not included in the County's financial statements. At June 30, 2002, \$78,040,000 of bonds outstanding are considered defeased, which includes debt defeased during this current year.

# [Completely Superseded]

## 6-D. Capital Leases

The County leases buildings and equipment with a historical cost and accumulated amortization of \$14,452,041 and \$4,680,115, respectively, under capital lease arrangements. Future minimum lease payments at June 30, 2002, are as follows:

<u>Fiscal Year Ending June 30,</u>	
2003	\$ 3,261,946
2004	3,040,720
2005	2,457,417
2006	1,764,332
2007	1,392,132
2008–2012	<u>937,833</u>
Total minimum lease payments	12,854,380
Less: deferred interest	<u>(1,453,498)</u>
Present value minimum lease payments	<u>\$11,400,882</u>

## NOTE 7—CONTRIBUTIONS TO PENSION PLAN

### Plan Description

The County Employees' Retirement Association was established July 1, 1945, under the provisions of the County Employees Retirement Act of 1937. The Association operates as an agent multiple-employer defined benefit plan and provides retirement, disability, and death benefits for qualified employees of the County and its component units. The Association issues a separate comprehensive annual financial report. Copies of the annual financial report may be obtained from the County Employees' Retirement Association.

### Funding Policy

Active plan members in the Association are required to contribute a percentage of their annual covered salary based upon age at entry into the plan and plan tier. Currently, General Tier I members contribute between 4.87% and 6.48% of salary. General Tier II and III members contribute between 6.07% and 8.78% of covered salary. Safety Tier I members contribute between 6.05% and 7.87% of salary. Safety Tier II and III members contribute between 8.75% and 11.37% of covered salary. Due to a collective-bargaining agreement, the County has a legal obligation to contribute 50% of the contributions required for active Tier I plan members. The rates for Tier I members reflect the County "pickup." The required employer aggregate contribution rate for all members combined in fiscal 2001–2002 was 8.1% of total payroll.

### Annual Pension Cost and Pension Assets

The County's annual pension cost and pension assets for the year ended June 30, 2002, were as follows:

Annual required contribution	\$ 5,202,000
Interest on pension assets	(3,278,720)
Adjustment to the annual required contribution	<u>4,003,720</u>
Annual pension cost	5,927,000
Contributions made	<u>5,202,000</u>
Decrease in pension assets	(725,000)
Pension assets, beginning of year	<u>40,984,000</u>
Pension assets, end of year	<u>\$40,259,000</u>

# [Completely Superseded]

The annual required contribution for the year ended June 30, 2002, was determined as part of the June 30, 2000, actuarial valuation using the entry age actuarial cost method with the contributions determined as a percentage of pay. The actuarial assumptions included (a) 8.0% investment rate of return (net of administrative expenses), (b) projected salary increases of 5.8%, and (c) 3.0% cost-of-living adjustment. Both (a) and (b) include an inflation component of 4.75%. The actuarial value of the Association's assets was determined using a technique that smooths the effect of short-term volatility in the market value of investments over a five-year period. The Association's unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll over a fifteen-year period on an open basis.

## Employer Contributions

<u>Year Ended June 30,</u>	<u>Annual Pension Cost</u>	<u>Contribution</u>	<u>Percentage Contributed</u>	<u>Pension Assets</u>
2000	\$7,328,000	\$48,812,000	666%	\$41,484,000
2001	7,926,000	7,541,000	95%	40,984,000
2002	5,927,000	5,202,000	88%	42,590,000

The County's contributions to the plan in 2000 included \$41,484,000 from the proceeds of the pension obligation bonds, Series 2000. The County's contributions in subsequent years were equal to the annual required contributions, which were less than the annual pension cost as a result of the pension obligation bond transaction.

## NOTE 8—RISK MANAGEMENT

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The insurance internal service funds account for and finance the County's risks. Premiums are paid into the insurance funds by all other funds and are available to pay claims, claim reserves, and administrative costs of the program. The County purchases commercial insurance for risks related to injuries to employees. For all other risks of loss, the County has purchased an excess coverage insurance policy covering individual claims in excess of \$1,000,000 and retains the risk of loss for individual claims below \$1,000,000. Amounts of settlements have not exceeded insurance coverage in the past three years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). Claim liabilities are based upon the estimated ultimate cost of settling the claims including specific, incremental claim adjustment expenses, salvage, and subrogation and considering the effects of inflation and recent claim settlement trends including frequency and amount of payouts and other economic and social factors. The liability for claims and judgments is reported in the insurance funds.

Changes in the balances of claims liabilities during the last two years ended June 30, are as follows:

	<u>2002</u>	<u>2001</u>
Unpaid claims, beginning	\$3,509,000	\$3,410,000
Claims incurred	572,763	465,359
Claims paid	(381,763)	(366,359)
Unpaid claims, ending	<u>\$3,700,000</u>	<u>\$3,509,000</u>

# [Completely Superseded]

## NOTE 9—LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and Federal laws and regulations require that the County Refuse Disposal place a final cover on its landfill sites and perform certain maintenance and monitoring functions at the landfill sites for a minimum of thirty years after closure. In addition to operating expenses related to current activities of the landfill sites, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfills no longer accept waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfills used during the year. The estimated liability for landfill closure and postclosure care costs is \$26,596,649 as of June 30, 2002, which is based on 54 percent usage (filled) of the landfill. It is estimated that an additional \$23,048,197 will be recognized as closure and postclosure care expenses between the date of the balance sheet and the date the landfills are currently expected to be filled to capacity (the year 2023). The estimated total current cost of the landfill closure and postclosure care (\$49,644,846) is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfills were acquired as of June 30, 2002. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

In addition, the County is required by State and Federal laws and regulations to make annual contributions to finance closure and postclosure care. The County is in compliance with these requirements, and at June 30, 2002, investments of \$26,596,649 are part of the pooled funds held by the County Treasurer and are presented on the Solid Waste Fund statement of net assets as restricted assets.

## NOTE 10—COMMITMENTS AND CONTINGENCIES

**Litigation:** The County is involved in litigation regarding protested tax assessments. The County's portion of property taxes on the contested assessments as of June 30, 2002, was \$3,000,000. In the opinion of Legal Counsel for the County, a large majority of the appeals will be withdrawn by the applicants or settled by a stipulation of value, and the County's Tax Assessor will prevail in the majority of appeals.

**Termination Fee:** The County is contingently liable for an early-termination fee under a contract with a private company to manage the County's data-processing system through the year ended June 30, 2006. The termination fee is computed based on the level of services received and payments made by the County over a period of ten years beginning July 1996. The early-termination fee at the end of each fiscal year for the remaining five years would be as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2002	\$1,772,000
2003	904,250
2004	717,400
2005	566,800
2006	415,200

## NOTE 11—SUBSEQUENT EVENTS

On August 5, 2002, \$20,000,000 of tax revenue anticipation notes were issued at 4.25 percent with a maturity date of June 30, 2003.

Subsequent to year-end, a capital lease for \$12,500,000 was issued evidencing proportionate interest in vehicle titles and interest of the owner thereof in lease payments to be made by the County to the leasing corporation.

## [Completely Superseded]

The foregoing illustrative note disclosures are not a comprehensive illustration of all disclosure requirements. In other circumstances, governments may be required to provide additional disclosures related to the following:

- Accounting policies
- Bond, revenue, and tax anticipation notes
- Claims and judgments
- Commitments and contingencies
- Component units
- Conduit debt
- Deficit fund balances
- Demand bonds
- Deposits and investments
- Derivatives
- Designations
- Encumbrances
- External investment pools
- Interfund eliminations
- Joint ventures and jointly governed organizations
- Nonexchange transactions that are not measurable
- Operating leases
- On-behalf payments
- Other postemployment benefits
- Pension plans and activities
- Related organizations
- Related-party transactions
- Reporting entity considerations
- Repurchase and reverse repurchase agreements
- Securities lending
- Segment information
- Special assessments
- Termination benefits
- Violations of legal provisions

[Completely Superseded]

