

State of California

Special District Uniform Accounting and Reporting Procedures

December 2018 Edition



BETTY T. YEE

California State Controller's Office

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Notice

This edition of the *Special Districts Uniform Accounting and Reporting Procedures* (SPD) manual lists seventeen chapters and two Appendices, however, Chapter 9 on Leases is being revised due to new GASB implementations and is expected to be released in a following year.

To receive notification of updates to the SPD manual, please enroll in the Special Districts Information Updates Email Subscription Service at:

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

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FOREWORD

California Government Code section 53891 requires the State Controller to prescribe uniform accounting procedures for Special Districts. In order to comply with this code section, the *Uniform System of Accounts for Special Districts* manual was issued in 1949. In 2014, the *Uniform System of Accounts for Special Districts* manual was renamed and is now referred to as the *Special District Uniform Accounting and Reporting Procedures (SPD)* manual.

The SPD manual provides uniform accounting and reporting procedures that conform to Generally Accepted Accounting Principles (GAAP) and is for general use. Guidance for specific accounts (e.g., account numbers, names, etc.) is left to the discretion of the individual special district as long as the district sufficiently meets the statutory reporting requirements (e.g., Financial Transactions Reports, Apportionments) of the State Controller's Office (SCO).

The SCO is the legal authority for providing guidance on accounting and reporting procedures for special districts. While the guidance and examples found in this manual may correlate with SCO Financial Transaction Reporting (FTR) instructions, the guidance is not all-inclusive. It is recommended that users refer to the SCO's Local Government Reporting Forms and Instructions, for detailed guidance, which can be accessed using the following link:

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

The guidelines in the SPD manual are in accordance to governmental GAAP. The Governmental Accounting Standards Board (GASB), established as an arm of the Financial Accounting Foundation in April 1984, was created to promulgate standards of financial accounting and reporting on activities and transactions of California State and local governments and is the source of authoritative governmental GAAP (refer to Chapter 3.01, *What is GAAP*).

Governmental accounting and reporting standards are provided by the GASB through the issuance of GASB Pronouncements. These pronouncements have required numerous changes to the SPD manual. A complete listing of all GASB Pronouncements is located on the GASB website, which can be accessed using the following link:

<http://www.gasb.org/>

This edition of the SPD manual has been updated to include subject matter from GASB Statements up to and including GASB Statement No. 72, *Fair Value Measurement and Application*, as amended, to date. Additional materials from GASB Statements published after GASB Statement No. 72 will be incorporated into future editions of the SPD manual.

FOREWORD

While the SPD manual provides guidance on accounting and reporting procedures, there are times when legal provisions may be provided in this manual for reference purposes only. Conflicts between legal provisions and GAAP do not require maintaining two accounting systems. The accounting system may be maintained on a legal compliance basis, but should include sufficient additional records to permit GAAP-based reporting. In summary, where legal provisions conflict with GAAP, legal basis data is typically reflected in the accounts and are used as the starting point for deriving statements prepared in conformity with GAAP (refer to Chapter 3.02, *Conflicts between Legal Provisions and GAAP*).

The task of revising the manual to reflect these changes is a cooperative effort between the SCO, the Local Government Advisory Committee on Financial Reporting, and the Special Districts Policy and Interpretation Committee. The result of these efforts is a manual that provides current information to special districts conforming to generally accepted accounting principles.

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

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

The SPD manual serves as a guide to aid special districts in the installation of accounting and financial systems, to ensure that the systems that are developed will continue through changes in personnel, to answer questions on procedures, to aid in the audit process, and to assist in system evaluations.

Special District Uniform Accounting and Reporting Procedures

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Chapter 1: Introduction to Special Districts

Special District Basics

1.01 What is a Special District

A special district is a separate local government that delivers specific public services to a geographically limited area. Government Code section 56036 defines a special district as “...an agency of the state, formed pursuant to general law or special act, for the local performance of governmental or proprietary functions within limited boundaries....”

Special districts have four distinguishing characteristics.

- 1) They are a form of government.
- 2) They have governing boards.
- 3) They provide services and facilities.
- 4) They have defined boundaries.

Special districts deliver diverse services including water, electricity, and transit. Most special districts provide a single service, such as sewage treatment. Other special districts perform a wide range of activities, for example, Government Code section 61100 et seq., outlines the various types of services community services districts may provide.

Special districts generally have most of the same basic powers as counties and cities. They can sign contracts, employ workers, and acquire real property through purchase or eminent domain. Following constitutional limits, they can also issue bonds, impose special taxes, levy benefits assessments, and charge service fees. Like other governments, special districts can sue and be sued, as they are separate legal entities.

Special districts have corporate powers and tax powers, but rarely police power. *Corporate power* is the ability to perform tangible work, such as public works projects to build and maintain parks and sewers. *Tax power* is the authority to raise money to pay for these projects and services. *Police power* is the authority to regulate private behavior to accomplish a public goal.

1.02 What is Not a Special District

Special districts are not the state government. Special districts are local government agencies that deliver specific services to specific communities. Special districts operating under California State laws are autonomous government entities that are accountable to the voters or landowners they serve. California State officials, however, oversee California’s special districts.