# **Required Supplementary Information**

**Common County  
Budgetary Comparison Schedule  
General Fund  
For the Year Ended June 30, 2002**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 29,669,679	\$ 31,231,241	\$ 31,312,479	\$ 81,238
Licenses and permits	5,392,960	5,676,800	5,829,552	152,752
Fines, forfeitures, and penalties	5,883,799	6,193,473	6,718,777	525,304
Interest, rents, and concessions	2,998,037	3,155,828	3,490,156	334,328
Intergovernmental	238,236,995	250,715,529	230,436,074	(20,279,455)
Charges for services	40,264,819	42,384,020	39,868,067	(2,515,953)
Miscellaneous	5,719,354	6,020,373	4,754,254	(1,266,119)
Total revenues	<u>328,165,643</u>	<u>345,377,264</u>	<u>322,409,359</u>	<u>(22,967,905)</u>
<b>EXPENDITURES</b>				
Current:				
General government:				
Assessor	2,708,683	2,851,245	2,728,917	122,328
Auditor-controller	1,028,213	1,008,052	927,090	80,962
Board of supervisors	557,709	587,062	580,669	6,393
County administrative	737,314	722,857	698,787	24,070
County counsel	4,260,945	4,485,205	4,426,039	59,166
Information technology	1,280,908	1,255,792	1,074,122	181,670
Miscellaneous administration	2,746,957	2,891,534	2,254,920	636,614
Personnel	479,781	470,374	408,213	62,161
Purchasing	3,088	3,250	2,309	941
Resource management	3,940,377	3,863,115	3,661,319	201,796
Retirement	761,440	801,516	643,754	157,762
Treasurer-tax collector	1,560,730	1,530,127	1,404,499	125,628
Public protection:				
Agriculture commissioner	3,606,052	3,795,844	3,597,080	198,764
Assessor	1,291,266	1,265,947	1,133,311	132,636
Auditor-controller	1,112,467	1,171,018	1,045,741	125,277
District attorney	23,139,324	22,685,612	20,026,319	2,659,293
Drug and alcohol abuse testing	66,500	70,000	18,962	51,038
Local law enforcement	890,581	873,119	794,008	79,111
Miscellaneous administration	1,742,414	1,834,120	925,729	908,391
Multi-agency gang violation program	638,995	626,466	365,346	261,120
Probation	14,460,674	15,221,762	14,294,893	926,869
Public defender	4,389,390	4,303,324	4,136,480	166,844
Resource management	4,840,736	5,095,512	4,380,393	715,119
Rural crime	806,268	790,459	729,753	60,706
Sheriff-coroner	39,891,405	41,990,953	41,348,203	642,750
Trial courts	9,117,370	8,938,598	8,683,811	254,787
Health and sanitation:				
District attorney	145,033	152,666	141,230	11,436
Health and human services	63,107,436	65,791,604	58,547,745	7,243,859
Miscellaneous administration	510,723	537,603	469,843	67,760
Public assistance:				
Health and human services	165,275,761	173,972,485	156,013,910	17,958,575
Miscellaneous administration	470,214	462,994	462,637	357
Education:				
Cooperative extension	446,010	469,484	469,172	312
Culture and recreation:				
Parks and recreation	1,508,342	1,587,728	1,390,051	197,677
Debt service:				
Principal payments	1,777,581	1,777,581	1,776,859	722
Interest and fiscal charges	406,308	406,308	376,004	30,304
Total expenditures	<u>359,706,995</u>	<u>374,291,316</u>	<u>339,938,118</u>	<u>34,353,198</u>
Excess (deficiency) of revenues over expenditures	(31,541,352)	(28,914,052)	(17,528,759)	11,385,293
<b>OTHER FINANCING SOURCES (USES)</b>				
Capital leases	8,877,698	8,877,698	3,256,248	(5,621,450)
Transfers in	37,300,522	37,260,172	37,300,522	40,350
Transfers out	(42,473,518)	(39,466,682)	(42,473,518)	(3,006,836)
Total other financing sources (uses)	<u>3,704,702</u>	<u>6,671,188</u>	<u>(1,916,748)</u>	<u>(8,587,936)</u>
Net change in fund balances	(27,836,650)	(22,242,864)	(19,445,507)	2,797,357
Fund balances—beginning	59,665,291	62,671,327	62,671,327	—
Fund balances—ending	<u>\$ 31,828,641</u>	<u>\$ 40,428,463</u>	<u>\$ 43,225,820</u>	<u>\$ 2,797,357</u>

**Common County  
Budgetary Comparison Schedule  
Realignment Fund  
For the Year Ended June 30, 2002**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUES</b>				
Taxes	\$ 25,000,000	\$ 24,000,000	\$ 23,992,788	\$ (7,212)
Total revenues	<u>25,000,000</u>	<u>24,000,000</u>	<u>23,992,788</u>	<u>(7,212)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	15,000,000	13,200,000	13,215,696	15,696
Transfers out	<u>(40,000,000)</u>	<u>(37,200,000)</u>	<u>(37,208,484)</u>	<u>(8,484)</u>
Total other financing sources (uses)	<u>(25,000,000)</u>	<u>(24,000,000)</u>	<u>(23,992,788)</u>	<u>7,212</u>
Net change in fund balances				
Fund balances—beginning	—	—	—	—
Fund balances—ending	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

**Common County  
Schedule of Funding Progress  
Retirement Plan**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Excess Assets over AAL (a-b)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>Excess as a % of Covered Payroll [(a-b)/c]</u>
June 30, 2000	\$ 368,215,000	\$ 365,729,000	\$ 2,486,000	100.7%	\$ 99,204,000	2.5%
June 30, 2001	402,672,200	398,156,000	4,516,200	101.1%	112,826,000	4.0%
June 30, 2002	437,885,976	435,134,000	2,751,976	100.6%	128,055,000	2.1%

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# **Supplementary Information (Optional)**

**Common County  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2002**

	<b>Special Revenue Funds (Exhibit 13)</b>	<b>Debt Service Funds (Exhibit 15)</b>	<b>Capital Project Funds (Exhibit 15)</b>	<b>Total Nonmajor Governmental Funds (Exhibit 3)</b>
<b>ASSETS</b>				
Pooled cash and investments	\$ 6,238,938	\$ 677,006	\$ 2,388,039	\$ 9,303,983
Investments, plus accrued interest	—	—	3,354,153	3,354,153
Accounts receivable, net	—	1,653,004	47,247	1,700,251
Taxes receivable, net	500,000	—	—	500,000
Notes receivable, net	538,004	—	—	538,004
Due from other county funds	28,037	—	1,132,919	1,160,956
Due from other governments	6,045,190	—	266,997	6,312,187
Inventories	229,084	—	—	229,084
Prepaid items	217,000	—	—	217,000
<b>Total assets</b>	<b>\$ 13,796,253</b>	<b>\$ 2,330,010</b>	<b>\$ 7,189,355</b>	<b>\$ 23,315,618</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Warrants payable	\$ 31,739	\$ —	\$ 14,697	\$ 46,436
Accounts payable	3,959,784	384,296	1,509,932	5,854,012
Due to other county funds	718,532	1,268,708	—	1,987,240
Salaries and benefits payable	311,688	—	—	311,688
Deferred revenue	516,000	—	—	516,000
<b>Total liabilities</b>	<b>5,537,743</b>	<b>1,653,004</b>	<b>1,524,629</b>	<b>8,715,376</b>
Fund balances:				
Reserved for:				
Inventories	229,084	—	—	229,084
Prepaid items	217,000	—	—	217,000
Notes receivable	538,004	—	—	538,004
Unreserved	7,274,422	677,006	5,664,726	13,616,154
<b>Total fund balances</b>	<b>8,258,510</b>	<b>677,006</b>	<b>5,664,726</b>	<b>14,600,242</b>
<b>Total liabilities and fund balances</b>	<b>\$ 13,796,253</b>	<b>\$ 2,330,010</b>	<b>\$ 7,189,355</b>	<b>\$ 23,315,618</b>