Special districts are not county governments or cities. Counties and cities are general-purpose governments. Counties and cities perform a broad array of services to protect the health, safety, and welfare of all of their citizens. Special districts are limited-purpose governments. Special districts can provide only the services allowed by California State law and supported by their residents. Sometimes

county supervisors or city councils are special districts' governing boards, but those districts are legally separate local entities.

Special districts are not school districts or community college districts. School districts exist to provide one service, public education. Special districts can deliver a variety of public services, excluding education. School districts get most of their money from California State. Special districts rely mostly on local revenues.

Special districts are not “Mello-Roos” districts or assessment districts. Counties, cities, school districts, and many special districts can create Mello-Roos Act community facility districts and assessment districts to finance public works and public services. Mello-Roos districts and assessment districts are financing mechanisms and do not deliver services. Special districts use these financing mechanisms to provide public services.

The examples above do not constitute an all-inclusive list. For example, Government Code section 56036 also states that an air pollution control district or an air quality maintenance district does not qualify as a special district. Refer to Government Code sections 56036, 56036.5, and 56036.6 for more information on what constitutes a special district.

1.03 Types of Special Districts

Special districts are as diverse as the communities they serve. With over 3,700 special districts in existence, it may seem overwhelming to try to understand the purpose and function for all of them. One way of understanding special districts is to examine their activities, funding, and governance.

Most of California's special districts perform a single function such as sewage, water, fire protection, pest abatement, or cemetery management. Multi-function districts, like community services districts, provide two or more services.

Examples of special districts include, but are not limited to the following:

- Airport District
- Cemetery District
- Community Services District
- Drainage District
- Flood Control/Water Conservation District
- Fire Protection District
- Healthcare/Hospital District
- Harbor/Ports District
- Improvement District
- Irrigation District
- Library District
- Mosquito Abatement/Vector Control District
- Police Protection District
- Reclamation Districts
- Recreation & Park/Open Space District
- Sanitation/Sewer District
- Transit District
- Utility District
- Water District
- Waste Management Agency/Authority

Special District Activities

1.04 Single Function Special Districts

Many special districts are single function districts. They usually provide only one type of service such as water, sewage, mosquito abatement, waste disposal, or fire protection.

1.05 Multi-Function Special Districts

Multi-function special districts are districts whose functions cover a various range of services, from safety and recreation services to water, sewage, and street lighting services. Community services districts (refer to Gov. Code, §61000 et seq., *Community Services District Law*) and county service areas (refer to Gov. Code, §25210 et seq., *County Service Area Law*) are types of special districts that can provide any or all of a wide variety of services. An example of a multi-function district would be a fire protection district that is primarily formed to prevent and suppress fires, but is also authorized to provide ambulance service.

Special districts that engage in more than one activity should maintain separate revenue and expenditure accounts for each activity. Doing so will aid in the preparation of financial statements, as well as assisting with providing the necessary reports required by the State Controller's Office.

Special District Funding

Special districts are classified as either enterprise or nonenterprise, depending on the source of their funding. Regardless of their general designations, any special district may require accounting for both enterprise and nonenterprise funds (refer to Chapter 4, *Funds*).

1.06 Enterprise Special Districts

Enterprise special districts are primarily financed by user fees that are set at a level to cover costs. Airports, harbors, hospitals, and water and sewer utilities are examples of districts that operate as enterprise special districts.

1.07 Nonenterprise Special Districts

Nonenterprise special districts usually rely heavily on property tax revenues or parcel taxes as their major sources of revenue to pay for their operational expenses. Types of nonenterprise special districts include—but are not limited to—fire and police protection, cemeteries, libraries, and mosquito abatement programs, because the services they provide benefit the entire community, and not just individual residents.

No direct cost-benefit relationship exists in the services provided by nonenterprise districts. Consequently, nonenterprise special districts do not charge user fees for their services. Although nonenterprise special districts primarily rely on tax revenues, certain services—such as a recreation and park district's swimming pool or soccer programs—can generate some fee revenue.

Special District Governance

There are two forms of special district governance. A special district is classified as either independent or dependent, according to the type of governing body under which it operates.

The governance of a special district has no effect on governmental GAAP accounting requirements. The difference between the accounting for independent and dependent special districts would be procedural as dictated by the applicable governing body. The governing agency of a dependent special district (e.g., county or city), may incorporate district accounting in their government-wide financial statements. Dependent special districts can also reference the *Accounting Standards and Procedures for Counties* (ASP) manual for additional information.

Additionally, governance of a special district does not have any connection to its source of funding (enterprise or nonenterprise) or its activity (single function or multi-function).

1.08 Independent Special Districts

An independent special district operates under a locally elected, independent board of directors. It is “independent” from other governments and they are directly accountable to the people they serve. As defined by Government Code section 56044, an “...independent special district includes any special district having a legislative body all of whose members are elected by registered voters or landowners within the district....”

Approximately two-thirds of California State’s special districts are independent special districts. Independent special districts have separate governing boards elected by the special districts’ voters.

Registered voters of a community commonly select an independent district’s board of directors. In some water districts, political power rests with the landowners. In circumstances where the special districts’ services primarily benefit the land and not the people, the courts have upheld the use of landowner-voter districts.