**Common County**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2002**

	Special Revenue Funds (Exhibit 14)	Debt Service Funds (Exhibit 16)	Capital Project Funds (Exhibit 16)	Total Nonmajor Governmental Funds (Exhibit 4)
<b>REVENUES</b>				
Property taxes	\$ 7,907,232	\$ —	\$ —	\$ 7,907,232
Motor fuel taxes	3,878,249	—	—	3,878,249
Licenses and permits	6,360	—	—	6,360
Fines, forfeitures, and penalties	6,587	—	—	6,587
Interest, rents, and concessions	469,965	14,680	612,959	1,097,604
Intergovernmental	26,611,881	—	525,530	27,137,411
Charges for services	2,344,827	—	121,000	2,465,827
Disaster costs recovered	790,082	—	—	790,082
Miscellaneous	875,966	65,347	44,217	985,530
Total revenues	<u>42,891,149</u>	<u>80,027</u>	<u>1,303,706</u>	<u>44,274,882</u>
<b>EXPENDITURES</b>				
General government	464,123	—	—	464,123
Public protection	11,516,736	—	—	11,516,736
Public ways and facilities	15,171,844	—	—	15,171,844
Health and sanitation	2,487,543	—	—	2,487,543
Public assistance	15,268,543	—	—	15,268,543
Education	2,259,350	—	—	2,259,350
Debt service:				
Principal payments	—	9,455,096	—	9,455,096
Interest and fiscal charges	—	3,601,787	—	3,601,787
Capital outlay	—	—	27,447,251	27,447,251
Total expenditures	<u>47,168,139</u>	<u>13,056,883</u>	<u>27,447,251</u>	<u>87,672,273</u>
Excess (deficiency) of revenues over expenditures	<u>(4,276,990)</u>	<u>(12,976,856)</u>	<u>(26,143,545)</u>	<u>(43,397,391)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Capital leases	1,943,845	—	—	1,943,845
Certificates of participation issued	—	—	2,963,605	2,963,605
Transfers in	3,150,000	13,416,967	26,068,184	42,635,151
Transfers out	(914,950)	—	(18,076,551)	(18,991,501)
Total other financing sources (uses)	<u>4,178,895</u>	<u>13,416,967</u>	<u>10,955,238</u>	<u>28,551,100</u>
Net change in fund balances	<u>(98,095)</u>	<u>440,111</u>	<u>(15,188,307)</u>	<u>(14,846,291)</u>
Fund balances—beginning	8,356,605	236,895	20,853,033	29,446,533
Fund balances—ending	<u>\$ 8,258,510</u>	<u>\$ 677,006</u>	<u>\$ 5,664,726</u>	<u>\$ 14,600,242</u>

**Common County  
Combining Balance Sheet  
Nonmajor Special Revenue Funds  
June 30, 2002**

	Indigent Health	Library	Fish and Game	Special Aviation	Fire Protection	Roads	Job Training	Flood Control	Redevelopment Agency Funds	Total Nonmajor Special Revenue Funds (Exhibit 11)
<b>ASSETS</b>										
Pooled cash and investments	\$ 335,867	\$ 303,945	\$ 17,235	\$ 563,334	\$ 140,114	\$ 2,598,142	\$ 30	\$ 603,541	\$ 1,676,730	\$ 6,238,938
Taxes receivable, net	—	120,000	—	—	280,000	—	—	—	100,000	500,000
Notes receivable, net	—	—	—	—	—	—	—	—	538,004	538,004
Due from other county funds	—	—	—	—	90	—	—	—	27,947	28,037
Due from other governments	912,249	—	—	—	—	3,148,470	1,984,471	—	—	6,045,190
Inventories	—	—	—	—	—	229,084	—	—	—	229,084
Prepaid items	217,000	—	—	—	—	—	—	—	—	217,000
Total assets	\$ 1,465,116	\$ 423,945	\$ 17,235	\$ 563,334	\$ 420,114	\$ 5,975,786	\$ 1,984,501	\$ 603,541	\$ 2,342,681	\$ 13,796,253

**LIABILITIES AND FUND**

**BALANCES**

Liabilities:

Warrants payable	\$ 813	\$ 11,988	\$ —	\$ —	\$ 5,267	\$ 3,619	\$ 9,868	\$ 131	\$ 53	\$ 31,739
Accounts payable	1,108,608	65,138	500	—	435	952,218	1,807,327	21,105	4,453	3,959,784
Due to other county funds	—	—	—	44,986	—	458,755	36,691	—	178,100	718,532
Salaries and benefits payable	12,350	34,814	—	—	27,323	175,056	62,145	—	—	311,688
Deferred revenue	—	136,000	—	—	280,000	—	—	—	100,000	516,000
Total liabilities	1,121,771	247,940	500	44,986	313,025	1,589,648	1,916,031	21,236	282,606	5,537,743
Fund balances:										
Reserved for:										
Inventories	—	—	—	—	—	229,084	—	—	—	229,084
Prepaid items	217,000	—	—	—	—	—	—	—	—	217,000
Notes receivable	—	—	—	—	—	—	—	—	538,004	538,004
Unreserved	126,345	176,005	16,735	518,348	107,089	4,157,054	68,470	582,305	1,522,071	7,274,422
Total fund balances	343,345	176,005	16,735	518,348	107,089	4,386,138	68,470	582,305	2,060,075	8,258,510
Total liabilities and fund balances	\$ 1,465,116	\$ 423,945	\$ 17,235	\$ 563,334	\$ 420,114	\$ 5,975,786	\$ 1,984,501	\$ 603,541	\$ 2,342,681	\$ 13,796,253

**Common County  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Special Revenue Funds  
For the Year Ended June 30, 2002**

	Indigent Health	Library	Fish and Game	Special Aviation	Fire Protection	Roads	Job Training	Flood Control	Redevelopment Agency Funds	Total Nonmajor Special Revenue Funds (Exhibit 12)
<b>REVENUES</b>										
Property taxes	\$ —	\$ 1,748,309	\$ —	\$ —	\$ 4,708,422	\$ —	\$ —	\$ 285,566	\$ 1,164,935	\$ 7,907,232
Motor fuel taxes	—	—	—	128,777	—	3,749,472	—	—	—	3,878,249
Licenses and permits	—	—	—	—	626	5,734	—	—	—	6,360
Fines, forfeitures, and penalties	—	—	6,587	—	—	—	—	—	—	6,587
Interest, rents, and concessions	45,113	18,666	—	28,586	53,956	153,768	26,081	49,221	94,574	469,965
Intergovernmental	2,391,979	465,720	—	—	200,822	8,464,850	14,662,825	387,190	38,495	26,611,881
Charges for services	—	91,691	—	—	183,934	2,069,202	—	—	—	2,344,827
Disaster costs recovered	—	—	—	—	—	790,082	—	—	—	790,082
Miscellaneous	13,887	49,761	—	14,018	104,545	90,716	594,875	5,688	2,476	875,966
Total revenues	2,450,979	2,374,147	6,587	171,381	5,252,305	15,323,824	15,283,781	727,665	1,300,480	42,891,149
<b>EXPENDITURES</b>										
General government	—	—	—	—	—	—	—	—	464,123	464,123
Public protection	—	—	9,900	—	10,448,543	—	—	1,058,293	—	11,516,736
Public ways and facilities	—	—	—	42,588	—	15,129,256	—	—	—	15,171,844
Health and sanitation	2,487,543	—	—	—	—	—	—	—	—	2,487,543
Public assistance	—	—	—	—	—	—	15,268,543	—	—	15,268,543
Education	—	2,259,350	—	—	—	—	—	—	—	2,259,350
Total expenditures	2,487,543	2,259,350	9,900	42,588	10,448,543	15,129,256	15,268,543	1,058,293	464,123	47,168,139
Excess (deficiency) of revenues over expenditures	(36,564)	114,797	(3,313)	128,793	(5,196,238)	194,568	15,238	(330,628)	836,357	(4,276,990)
<b>OTHER FINANCING SOURCES (USES)</b>										
Capital leases	—	—	—	—	1,943,845	—	—	—	—	1,943,845
Transfers in	—	—	—	—	3,000,000	—	—	—	150,000	3,150,000
Transfers out	—	—	—	—	—	—	(136,997)	—	(777,953)	(914,950)
Total other financing sources (uses)	—	—	—	—	4,943,845	—	(136,997)	—	(627,953)	4,178,895
Net change in fund balances	(36,564)	114,797	(3,313)	128,793	(252,393)	194,568	(121,759)	(330,628)	208,404	(96,095)
Fund balances—beginning	379,909	61,208	20,048	389,555	359,482	4,191,570	190,229	912,933	1,851,671	8,356,605
Fund balances—ending	\$ 343,345	\$ 176,005	\$ 16,735	\$ 518,348	\$ 107,089	\$ 4,386,138	\$ 68,470	\$ 582,305	\$ 2,060,075	\$ 8,260,510

Common County  
Combining Balance Sheet  
Other Nonmajor Governmental Funds  
June 30, 2002

	Debt Service Funds				Capital Project Funds			
	Health Insurance Fund	Pension Obligation Fund	Redevelopment Agency Funds	Total (Exhibit 11)	Capital Projects	Public Facility	Redevelopment Agency Funds	Total (Exhibit 11)
<b>ASSETS</b>								
Pooled cash and investments	\$ —	\$ 321,604	\$ 355,402	\$ 677,006	\$ 7,938	\$ —	\$ 2,380,101	\$ 2,388,039
Investments, plus accrued interest	—	—	—	—	—	3,354,153	—	3,354,153
Accounts receivable, net	1,653,004	—	—	1,653,004	47,247	—	—	47,247
Due from other county funds	—	—	—	—	1,132,919	—	—	1,132,919
Due from other governments	—	—	—	—	266,997	—	—	266,997
Total assets	\$ 1,653,004	\$ 321,604	\$ 355,402	\$ 2,330,010	\$ 1,455,101	\$ 3,354,153	\$ 2,380,101	\$ 7,189,355
<b>LIABILITIES AND FUND BALANCES</b>								
Liabilities:								
Warrants payable	\$ —	\$ —	\$ —	\$ —	\$ 9,571	\$ —	\$ 5,126	\$ 14,697
Accounts payable	384,296	—	—	384,296	1,445,530	47,247	17,155	1,509,932
Due to other county funds	1,268,708	—	—	1,268,708	—	—	—	—
Total liabilities	1,653,004	—	—	1,653,004	1,455,101	47,247	22,281	1,524,629
Fund balances:								
Unreserved	—	321,604	355,402	677,006	—	3,306,906	2,357,820	5,664,726
Total liabilities and fund balances	\$ 1,653,004	\$ 321,604	\$ 355,402	\$ 2,330,010	\$ 1,455,101	\$ 3,354,153	\$ 2,380,101	\$ 7,189,355

**Common County**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Other Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2002**

	Debt Service Funds				Capital Project Funds			
	Health Insurance Fund	Pension Obligation Fund	Redevelopment Agency Funds	Total (Exhibit 12)	Capital Projects	Public Facility	Redevelopment Agency Funds	Total (Exhibit 12)
<b>REVENUES</b>								
Interest, rents, and concessions intergovernmental	\$ —	\$ —	14,680	\$ 14,680	\$ —	\$ 497,610	\$ 115,349	\$ 612,959
Charges for services	—	—	—	—	411,983	—	113,547	525,530
Miscellaneous	—	—	65,347	65,347	121,000	—	—	121,000
Total revenues	—	—	80,027	80,027	577,081	497,610	229,015	1,303,706
<b>EXPENDITURES</b>								
Debt service:								
Principal payments	8,970,000	385,000	100,096	9,455,096	—	—	—	—
Interest and fiscal charges	698,533	2,890,365	12,889	3,601,787	—	—	—	—
Capital outlay	—	—	—	—	27,217,193	—	230,058	27,447,251
Total expenditures	9,668,533	3,275,365	112,985	13,056,883	27,217,193	—	230,058	27,447,251
Excess (deficiency) of revenues over expenditures	(9,668,533)	(3,275,365)	(32,958)	(12,976,856)	(26,640,112)	497,610	(1,043)	(26,143,545)
<b>OTHER FINANCING SOURCES (USES)</b>								
Certificates of participation issued	—	—	—	—	—	2,963,605	—	2,963,605
Transfers in	9,668,533	3,505,669	242,765	13,416,967	25,666,996	—	401,188	26,068,184
Transfers out	—	—	—	—	(849,041)	(17,211,510)	(16,000)	(18,076,551)
Total other financing sources (uses)	9,668,533	3,505,669	242,765	13,416,967	24,817,955	(14,247,905)	385,188	10,955,238
Net change in fund balances	—	230,304	209,807	440,111	(1,822,157)	(13,750,295)	384,145	(15,188,307)
Fund balances—beginning	—	91,300	145,595	236,895	1,822,157	17,057,201	1,973,675	20,853,033
Fund balances—ending	\$ —	\$ 321,604	\$ 355,402	\$ 677,006	\$ —	\$ 3,306,906	\$ 2,357,820	\$ 5,664,726

Common County  
Combining Statement of Net Assets  
Nonmajor Enterprise Funds  
June 30, 2002

	Transit	Sewer Maintenance	Assessment Districts	County Service Area 1	County Service Area 2	Total Nonmajor Enterprise Funds (Exhibit 5)
<b>ASSETS</b>						
Current assets:						
Cash	\$ —	\$ 9,947	\$ —	\$ —	\$ —	\$ 9,947
Pooled cash and investments	216,540	478,990	38,418	334,079	75,062	1,143,089
Receivables, net	135	23,851	—	44,186	4,975	73,147
Due from other county funds	—	202	—	628	494	1,324
Deposits with others	—	—	—	22,335	1,628	23,963
Total current assets	216,675	512,990	38,418	401,228	82,159	1,251,470
Noncurrent assets:						
Capital assets:						
Land	—	67,549	—	502,344	937	570,830
Buildings and improvements, net	—	1,965,359	—	5,685,888	546,529	8,197,776
Equipment, net	26,410	—	—	72,995	30,551	129,956
Total noncurrent assets	26,410	2,032,908	—	6,261,227	578,017	8,898,562
Total assets	243,085	2,545,898	38,418	6,662,455	660,176	10,150,032
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable	101,113	250	240	81,022	866	183,491
Due to other county funds	71	300	90	403,605	494	404,560
Deposits from others	—	—	—	22,335	1,628	23,963
Bonds, notes, and COPs payable	—	10,000	—	1,600	3,000	14,600
Total current liabilities	101,184	10,550	330	508,562	5,988	626,614
Noncurrent liabilities:						
Bonds, notes, and COPs payable	—	955,000	—	708,205	101,181	1,764,386
Total noncurrent liabilities	—	955,000	—	708,205	101,181	1,764,386
Total liabilities	101,184	965,550	330	1,216,767	107,169	2,391,000
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	26,410	1,067,908	—	5,551,422	473,836	7,119,576
Unrestricted	115,491	512,440	38,088	(105,734)	79,171	639,456
Total net assets	\$ 141,901	\$ 1,580,348	\$ 38,088	\$ 5,445,688	\$ 553,007	\$ 7,759,032

**Common County**  
**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Nonmajor Enterprise Funds**  
**For the Year Ended June 30, 2002**

	Transit	Sewer Maintenance	Assessment Districts	County Service Area 1	County Service Area 2	Total Nonmajor Enterprise Funds (Exhibit 6)
<b>OPERATING REVENUES</b>						
Charges for services	\$ 75,852	\$ 139,164	\$ 24,347	\$ 238,294	\$ 34,975	\$ 512,632
Miscellaneous	2,500	580	—	1,701	448	5,229
Total operating revenues	78,352	139,744	24,347	239,995	35,423	517,861
<b>OPERATING EXPENSES</b>						
Services and supplies	761,535	63,764	5,810	216,470	33,347	1,080,926
Depreciation	34,180	77,705	—	232,111	23,638	367,634
Total operating expenses	795,715	141,469	5,810	448,581	56,985	1,448,560
Operating income (loss)	(717,363)	(1,725)	18,537	(208,586)	(21,562)	(930,699)
<b>NONOPERATING REVENUES (EXPENSES)</b>						
Sales and use taxes	693,521	—	—	—	—	693,521
Special assessments	—	23,294	—	—	—	23,294
Investment earnings	5,218	24,437	1,293	18,382	4,393	53,723
Rents and concessions	—	488	—	3,315	—	3,803
Interest expense	—	(43,650)	—	(65,229)	(6,686)	(115,565)
Total nonoperating revenue (expenses)	698,739	4,569	1,293	(43,532)	(2,293)	658,776
Change in net assets	(18,624)	2,844	19,830	(252,118)	(23,855)	(271,923)
Total net assets—beginning	160,525	1,577,504	18,258	5,697,806	576,862	8,030,955
Total net assets—ending	\$ 141,901	\$ 1,580,348	\$ 38,088	\$ 5,445,688	\$ 553,007	\$ 7,759,032

**Common County**  
**Combining Statement of Cash Flows**  
**Nonmajor Enterprise Funds**  
**For the Year Ended June 30, 2002**