An independent special district can be either single function or multi-function, and be either enterprise or nonenterprise. For example, a community services district can be an independent, multi-function, enterprise special district. This type of special district is independent because its voters elect their governing board; it is multi-function because it provides various services such as sewer, street lighting, and roadside maintenance services; and it is enterprise because the special district charges their customers user fees for the sewer services.

1.09 Dependent Special Districts

A dependent special district operates under the control of a county board of supervisors or a city council. City councils and county supervisors often appoint local advisory boards to assist and advise them in governing dependent special districts.

Dependent special districts typically have at least one or more of the following characteristics:

- One or more of its governing body members are identical to the governing body members of a single county or a single municipality;
- One or more of its governing body members are appointed by the governing body of a single county or a single municipality;
- During unexpired terms, its governing body members are subject to removal at will by the governing body of a single county or a single municipality;
- Its budget requires approval through an affirmative vote by the governing body of a single county or a single municipality; or
- Its budget can be vetoed by the governing body of a single county or a single municipality.

As defined in Government Code section 56032.5, a “dependent special district includes any special district that has a legislative body that consists, in whole or part, of ex officio members who are officers of a county or another local agency, or who are appointees of those officers, and who are not appointed to fixed terms.”

A dependent special district can be either single function or multi-function, and be either enterprise or nonenterprise. For example, a fire protection district can be a dependent, single function, nonenterprise special district. It is dependent because it is governed by a county board of supervisors; it is single function because it delivers only one type of service (e.g., fire protection); and it is nonenterprise because the special district is supported primarily by taxes. Note that while nonenterprise special districts may charge user fees for providing services, user fees are not their primary source of revenue.

1.10 Statutory Authority

There are over 50 major types of special districts (and many subcategories) ranging from airport to cemetery to water conservation districts. However, all types of special districts operate under either a principal act or special act.

A *principal act* is a generic statute that applies to all special districts of that type. For example, the Community Services District Law (refer to Gov. Code, §61000 et seq.) governs all community services districts. The five most common principal act districts are County Service Areas, Fire Protection Districts, Community Services Districts, Cemetery Districts, and County Water Districts.

Occasionally, local circumstances do not fit the general conditions anticipated by the principal acts. In these cases, the California State Legislature can use a *special act* to create a district that is tailored to the unique needs of a specific area. Special act districts are typically regional in nature, have unusual governing board requirements, provide unique services, or need special financing.

Examples of districts formed under special acts include the Embarcadero Municipal Improvement District (Santa Barbara County) and the Humboldt Bay Harbor, Recreation and Conservation District (Humboldt County).

Organizations

The following groups have resources to assist special districts with non-accounting guidance related to formation and the principal acts.

1.11 California Special Districts Association (CSDA)

The California Special Districts Association (CSDA) is a not-for-profit association formed to promote good governance and improved core local services through professional development, advocacy and other services for all independent special districts throughout California.

1.12 Local Agency Formation Commission (LAFCo)

LAFCo's are formed under California law (refer to Gov. Code, §56300 et seq.) and typically oversee boundary changes of cities and special districts, and formation of new agencies, which includes incorporation, consolidation, or reorganization of special districts or cities.

Laws and Related Codes (Principal Acts)

1.13 Airport Districts

California Public Utilities Code §22001 et seq.

These special districts facilitate the development of airports, spaceports, and air navigation facilities. The special district's objective is to encourage airport and spaceport development and to distribute the cost uniformly among all who benefit.

1.14 California Water Districts

California Water Code §34000 et seq.

These special districts acquire, plan, construct, maintain, improve, and keep in repair the necessary works for the production, storage, transmission, and distribution of water for irrigation, domestic, industrial and municipal purposes, and any drainage or reclamation works connected with any such projects.

1.15 California Water Storage Districts

California Water Code §39000 et seq.

These special districts acquire, improve and operate the necessary works for the storage and distribution water to customers for agricultural uses, supply hydroelectric energy to a variety of users, and provide groundwater banking and storage services. They have the ability to construct, purchase, lease, and exchange material for work that includes conduits, reservoirs, storage sites, water sheds, machinery, wells, pumps, dams, and other such appliances and their accessories.

1.16 Citrus Pest Districts

California Food and Agriculture Code §8401 et seq.

These special districts can be formed for the effective control and eradication of citrus pests. “Citrus pest” includes any infectious, transmissible, or contagious disease, any form of animal life, or any form of vegetable life infesting citrus trees or citrus fruits.

1.17 Community Services Districts (CSD)

California Government Code §61000 et seq. and California Public Contract Code §20680 et seq.

CSDs are special districts that provide more than one of the various services that other service-specific districts provide.

1.18 Cotton Pest Abatement Districts

California Food and Agriculture Codes §6051 et seq.

These special districts control and prevent the introduction of pests, the invasion by which may cause losses of several million dollars per year to California State’s cotton crop. The special district maintains control of cotton plants in areas that are at risk.

1.19 County Sanitation Districts

California Health and Safety Code §4700 et seq.

These special districts protect public health and the environment of the community by providing wastewater collection services in a safe, efficient, and innovative manner.

1.20 County Water Districts

California Water Code §30000 et seq.