	Transit	Sewer Maintenance	Assessment Districts	County Service Area 1	County Service Area 2	Total Nonmajor Enterprise Funds (Exhibit 7)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Receipts from customers	\$ 79,875	\$ 133,642	\$ 24,347	\$ 235,359	\$ 36,466	\$ 509,689
Payments to suppliers	(600,798)	(56,940)	(5,785)	(152,165)	(22,110)	(837,798)
Internal activity—payments to other funds	(108,647)	(28,512)	—	(65,426)	(12,103)	(214,688)
Other receipts	2,500	580	—	1,701	448	5,229
	(627,070)	48,770	18,562	19,469	2,701	(537,568)
Net cash provided (used) by operating activities	693,521	23,294	—	—	—	716,815
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>						
Property, sales, and use taxes	—	488	—	3,315	—	3,803
Rents and concessions	71	106	90	33,411	—	33,678
Interfund loans—proceeds and collections	693,592	23,888	90	36,726	—	754,296
Net cash provided by noncapital financing activities	—	(10,000)	—	(8,225)	(3,047)	(21,272)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>						
Principal paid on capital debt	—	(43,650)	—	(65,229)	(6,686)	(115,565)
Interest paid on capital debt	—	(63,650)	—	(73,454)	(9,733)	(136,837)
Net cash used by capital and related financing activities	—	(107,300)	—	(138,683)	(16,419)	(262,302)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Interest and dividends	5,218	24,437	1,293	18,382	4,393	53,723
Net increase (decrease) in cash and cash equivalents	71,740	43,445	19,945	1,123	(2,639)	133,614
Balances—beginning of the year	144,800	445,492	18,473	332,956	77,701	1,019,422
Balances—end of the year	\$ 216,540	\$ 488,937	\$ 38,418	\$ 334,079	\$ 75,062	\$ 1,153,036
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>						
Operating income (loss)	\$ (717,363)	\$ (1,725)	\$ 18,537	\$ (208,586)	\$ (21,562)	\$ (930,699)
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation expense	34,180	77,705	—	232,111	23,638	367,634
Change in assets and liabilities:						
Receivables, net	4,023	(5,522)	—	(2,935)	1,491	(2,943)
Accounts and other payables	52,090	(21,688)	25	(1,121)	(866)	28,440
Net cash provided (used) by operating activities	\$ (627,070)	\$ 48,770	\$ 18,562	\$ 19,469	\$ 2,701	\$ (537,568)

# [Completely Superseded]

Exhibit 20

**Common County  
Combining Statement of Net Assets  
Internal Service Funds  
June 30, 2002**

	<b>Workers' Compensation</b>	<b>General Liability, Property, and Malpractice</b>	<b>Total Internal Service Funds (Exhibit 5)</b>
<b>ASSETS</b>			
Current assets:			
Pooled cash and investments	\$ 562,491	\$ 5,656,457	\$ 6,218,948
Total assets	562,491	5,656,457	6,218,948
<b>LIABILITIES</b>			
Current liabilities:			
Warrants payable	423	32,204	32,627
Accounts payable	23,460	7,102	30,562
Benefits payable	6,602	21,215	27,817
Due to other county funds	—	150	150
Claims payable—current portion	—	1,250,000	1,250,000
Total current liabilities	30,485	1,310,671	1,341,156
Noncurrent liabilities:			
Claims payable	—	2,450,000	2,450,000
Total liabilities	30,485	3,760,671	3,791,156
<b>NET ASSETS</b>			
Unrestricted	532,006	1,895,786	2,427,792
Total net assets	\$ 532,006	\$ 1,895,786	\$ 2,427,792

**Common County**  
**Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Internal Service Funds**  
**For the Year Ended June 30, 2002**

	Workers' Compensation	General Liability, Property, and Malpractice	Total Internal Service Funds (Exhibit 6)
<b>OPERATING REVENUES</b>			
Charges for services	\$ 4,686,787	\$ 2,468,724	\$ 7,155,511
Miscellaneous	9,672	21,467	31,139
Total operating revenues	<u>4,696,459</u>	<u>2,490,191</u>	<u>7,186,650</u>
<b>OPERATING EXPENSES</b>			
Benefits and related expenses	66,022	138,457	204,479
Services and supplies	440,141	990,825	1,430,966
Insurance premiums	4,100,237	223,449	4,323,686
Claims	—	572,763	572,763
Total operating expenses	<u>4,606,400</u>	<u>1,925,494</u>	<u>6,531,894</u>
Operating income	<u>90,059</u>	<u>564,697</u>	<u>654,756</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment earnings	<u>32,075</u>	<u>238,064</u>	<u>270,139</u>
Change in net assets	122,134	802,761	924,895
Total net assets—beginning	<u>409,872</u>	<u>1,093,025</u>	<u>1,502,897</u>
Total net assets—ending	<u>\$ 532,006</u>	<u>\$ 1,895,786</u>	<u>\$ 2,427,792</u>

**Common County**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Year Ended June 30, 2002**

	<b>Workers'</b> <b>Compensation</b>	<b>General Liability</b> <b>Property, and</b> <b>Malpractice</b>	<b>Total</b> <b>Internal</b> <b>Service Funds</b> <b>(Exhibit 7)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from insured	\$ 5,002,888	\$ —	\$ 5,002,888
Payments to suppliers	(4,861,916)	(1,073,048)	(5,934,964)
Payments to employees	(74,529)	(141,772)	(216,301)
Internal activity—receipts from (payments to) other funds	(179,146)	1,964,807	1,785,661
Other receipts	9,672	21,467	31,139
Net cash provided (used) by operating activities	<u>(103,031)</u>	<u>771,454</u>	<u>668,423</u>
<b>CASH FLOWS FROM NONCAPITAL</b>			
<b>FINANCING ACTIVITIES</b>			
Interfund loans—proceeds and collections	<u>—</u>	<u>150</u>	<u>150</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest and dividends	32,075	238,064	270,139
Net increase (decrease) in cash and cash equivalents	(70,956)	1,009,668	938,712
Balances—beginning of the year	633,447	4,646,789	5,280,236
Balances—end of the year	<u>\$ 562,491</u>	<u>\$ 5,656,457</u>	<u>\$ 6,218,948</u>
<b>Reconciliation of operating income to net cash</b>			
<b>provided (used) by operating activities:</b>			
Operating income	\$ 90,059	\$ 564,697	\$ 654,756
Change in assets and liabilities:			
Receivables, net	316,101	—	316,101
Prepaid items	—	4,819	4,819
Accounts and other payables	(509,191)	201,938	(307,253)
Net cash provided (used) by operating activities	<u>\$ (103,031)</u>	<u>\$ 771,454</u>	<u>\$ 668,423</u>

Common County  
 Combining Statement of Fiduciary Assets and Liabilities  
 Agency Funds  
 June 30, 2002

	Agency Funds							Total (Exhibit 8)
	School Districts Clearing	Special Districts Clearing	Special Revolving	Retirement Revolving	Property Tax Distribution	Surety Bond and Deposit		
<b>ASSETS</b>								
Temporary investment in treasury pool	\$ 214,535,517	\$ 23,031,312	\$ 17,549,605	\$ 2,850,171	\$ 3,666,374	\$ 52,824,787	\$	314,457,766
Due from other funds	—	—	—	—	46,400	7,081		53,481
Due from other governments	—	—	—	—	—	1,830,305		1,830,305
Total assets	214,535,517	23,031,312	17,549,605	2,850,171	3,712,774	54,662,173		316,341,552
<b>LIABILITIES</b>								
Accounts payable	—	5,517,661	7,156,344	1,191,514	729,958	1,221,763		15,817,240
Due to other governments	214,330,141	17,513,651	10,393,261	—	2,982,816	385,874		245,605,743
Due to others	205,376	—	—	1,658,657	—	53,054,536		54,918,569
Total liabilities	214,535,517	23,031,312	17,549,605	2,850,171	3,712,774	54,662,173		316,341,552
<b>NET ASSETS</b>								
	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$	—

# Supporting Worksheets

- A. Determination of Major Funds  
This worksheet presents a fund-by-fund analysis of the County's governmental and enterprise funds. The purpose is to determine which funds should be reported as major funds in the fund financial statements.
- B. Elimination of the Effect of Internal Service Fund Activity for the Statement of Activities  
This worksheet illustrates the "look-back" adjustment necessary to eliminate the effects of internal service fund activity from the government-wide statement of activities.
- C. Calculation of Net Asset Balances for Governmental Activities  
The conversion of governmental fund balances to the required components of net assets is illustrated and explained in this worksheet.
- D. Adjustment to Roads Fund and Initial Capitalization of Road Infrastructure  
This schedule presents information used in determining the initial capitalization of the "roads" infrastructure network. It also explains the calculation of depreciation expense on infrastructure assets for the year.
- E. Worksheet for the Statement of Net Assets  
This worksheet shows the conversion of the balance sheet for the combined governmental funds to the statement of net assets for governmental activities.
- F. Worksheet for the Statement of Activities  
This worksheet presents the conversion of the statement of revenues, expenditures, and changes in fund balances for the combined governmental funds to the statement of activities for governmental activities.