These special districts provide various services which include distribution of water (present or future use), collection, treatment and disposal of sewage, garbage and trash services, fire protection and recreational facilities.

1.21 County Drainage Districts

California Water Code §56000 et seq.

County drainage districts typically acquire, construct, complete operate and maintain a surface or underground drainage system(s) thereof and such ditches, drains , conduits, pipelines, systems of ditches, drains, conduits or pipelines or combinations thereof as many be determined necessary to accomplish the objects and purposes of the district.

1.22 Fire Protection Districts

California Health and Safety Code §13800 et seq.

These special districts can be formed to provide fire protection and other emergency services within the community. Fire protection districts are formed under the Fire Protection District Law of 1987 (SB 515).

1.23 Harbor Districts

California Harbors and Navigation Code §6000 et seq.

These special districts are generally created for the improvement or the development of a harbor. Services provided by these districts may also include supervision of pilots and pilotage of sea-going vessels within the harbor and it may regulate and control the anchoring, mooring, towing and docking of vessels.

1.24 Hospital Districts

California Health and Safety Code §32000 et seq.

These special typically establish, maintain, and operate, or provide assistance in the operation of, one or more health facilities or health services, including, but not limited to, outpatient programs, services, and facilities; retirement programs, services, and facilities; chemical dependency programs, services, and facilities; or other health care programs, services, and facilities and activities at any location within or without the district for the benefit of the district and the people served by the district, including ambulance services.

1.25 Irrigation Districts

California Water Code §20500 et seq.

A community can form irrigation districts under the Irrigation District Law, the principal act, and existing special districts follow this law, except as otherwise noted. These districts generally provide services such as furnishing sufficient water for any beneficial use, drainage for irrigation purposes, purchasing or leasing of electricity, maintain and operate facilities for flood, control, sewage disposal services, maintenance and operation of recreational facilities for flood control, sewage disposal services, maintenance and operation of recreational facilities in connection of dams, reservoirs or other works owned and controlled by the district.

1.26 Levee Districts

California Water Code §70000 et seq.

These special districts acquire drains, canals, sluices, bulkheads, watergates, levees, embankments, pumping plants and pipelines and purchase, construct, maintain and repair those things in order to protect the land of the special district from overflow, and to conserve or add water to the sloughs and drains in their respective districts.

1.27 Library Districts

California Education Code §19400 et seq.

The library districts may establish, equip, and maintain public libraries for the dissemination of knowledge of the arts, sciences, and general literature.

1.28 Memorial Districts

California Military and Veterans Code §1170 et seq.

These special districts provide and maintain memorial halls, assembly halls, and buildings, along with suitable indoor and outdoor parks and recreation facilities, including swimming pools, picnic areas, and playgrounds, for the use of people or organizations.

1.29 Mosquito Abatement and Vector Control Districts

California Health and Safety Code §2000 et seq.

Communities can form mosquito abatement and vector control districts under the Mosquito Abatement and Vector Control District Law, the principal act for these special districts. The special districts function as an authority over programs for the surveillance, prevention, abatement, and control of mosquitoes and other vectors to protect the public health, safety, and welfare.

1.30 Municipal Utility Districts (MUD)

California Public Utilities Code §11501 et seq.

These special districts provide various services such as light, power, heat transportation, communication services, water services, sewage disposal services and solid waste services through construction, operation, maintenance of sewers, sewage treatment works, and solid waste resource recovery facilities for the purpose of reducing, converting, recycling solid waste, and other services within the MUD boundaries.

1.31 Municipal Water Districts

California Water Code §71000 et seq.

These special districts provide reliable water services to meet the needs of the community at an economical cost while taking the steps to promote water-use efficiency. The special districts may acquire, distribute, and store any water, including sewage and storm waters, for the beneficial use or uses of the special district, or the owners of rights to water in the special district. It may also undertake a water conservation program to reduce water use and restrict the use of special district water during any emergencies. It may also improve and operate public recreational facilities that are not appurtenant to a water reservoir but operated by the special district.

1.32 Pest Abatement Districts

California Health and Safety Codes §2800 et seq.

These special districts control and prevent the introduction of pests, which include any plant, animal, insect, fish, or other matter or material, not under human control, which is offensive to the senses or interferes with the comfortable enjoyment of life, or which is detrimental to the agricultural industry of the State of California, and is not protected under any other provision of law.

1.33 Police Protection Districts

California Health and Safety Code §20000 et seq.

These special districts protect and safeguard life and property by providing police and security services in unincorporated towns. These special districts may equip and maintain a police department as well as ambulances to secure police protection for the members of the special district.

1.34 Port Districts

Harbors and Navigation Code §6200 et seq.

Communities can form port districts pursuant to the principal act. Port district typically acquire, purchase, takeover, construct, maintain, operate, develop, and regulate wharves, docks, warehouses, grain elevators, bunkering facilities, belt railroads, floating plants, lighterage, lands, towage facilities, and any and all other facilities, aids, or public personnel, incident to, or necessary for, the operation and development of ports, waterways, and the district.

1.35 Public Cemetery Districts

Health and Safety Code §9000 et seq.