Determination of Major Funds

	Assets	Liabilities	Revenue	Expenditures/ Expenses	Major Fund?
General Fund	\$ 75,974,079	\$ 32,748,259	\$ 322,409,359	\$ 339,938,118	ALWAYS MAJOR
<i>Special revenue:</i>					
Indigent health	1,465,116	1,121,771	2,450,979	2,487,543	
Library	423,945	247,940	2,374,147	2,259,350	
Fish and game	17,235	500	6,587	9,900	
Special aviation	563,334	44,986	171,381	42,588	
Fire protection	420,114	313,025	5,252,305	10,448,543	
Roads	5,975,696	1,589,558	15,323,824	15,129,256	
Job training	1,984,501	1,916,031	15,283,781	15,268,543	
Flood control	603,541	21,236	727,665	1,058,293	
Redevelopment agency funds	2,314,734	254,659	1,300,480	464,123	
Realignment	7,010,621	7,010,621	23,992,788	—	YES
<i>Debt service:</i>					
Health insurance financing	1,653,004	1,653,004	—	9,668,533	
Pension obligation	321,604	—	—	3,275,365	
Redevelopment agency funds	355,402	—	80,027	112,985	
Public Facility Corp.	11,350,301	—	829,148	13,180,640	YES—By choice (for consistency)
<i>Capital projects:</i>					
Capital projects fund	1,455,101	1,455,101	577,081	27,217,193	
Public Facility Corp.	3,354,153	47,247	497,610		
Redevelopment agency funds	2,380,101	22,281	229,015	230,058	
Total governmental funds	117,622,582	48,446,219	391,506,177	440,791,031	
10%	11,762,258	4,844,622	39,150,618	44,079,103	
<i>Enterprise:</i>					
Transit	243,085	101,184	777,091	795,715	
Solid waste	68,008,444	27,140,596	13,222,468	8,494,969	YES
Sewer maintenance	2,545,696	965,348	187,963	185,119	
Assessment districts	38,418	330	25,640	5,810	
Service Area 1	6,661,827	1,216,139	261,692	513,810	
Service Area 2	659,682	106,675	39,816	63,671	
Total enterprise funds	78,157,152	29,530,272	14,514,670	10,059,094	
10%	7,815,715	2,953,027	1,451,467	1,005,909	
5%—Governmental and enterprise	9,788,987	3,898,825	20,301,042	22,542,506	

Paragraph 76 of Statement 34, as amended, requires individual governmental and enterprise funds to be reported as major funds, based on the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding total (assets, liabilities, and so forth) for all funds of that category or type (that is, total governmental or total enterprise funds), and
- b. The same element that met the 10 percent criterion in (a) is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.

In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the government's officials believe is particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a major fund.

In this illustration, assets and liabilities have been adjusted to report "net" internal balances, as discussed in Q188 in Q&A 34.

**Conclusions:**

In addition to the county's General Fund, the Realignment special revenue fund qualifies as a major fund because its fund liabilities exceed 10 percent of the total liabilities of governmental funds **and** 5 percent of the liabilities for the governmental and enterprise funds combined. The county **elects** to report the Public Facility Corp. debt service fund as a major fund because its total assets generally fluctuate slightly above or below the required percentage of total governmental fund assets. For consistency from year to year, that fund is reported as a major fund even when, like this year, it does not meet the criteria. The Solid Waste enterprise fund exceeds the 10 percent criteria for all four elements and exceeds the 5 percent benchmark for both assets and liabilities.

Elimination of the Effect of Internal Service Fund Activity for the Statement of Activities

Part One

	Total Internal Service Funds
Change in net assets (Exhibit 6)	\$ 924,895
Indirect expenses [specify type]: Interest on long-term debt	—
General revenues [specify type]: Investment earnings	(270,139)
Transfers (net)	—
<b>Net amount (to be assigned to programs)</b>	<b>654,756</b>
Program revenues [indicate specific program]: Charges for services (general government)	—
Program expenses [indicate specific program]: Direct expenses (general government)	—
<b>Net amount (to be allocated among programs)</b>	<b>\$ 654,756</b>
Program revenue (expense)	
General government	\$ 32,738
Public protection:	
District attorney	65,476
Sheriff and coroner	104,760
Fire protection	32,738
Health and sanitation	111,309
Public assistance	307,735
<b>Total allocations</b>	<b>\$ 654,756</b>
	5%
	10%
	16%
	5%
	17%
	47%
	100%

This format is from the worksheet in Exercise 4 in Q&A 34 (page 228).

Because the change in net assets for the Internal Service Funds was a relatively small amount, the look-back adjustment was limited to only the larger programs (even though more functions, including the Solid Waste enterprise fund, use the ISFs). The percentages are reasonable estimates.

Calculation of Net Asset Balances for Governmental Activities

	Restricted for:					Unrestricted	Invested in Capital Assets, Net of Related Debt	Total
	Capital Projects	Debt Service	Road Projects	Redevelopment	Pension Obligations			
<b>Fund balances</b>								
General fund	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 43,225,820	\$ —	\$ 43,225,820
Realignment fund	—	—	—	—	—	—	—	—
Public Facility Corp. debt service fund	—	11,350,301	—	—	—	—	—	11,350,301
Nonmajor special revenue funds	—	—	4,386,138	206,007.5	—	—	—	8,258,510
Nonmajor debt service funds	—	677,006	—	—	—	—	—	677,006
Nonmajor capital project funds	5,664,726	—	—	—	—	—	—	5,664,726
Total fund balances	5,664,726	12,027,307	4,386,138	2,060,075	—	43,225,820	—	69,176,363
<b>Adjustments</b> (see the reconciliation for governmental funds—Exhibit 3.1):								
A Additional accrued interest	—	(1,065,950)	—	—	—	—	—	(1,065,950)
B Additional revenue accruals	—	—	—	100,000	—	—	—	2,000,000
C Compensated absences	—	—	—	—	—	—	—	(10,283,121)
D Internal service funds	—	—	—	—	—	—	—	2,427,792
E Capital assets net of depreciation	—	—	—	—	—	—	—	748,864,411
F Pension assets	—	—	—	—	40,259,000	—	—	40,259,000
G Long-term debt:								
COPs, net of premium and deferral:	—	—	—	—	—	—	—	(87,118,143)
Bonds and notes payable	—	—	—	—	(41,075,000)	—	—	(941,918)
Capital leases	—	—	—	—	—	—	—	(54,546,918)
H Litigation settlement	—	—	—	—	—	—	—	(11,400,882)
I Reclassify negative balances	—	—	—	—	816,000	—	—	(1,400,000)
Net asset balances	\$ 5,664,726	\$ 10,961,357	\$ 4,386,138	\$ 2,160,075	\$ —	\$ 22,124,491	\$ 649,403,468	\$ 696,912,552

Explanations:

- A Accrued interest is a current liability that will be paid from the debt service funds. Therefore, the liability should reduce the "Restricted for debt services" net assets balance.
- B The additional accrued revenue adjustment adds to net assets the revenues (delinquent taxes) that were excluded from fund balances on the modified accrual basis of accounting.
- C The entire balance of the compensated absences liability is allocated to unrestricted net assets because no restricted assets resulted from incurring the liability and no restricted assets will be used to liquidate the liability.
- D Assets in the internal service funds are not restricted; therefore, the balance should be included with the unrestricted component.
- E Capital assets, net of depreciation, is a key element of the invested in capital assets, net of related debt component.
- F The pension assets are not current financial resources and are therefore not reported in the funds. The assets are restricted for a specific purpose.
- G The portion of the County's long-term debt that is "capital-related" is included in the calculation of the invested in capital assets, net of related debt component. There are no significant unspent proceeds. However, the County also has Health Insurance Financing bonds and Pension Obligation bonds outstanding. Neither of these debt issues financed the cost of capital assets and therefore, are included in other net asset components.
- H This liability results from an agreement with the EPA, related to environmental cleanup. The County has determined that the settlement will be paid from the general fund. There are no restricted assets related to this liability.
- I If liabilities related to restricted assets exceed the assets, the excess should be reclassified as unrestricted. Negative restricted net assets should not be reported. To do so would cause unrestricted net assets to be overstated.

This worksheet is explained and illustrated in Exercise 3 of Q&A 34 (pages 220–223).

**Adjustments to Roads Fund and Initial Capitalization of Road Infrastructure**

**Adjustments:**

Miles of roads (per county highway office records)	3,082	(1)
Replacement cost per mile	500,000	(2)
Replacement cost of roads	1,541,000,000	
Average age of roads	15	(3)
Price deflator (87.6/126.9)	0.6903	(4)
Estimated historical cost of roads	1,063,763,593	(5)
Depreciation at beginning of year	449,691,311	(6)
Cost of roads replaced in current year	4,486,997	(7)
Assume fully depreciated	(4,486,997)	
Gain/loss on disposal of roads	—	

**Depreciation Expense for Current Year:**

Depreciation on roads in service all year:		
Cost	1,063,763,593	
Depreciation at 3.33% per year		\$ 35,458,751
Depreciation on roads replaced:		
Cost	4,486,997	
Depreciation (to fully depreciate)		224,350
Depreciation on new roads:		
Cost	6,530,027	(8)
Depreciation at 3.33% per year (1/2 year)		108,834
Total depreciation expense		\$ 35,791,935 (Worksheet F)

**Accumulated Depreciation at Beginning of the Year:**

Year	Line-Miles of Road Constructed	Replacement Cost Per Lane-Mile	Price Deflator (9)	Estimated Historical Cost	Age in Years	Accumulated Depreciation
-30	102.733	\$500,000	0.3806151	\$ 19,550,929	29.5	\$ 19,225,080
-29	102.733	500,000	0.4019732	20,648,023	28.5	19,615,622
-28	102.733	500,000	0.4233313	21,745,118	27.5	19,933,025
-27	102.733	500,000	0.4446894	22,842,212	26.5	20,177,287
-26	102.733	500,000	0.4660475	23,939,307	25.5	20,348,411
-25	102.733	500,000	0.4874056	25,036,401	24.5	20,446,394
-24	102.733	500,000	0.5087637	26,133,495	23.5	20,471,238
-23	102.733	500,000	0.5301218	27,230,590	22.5	20,422,942
-22	102.733	500,000	0.5514799	28,327,684	21.5	20,301,507
-21	102.733	500,000	0.5728380	29,424,779	20.5	20,106,932
-20	102.733	500,000	0.5941961	30,521,873	19.5	19,839,217
-19	102.733	500,000	0.6155542	31,618,967	18.5	19,498,363
-18	102.733	500,000	0.6369123	32,716,062	17.5	19,084,369
-17	102.733	500,000	0.6582704	33,813,156	16.5	18,597,236
-16	102.733	500,000	0.6796285	34,910,251	15.5	18,036,963
-15	102.733	500,000	0.7009866	36,007,345	14.5	17,403,550
-14	102.733	500,000	0.7223447	37,104,439	13.5	16,696,998
-13	102.733	500,000	0.7437028	38,201,534	12.5	15,917,306
-12	102.733	500,000	0.7650609	39,298,628	11.5	15,064,474
-11	102.733	500,000	0.7864190	40,395,723	10.5	14,138,503
-10	102.733	500,000	0.8077771	41,492,817	9.5	13,139,392
-9	102.733	500,000	0.8291352	42,589,911	8.5	12,067,142
-8	102.733	500,000	0.8504933	43,687,006	7.5	10,921,751
-7	102.733	500,000	0.8718514	44,784,100	6.5	9,703,222
-6	102.733	500,000	0.8932095	45,881,195	5.5	8,411,552
-5	102.733	500,000	0.9145676	46,978,289	4.5	7,046,743
-4	102.733	500,000	0.9359257	48,075,383	3.5	5,608,795
-3	102.733	500,000	0.9572838	49,172,478	2.5	4,097,706
-2	102.733	500,000	0.9786419	50,269,572	1.5	2,513,479
-1	102.733	500,000	1.0000000	51,366,667	0.5	856,110
	<u>3,082</u>			<u>\$ 1,063,763,935</u>		<u>\$ 449,691,311</u>

# [Completely Superseded]

## Explanations:

- (1) The County is phasing in reporting its infrastructure assets as provided for in Statement 34. In this initial year, only the "roads" network is added. Additional infrastructure networks and subsystems, if any, will be added in later years.
- (2) For purposes of this illustration, the estimated total road construction (including roadbed) cost is \$500,000 per lane-mile.
- (3) For purposes of this illustration, it is assumed that an average road life is 30 years and that roads were constructed or reconstructed evenly throughout the last 30 years.
- (4) 87.6 and 126.9 are the composite road construction indexes representing the midpoint and current indexes, respectively, for this illustration. Actual updated indexes can be obtained from Price Trends For Federal-Aid Highway Construction published by the FHWA.
- (5) This total differs slightly from the "Total Estimated Historical Cost" in the detailed table above. The difference arises because the table uses smoothed price deflators for each year, rather than an average cost index. Either approach is acceptable for estimating the initial historical cost at transition.
- (6) See the detailed schedule below. For this illustration it is assumed that price increases were level throughout the 30 years and that roads were put into service midway through each year.
- (7) Estimated cost of roads replaced is based on the average cost per lane-mile of road network at midyear multiplied by the number of replacement road miles built during the year.
- (8) See Worksheet F, item(4). This represents the infrastructure expenditures that should be capitalized.
- (9) The price index was converted from a base year (index=100) of 1987 to a base year of 2001, the beginning of year. The changes to the index were smoothed over the thirty years.

Worksheet for the Statement of Net Assets

	Total Governmental Funds	Internal Service Funds	Capital Assets and Long-term Debt	Operating Accruals	Other Adjustments	Total for Statement of Net Assets
<b>ASSETS</b>						
Cash	\$ 112,230	\$ —	\$ —	\$ —	\$ (112,230) (1)	\$ —
Pooled cash and investments	50,821,842	6,218,948	—	—	(2,245,590) (5)	54,795,200
Investments, plus accrued interest	14,697,204	—	—	—	(7,241,496) (4)	7,455,708
Accounts receivable	1,891,555	—	—	—	—	1,891,555
Taxes receivable	2,000,000	—	—	—	—	2,000,000
Notes receivable	1,296,745	—	—	—	—	1,296,745
Health plan contributions receivable	14,733,173	—	—	—	—	14,733,173
Due from other county funds	5,563,629	—	—	—	—	5,563,629 (2)
Due from other governments	27,464,800	—	—	—	—	27,464,800
Inventories	665,420	—	—	—	356,699 (1)	1,022,119
Prepaid items	356,699	—	—	—	(356,699) (1)	—
Noncurrent restricted assets	—	—	—	—	9,599,316 (4)	9,599,316
Pension assets	—	—	—	—	40,259,000 (6)	40,259,000
Capital assets (Note 3):						
Land and construction in progress	—	—	63,009,780	—	—	63,009,780
Infrastructure, net	—	—	584,810,374	—	—	584,810,374
Building and improvements, net	—	—	75,414,530	—	—	75,414,530
Equipment, net	—	—	25,629,727	—	—	25,629,727
Total assets	\$ 119,603,297	\$ 6,218,948	\$ 748,864,411	\$ —	\$ 40,259,000	\$ 914,945,656 (2)
<b>LIABILITIES</b>						
Warrants payable	\$ 6,411,496	\$ 32,627	\$ —	\$ —	\$ (6,444,123) (1)	\$ —
Accounts payable	15,129,505	30,562	—	—	6,622,252 (1)	21,782,319
Due to other county funds	6,010,456	150	—	—	(53,481) (1)	5,957,125 (2)
Due to other governments	3,715,414	—	—	—	—	3,715,414
Deposits from others	124,648	—	—	—	(124,648) (1)	—
Salaries and benefits payable	3,214,864	27,817	—	—	—	3,242,681
Deferred revenue	15,820,551	—	—	—	(2,000,000) (3)	13,820,551
Accrued interest	—	—	—	1,065,950	—	1,065,950
Claims payable	—	3,700,000	—	1,400,000	—	5,100,000
COP's payable	—	—	88,768,415	—	(1,650,272) (1)	87,118,143
Bonds payable	—	—	53,605,000	—	—	53,605,000
Notes payable	—	—	941,918	—	—	941,918
Capital leases	—	—	11,400,882	—	—	11,400,882
Unamortized premiums	—	—	2,231,390	—	(2,231,390) (1)	—
Deferred amount on refunding	—	—	(3,881,662)	—	3,881,662 (1)	—
Compensated absences	—	—	—	10,283,121	—	10,283,121
Total liabilities	\$ 50,426,934	\$ 3,791,156	\$ 153,065,943	\$ 12,749,071	\$ (2,000,000)	\$ 218,033,104 (2)

**Explanations:**

- (1) Combination or reclassification.
- (2) Internal balances are netted on the statement of net assets. Therefore, the total assets and liabilities shown here are different.
- (3) In the government-wide statement of net assets, deferred revenue represents amounts not yet earned, but does not include amounts deferred because of the "available" criterion. Deferred revenue is reduced for delinquent property taxes deferred in the funds because they will not be received within sixty days of the county's year-end.
- (4) A portion of the assets in the Public Facility Debt Service Fund should be regarded as "noncurrent" and accordingly presented as "less liquid" in the government-wide statement of net assets. The noncurrent portion is determined to be the assets restricted for debt service reduced by amounts that will be used for current maturities. The current maturities for principal and interest on COPS as disclosed in Note 6b is \$7,415,711. In addition, the net assets of the capital projects funds are also regarded as noncurrent because they are restricted for expenditure in the acquisition or construction of noncurrent assets. The total "noncurrent" amount includes the net assets of the capital projects funds (\$5,664,726), and the net assets of the Public Facilities Debt Service Fund that exceed the amount needed to liquidate current maturities (\$11,350,301 less \$7,415,711 = \$3,934,590). The net assets of the nonmajor debt service funds (see Exhibit 15) will be used either to liquidate fund liabilities or to pay current maturities and accordingly should not be excluded from current assets.
- (5) Includes reclassification of \$112,230 cash balance and \$2,357,820 of noncurrent restricted assets (See 4, above.)
- (6) To recognize the pension assets resulting from contributions in excess of the annual required contribution.