Communities can establish public cemetery districts under the Public Cemetery District Law, the principal act for public cemeteries. Typically, public cemetery districts own, operate, improve and maintain cemeteries and provide interment services to communities within their allocated boundaries.

1.36 Public Utility Districts

California Public Utilities Code §15501 et seq.

Public Utility Districts provide a variety of services. These services include, but not limited to light, heating, water, power, heat, transportation, telephone service (including other means of communication), disposition of garbage, sewage, or refuse matter, fire department, street lighting system public recreational facilities (including parks) and drainage of streets, roads and public places.

1.37 Reclamation Districts

California Water Code §50000 et seq.

These districts are formed for the maintenance, protection repair of reclamation works, in upon or appertaining to such body of lands, or for the completion of the reclamation thereof. Services provided by these districts include, but not limited to the acquiring, constructing, operating, maintaining, repairing and improvement of land, works and facilities for collection, treatment, and disposal of sewage waste. It may also maintain and operate a hydroelectric power plant for the sale of electricity.

1.38 Recreation and Park Districts

California Public Resources Code §5780 et seq.

This type of special district organizes and promotes programs of community recreation, parks and open space, parking, transportation and other related services to improve the quality of life in the community's.

1.39 Resort Improvement Districts

California Public Resources Code §13000 et seq.

Resort improvement districts exist to provide the various services to residents within its boundary. These include among other things, water services (irrigation, sanitation, industrial use, fire protection, and recreation); collection, treatment, or disposal of sewage, waste, and storm water of the district; fire and police protection services; disposal of garbage or refuse matter; public recreation by means of parks; and certain type of street and road development.

1.40 Resource Conservation Districts

California Public Resources Code §9151 et seq.

Resource conservation districts are formed for the control of runoff, the prevention or control of soil erosion, the development and distribution of water, and the improvement of land capabilities, generally for the viability of agricultural land. They have the authority to conduct surveys, investigations, and research. An elected board of directors governs these special districts.

1.41 River Port Districts

California Harbors and Navigation Code §6800 et seq.

These districts may acquire, purchase, takeover, construct, maintain, operate, develop and regulate wharves, docks, warehouses, grain elevators, bunkering facilities, belt railroads, floating plants, lighterage, lands, towage facilities, and all other facilities, aids, or public personnel, incident to, or necessary for, the operation and development of ports, waterways, and the district. Services may also include things such as improvement of navigation or commerce to or within the district.

1.42 Sanitary Districts

California Health and Safety Code §6400 et seq.

The Sanitary District Act of 1923 governs the formation, elections, governance, and operations of a sanitary district. Sanitary districts oversee all aspects of waste management systems, including construction, operation, collection, and treatment of garbage. An elected board governs the special district. A sanitary district may be merged with a county sanitation district, following the County Sanitation District Act.

1.43 Small Craft Harbor Districts

California Harbors and Navigation Code §7000 et seq.

The district may acquire, construct, reconstruct, improve, repair, develop, maintain, and operate a harbor and all related facilities. Other services may include, but not limited to include dredging services of shipways, channels, etc., acquisition, repair and maintenance of jetty type facilities (including buildings, docks, streets and roads), operation of fireboats and sanitary related facilities. For more information please refer to section 7149 of the California Harbors and Navigation Code.

1.44 Transit Districts

California Public Utilities Code §24501 et seq.

Transit Districts in California construct and operate rail lines, bus lines, stations, platforms, terminals and any other facilities necessary or convenient for transit service.

1.45 Water Conservation Districts

California Water Code §74000 et seq.

Water conservation districts can be formed under the Conservation Act of California, the Water Conservation Act of 1929 and the Water Conservation Act of 1931. These districts, among other things, conserve, store, spread and sink water and for such purposes may acquire to construct dams, dam sites, reservoirs and reservoir sites, canals, ditches and conduits, spreading basins, sinking wells, and sinking basins. These districts may also operate hydroelectric plants for the purposes of power generation (including the sale of power) and the operation of recreational facilities in connection to dams, reservoirs or other works owned or controlled by the district.

1.46 Water Replenishment Districts

California Water Code §60000 et seq.

Water replenishment districts are formed and governed under the Water Replenishment District Act. An elected board consisting of five members governs the special district, with the responsibility of replenishing and protecting the ground water supply of the community it serves.

Chapter 2: Governing Standards for Reporting

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Chapter 2: Governing Standards for Reporting

Introduction to Financial Reporting Mandates

Through the passage of principal acts and special acts as amended by California legislation, the statements below are applicable to special districts:

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

2.01 Local Government Financial Reporting System

The Local Government Financial Reporting System helps to provide for the timely, accurate, uniform, and cost-effective accumulation of financial and other information. Special districts, counties, municipalities, and California State agencies have vital roles and responsibilities in this system. Members of the Legislature and other officials rely on this information to:

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

Statutorily Required Reporting

Special districts are primarily accountable to the voters who elect their governing body and the customers who use their services. The State of California also provides critical oversight to special district operations. Pursuant to Government Code section 53891, special districts must submit annual financial reports to the State Controller and must follow California State laws pertaining to public meetings, bonded debt, record keeping, and elections. While special districts may maintain accounts best suited to their operations—they must keep records that correlate to the requirements needed to prepare the special districts financial transactions report. When special districts fail to file financial reports, actions can be taken to enforce compliance. Refer to Government Code sections 12464, and 53890 et

seq. for more information regarding reporting requirements and potential penalties that may be imposed on local agencies for not filing proper financial reports in a timely manner.