Worksheet F

Worksheet for the Statement of Activities

	Total Governmental Funds	(Optional) Expanded Program Detail (1)	Internal Service Funds (Worksheet B)	Long-term Debt Transactions (2)	Remove Capital Outlay (3)	Record Depreciation	Infrastructure Adjustments (Worksheet D) (4)	Amortize Pension Assets (5)	Additional Accruals (6)	Eliminate Internal Activity (7)	Totals for Statement of Activities (8)
<b>REVENUES</b>											
Taxes	\$ 67,090,748	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 67,090,748
Licenses and permits	5,835,912	—	—	—	—	—	—	—	—	(1,233,241)	4,602,671
Fines, forfeitures, and penalties	6,725,364	—	—	—	—	—	—	—	—	(1,828)	6,723,536
Interest, rents, and concessions	5,416,908	—	270,139	—	—	—	—	—	—	—	5,687,047
Intergovernmental	257,573,485	—	—	—	—	—	—	—	—	—	257,573,485
Charges for services	42,333,894	—	—	—	—	—	—	—	—	(4,552,952)	37,780,942
Disaster costs recovered	790,082	—	—	—	—	—	—	—	—	—	790,082
Miscellaneous	5,739,784	—	—	—	—	—	—	—	—	3,150,933	8,890,717
<b>Total revenues</b>	<b>391,506,177</b>	<b>—</b>	<b>270,139</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(2,637,088)</b>	<b>388,139,228</b>
<b>EXPENDITURES</b>											
Current:											
General government	19,274,761	—	(32,738)	—	(3,317,125)	2,214,307	—	36,301	—	(604,664)	17,570,842
Public protection:	112,986,765	(112,986,765)	(65,476)	—	—	—	—	—	—	—	20,255,385
District attorney	20,026,319	14,294,893	(65,476)	—	—	256,826	—	37,716	—	—	14,506,407
Probation	41,348,203	8,663,811	(104,760)	—	(403,440)	1,206,739	—	26,922	—	—	42,040,101
Sheriff and coroner	8,663,811	10,448,543	(32,738)	—	(228,910)	120,386	—	77,873	(84,514)	—	8,591,642
Trial court	18,194,966	—	—	—	(2,236,302)	1,251,437	—	16,355	—	—	9,450,618
Fire protection	—	—	—	—	(43,916)	240,773	—	34,267	—	(2,008,671)	16,417,447
Other	15,171,844	—	—	—	(927,591)	1,382,975	(6,530,027)	28,574	—	—	9,125,775
Public ways and facilities	61,646,361	—	(111,309)	(1,000,000)	(54,327)	948,788	—	116,101	—	(23,753)	61,521,861
Health and sanitation	171,829,604	—	(307,735)	—	(820,798)	345,985	—	323,455	—	—	171,370,511
Public assistance	2,728,522	—	—	—	(26,984)	108,893	—	5,140	—	—	2,815,571
Education	1,390,051	—	—	—	(17,160)	176,666	—	2,618	—	—	1,552,175
Culture and recreation	—	—	—	—	—	—	—	—	—	—	—
Debt service:	—	—	—	—	—	—	—	—	—	—	—
Principal payments	14,417,441	—	—	(14,417,441)	—	—	—	—	—	—	—
Interest and fiscal charges	8,727,015	—	—	285,633	—	—	—	—	(98,965)	—	8,913,683
Debt issuance costs	813,954	—	—	—	—	—	—	—	—	—	813,954
Debt insurance costs	4,347,462	—	—	(4,347,462)	—	—	—	—	—	—	—
Defeasance costs	—	—	—	—	—	—	—	—	—	—	—
Depreciation—infrastructure	—	—	—	—	—	—	35,791,935	—	—	—	35,791,935
Capital outlay (3)	27,447,251	—	—	—	(27,447,251)	—	—	—	—	—	—
<b>Total expenditures</b>	<b>440,791,031</b>	<b>—</b>	<b>(654,756)</b>	<b>(18,479,270)</b>	<b>(35,523,806)</b>	<b>8,438,367</b>	<b>29,261,908</b>	<b>725,000</b>	<b>(183,479)</b>	<b>(2,637,088)</b>	<b>420,737,907</b>
Excess (deficiency) of revenues over expenditures/expenses	(49,284,854)	—	—	—	—	—	—	—	—	—	(31,598,679)
<b>OTHER FINANCING SOURCES (USES)</b>											
Capital leases	5,200,093	—	—	(5,200,093)	—	—	—	—	—	—	—
Certificates of participation issued	46,438,415	—	—	(46,438,415)	—	—	—	—	—	—	—
Premiums on debt issued	2,411,557	—	—	(2,411,557)	—	—	—	—	—	—	—
Payments to escrow agent	(41,875,000)	—	—	41,875,000	—	—	—	—	—	—	—
Transfers in	98,779,503	—	—	—	—	—	—	—	—	—	98,779,503
Transfers out	(98,673,503)	—	—	—	—	—	—	—	—	—	(98,673,503)
<b>Total other financing sources and uses</b>	<b>12,281,065</b>	<b>—</b>	<b>—</b>	<b>(12,175,065)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>106,000</b>
<b>Net change</b>	<b>\$(37,003,789)</b>	<b>\$ —</b>	<b>\$ 924,895</b>	<b>\$ 6,304,205</b>	<b>\$ 35,523,806</b>	<b>\$ (8,438,367)</b>	<b>\$ (29,261,908)</b>	<b>\$ (725,000)</b>	<b>\$ 183,479</b>	<b>\$ —</b>	<b>\$(31,492,679)</b>

Explanations:

- (1) The County has chosen to provide additional program details for the public protection function as discussed in paragraph 40 of Statement 34.
  - (2) The defeasance costs paid to the escrow agent (\$4,347,462) should be reported on the statement of net assets as a contra to the COPs liability. It is the "deferred amount from refunding" that will be amortized over the shorter period of the old debt. \$465,800 is added to the interest expenses for the amortization of the amount for this year. The premium (\$2,411,557) should also be amortized. This year's amortization is \$180,167. The net adjustment to interest expense is \$285,633 (\$465,800 less \$180,167).
  - (3) The \$1,000,000 payment on the toxic clean-up agreement was reported as health and sanitation expenditures.
  - (4) All expenditures reported in the capital outlay category exceed the county's capitalization threshold. In addition, other capital asset acquisitions are included in the expenditures of the various functional categories.
  - (5) See worksheet D. The \$6,530,027 adjustment is to remove the infrastructure expenditures that should be capitalized. The depreciation on infrastructure is included in the direct expenses of "Public Ways and Facilities."
  - (6) The pension assets and related amortization are reported only in governmental activities. Payroll in governmental activities represents 98 percent of all payroll of the County, therefore, allocation to business-type activities would not have a significant effect.
  - (7) The county's "availability" policy is sixty days, and some property taxes will be received beyond the cutoff. However, the beginning and ending accruals for delinquent taxes are roughly equal and would not require a material revenue adjustment. The adjustments for additional accruals represent the net decreases in compensated absences (\$84,514) and accrued interest on debt (\$98,965).
  - (8) These adjustments are necessary to eliminate the effect of internal activity as required by paragraph 59 of Statement 34.
- (8) The amounts reported as "Taxes" in the Special Aviation and Roads special revenue funds represent the County's share of aviation and motor fuel taxes and are reported as grants and contributions in the statement of activities.

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