Each special district should review its statutory authority (if applicable) and charter to determine whether it complies with additional requirements that these procedures do not cover.

2.02 Reporting Laws

Special districts are bound by the same laws as other forms of local government (cities and counties), as follows:

- The *Ralph M. Brown Act*: most commonly referred to as The Brown Act, mandates that all meetings of the legislative body of a local agency (i.e., the board of directors) shall be open and public, and any member of the public is permitted to attend any meeting (refer to Gov. Code, §54950 et seq.);
- The *California Public Records Act*: gives the public the right to access information in the possession of public agencies immediately and freely (refer to Gov. Code, §6250 et seq.); and
- The *Political Reform Act of 1974: the California Fair Political Practices Commission*, formed through the enactment of the Political Reform Act of 1974, requires disclosure of gifts or money received by public officials and employees and the annual filing of Statements of Economic Interest (refer to Gov. Code, §81000 et seq.).

2.03 Reporting to California State Agencies

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

- The Annual Financial Audit Report;
- Financial Transactions Reports;
- Bond Related Reports;
- Retirement System Reports; and
- Government Compensation Report.

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

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

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

2.04 Reporting to General-Purpose Local Governments

General-purpose local governments need certain information to coordinate activities. Therefore, each special district must submit the following to each general-purpose local government in which it is located:

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

2.05 Reporting Special District Information Program

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

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

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

2.06 Noncomplying Special Districts

A special district that fails, or refuses, to make and file its report(s) (see section 2.08), within 20 days after receipt of a written notice of the failure from the State Controller’s Office, shall receive a penalty in accordance with Government Code section 53895.

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

2.07 Technical Assistance

In the case of a special district that did not file its required reports or information on time, the State Controller's Office will send a certified letter to the special district that summarizes the requirements. The letter will encourage the special district to take steps to prevent the noncompliance from recurring. Additionally, the State Controller's Office will send a certified letter to the special district's registered agent and a copy of the letter to the chair of the governing body of the general-purpose local government, which includes the following:

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

2.08 Enforcement

The State Controller's Office (SCO) will notify the Attorney General of any special districts that failed or refused to file the required reports within 20 days after receiving the SCO's written notice of the failure. Upon the request of the SCO, the Attorney General will impose one of the following penalties (refer to Gov. Code, §53895).

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

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

Chapter 3: The Accounting Process

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Chapter 3: The Accounting Process

Generally Accepted Accounting Principles (GAAP) and Legal Compliance

3.01 What is GAAP

Generally Accepted Accounting Principles (GAAP) are uniform minimum standards and guidelines for financial accounting and reporting. They are the framework within which financial transactions are recorded and reported, resulting in financial statements that provide comparability between governmental entities, consistency between accounting periods, and reliability for internal and external users of financial statements.

The Governmental Accounting Standards Board (GASB) *Codification* and *Original Pronouncements* are the authoritative sources of U.S. GAAP for state and local governments (e.g., special districts). Per the Financial Accounting Board (FAF), “The GASB establishes accounting and financial reporting standards for U.S. state and local governments that follow GAAP.” The FAF also states that, “GAAP-based financial information enables rating agencies to compare governments, while helping investors obtain more comprehensive and reliable information on a government’s finances.”

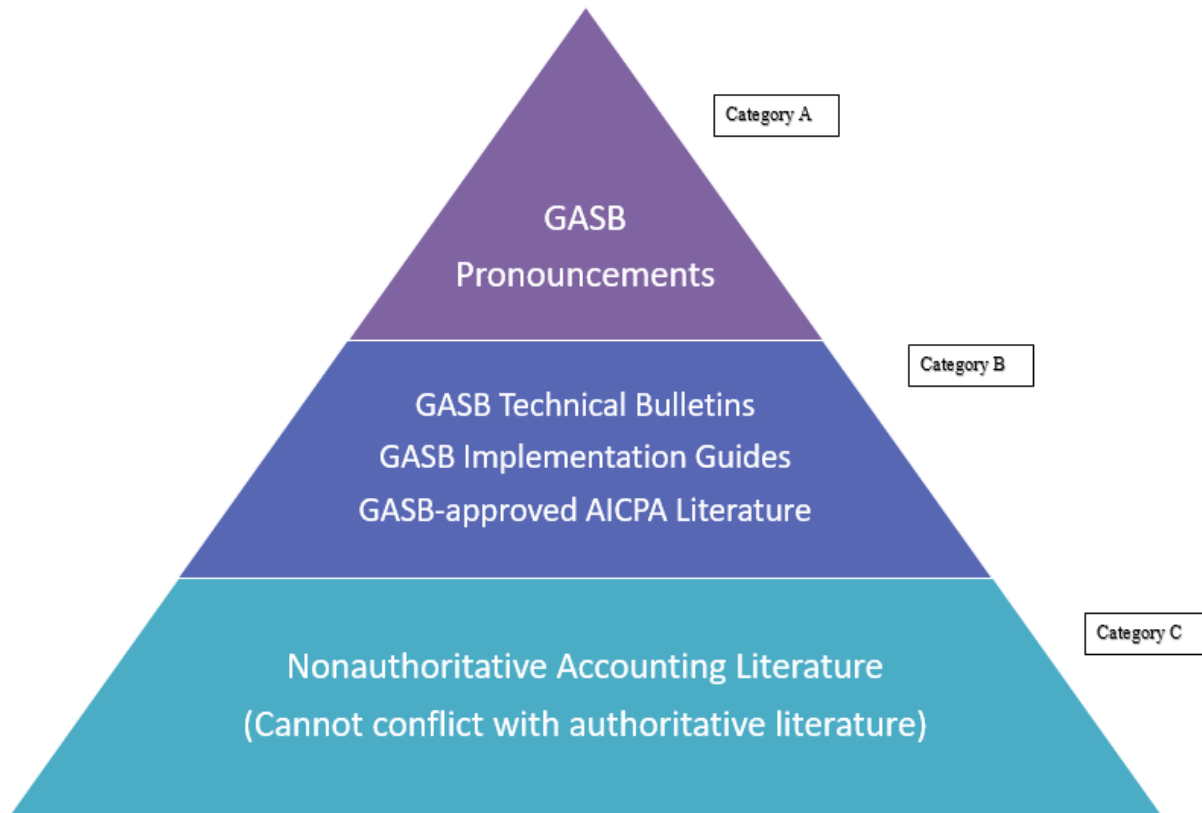
3.02 Conflicts between Legal Provisions and GAAP

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

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

3.03 GAAP Hierarchy

As stated in the Foreword, the guidance presented in this manual is per Generally Accepted Accounting Principles (GAAP). The hierarchy levels of authoritative GAAP guidance is displayed in the following pyramid and table.



Legend Table – GAAP Hierarchy

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

3.04 Recognized Authority

This manual is issued in compliance with Government Code section 53891, which requires the State Controller's Office to prescribe uniform accounting procedures for special districts. The State Controller's Office provides guidance in compliance with Generally Accepted Accounting Principles (GAAP).

The Governmental Accounting Standards Board (GASB) is the accepted authority on the establishment of accounting principles and practices. The standards established by the GASB provide guidance primarily for accounting and reporting for governmental operations.

Governmental accounting and reporting standards are provided by the GASB through the issuance of GASB Pronouncements. A complete listing of all GASB Pronouncements is located on the GASB website, which can be accessed via the following link: <http://www.gasb.org/>

General Policies

3.05 Objective

Accountability is the paramount objective of governmental financial reporting, the objective from which all other financial reporting objectives flow.

In addition to the overall objective of accountability, GASB Concept Statement No. 1, *Objectives of Financial Reporting*, as amended, identifies the following objectives of governmental financial reporting:

- Financial reporting should assist in fulfilling a government's duty to be publicly accountable and enable users to assess that accountability;
- Financial reporting should assist users in evaluating the operating results of the government entity for the year; and
- Financial reporting should assist users in assessing the level of services that can be provided by the government entity and assist in its ability to meet its obligations as they become due.

3.06 Internal Controls

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

3.07 Documentation and Retention

All financial transactions and records are subject to audit. Therefore, all financial transactions should be completely documented, and records should be retained as required by the laws and regulations. Refer to the Secretary of the State's website for Local Government Records Management at <https://sos.ca.gov>.

3.08 Legal and Contractual Restrictions

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

3.09 Electronic Methods

The accounting cycle is not altered by electronic methods of data processing. The formal journals and ledgers associated with manual processing are often unseen by the user in computer-posted records. Transactions are updated and stored in data tables in the background of the accounting system rather than physical books of original entry. The accounting cycle, however, is unchanged.

The journalizing and summarizing of transactions are performed by the computer, and the results are produced directly in statement or schedule form. In effect, transactions are still journalized and summarized, accounts adjusted, operating accounts closed, and statements prepared.

3.10 Uniformity

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

3.11 Materiality

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

Accounting Fundamentals

Accounting fundamentals are part of the recording, classifying, and summarizing in a significant manner and in terms of money, transactions, and events of the financial character of special districts.

3.12 Accounting Equation

All double-entry accounting systems are based on one or both of the following relationships:

Proprietary and Fiduciary Funds including Government-Wide Financial Statements

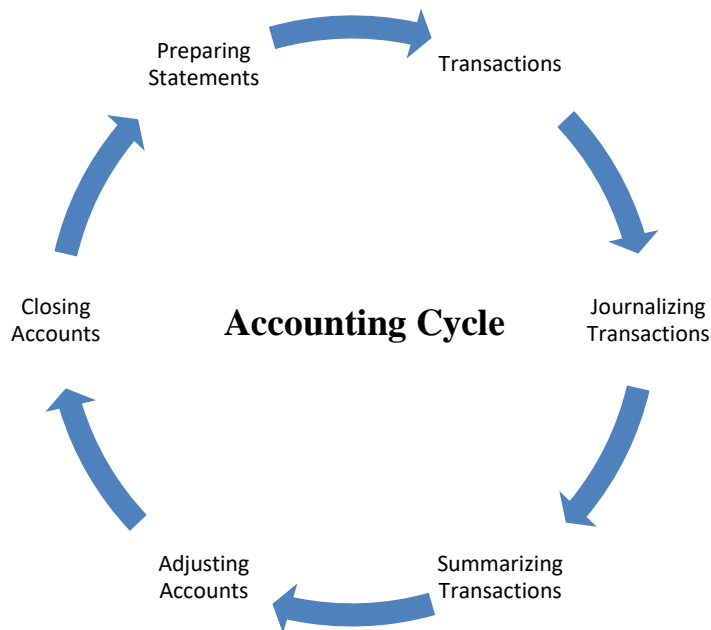
$$ASSETS + DEFERRED OUTFLOWS = LIABILITIES + DEFERRED INFLOWS + NET POSITION$$

Governmental Funds

$$ASSETS + DEFERRED OUTFLOWS = LIABILITIES + DEFERRED INFLOWS + FUND BALANCE$$

3.13 The Accounting Cycle

The recording and processing of accounting data follows the pattern indicated in the diagram below:



3.14 Source Documents

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

3.15 Journals

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

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

Today, special districts can use accounting systems that have the ability to record multiple journal entries. To ensure completeness of the record and to assist in its audit, source documents are either pre-numbered or numbered as prepared.

Some journals may also serve as a means of classification. For example, a check register may classify checks according to the fund or fund group against which they are drawn.

3.16 General Ledgers

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

3.17 Subsidiary Ledgers

As the general ledger holds all the historical journal entries, some key general ledger accounts become so complex that a separate ledger, or subsidiary ledger, is needed to keep track of its transactions. For example, the Sacramento Municipal Utility District (SMUD) general ledger might include only one accounts receivable account for purposes of recording utility bills not paid, yet it may have thousands of customers. It would be necessary for SMUD to create a subsidiary ledger to hold each customer's account and include the grand total of that ledger in the general ledger.

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

3.18 Trial Balance

A trial balance is a comparison of the debit balances in a general ledger, with a similar listing of the credit balances. If the two are equal, the accounts are in balance. This process substantiates that both the debit and the credit effects of all recorded transactions have been posted to the general ledger.

3.19 Adjusting Entries and Accounting Changes

Adjusting entries are those that are necessary to bring the balance of an account to the correct amount at a given date. They are made prior to closing the books. The number of such entries usually increases in proportion to the degree to which the accrual basis of accounting is used, particularly if the daily accounting has been performed on a cash basis. Adjusting entries include entries recording accounts and taxes receivable, physical inventories, and accounts payable as of the date of closing.

When prior period adjustments are recorded, their effect on the change in net assets should be disclosed in the notes to financial statements. When financial statements are presented for single periods, the disclosure of prior period adjustments should indicate the effects on the beginning balances in net assets of the immediately preceding period. When the financial statements are for multiple periods, the disclosure should include the effects of the prior period adjustments on the periods being impacted.

A change in an accounting estimate is usually the result of new events, shifting conditions, changes in accounting principles or additional information, any of which requires the revision of previous estimates. A change in an accounting estimate should be accounted for (1) in the period of change if the change affects only that period, or (2) in the period of change or future periods if the change affects both.

3.20 Closing Entries

Closing entries transfer the balances in the operating accounts to the fund balance or net position. After closing, only the balance sheet or statement of net position accounts have balances. The use of budgetary control accounts in the general ledger does not affect the actual revenues and expenditures recognized during the accounting period.

3.21 Reversing Entries

Adjusting entries can have the effect of recording certain revenues and expenditures before they would have been normally entered in the books. Adjusting entries need to be reversed at the beginning of the new period. Amounts already recorded as part of the operations of the prior period are thereby automatically excluded from the current totals.

3.22 General Journal Entries

A journal entry is a logging of transactions into an account record keeping system. The journal entry can consist of several recordings, each of which is either a debit or credit. The total of the debits must equal the total of the credits or the general journal entry is said to be out of balance. The standard general journal entry form used in this manual is shown below.

| Account Names | Debits | Credits | Debits | Credits |
|-------------------------------------|--------------------------|---------|-----------------------|---------|
| | <i>Subsidiary Ledger</i> | | <i>General Ledger</i> | |
| General ledger accounts debited | | | X | |
| General ledger accounts credited | | | | X |
| Subsidiary ledger accounts debited | X | | | |
| Subsidiary ledger accounts credited | | X | | |

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

Brief Explanation:

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

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

| Account Names | Debits | Credits | Debits | Credits |
|--|--------------------------|-----------|-----------------------|-----------|
| | <i>Subsidiary Ledger</i> | | <i>General Ledger</i> | |
| Cash | | | \$ 40,000 | |
| Revenues | | | | \$ 40,000 |
| Revenues — Property Taxes – Prior Year – Secured | | \$ 39,000 | | |
| Revenues — Property Taxes – Prior Year – Unsecured | | 1,000 | | |
| <i>(Receipt of Apportioned Taxes)</i> | | | | |

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

| Account Names | Debits | Credits | Debits | Credits |
|---|--------------------------|---------|-----------------------|---------|
| | <i>Subsidiary Ledger</i> | | <i>General Ledger</i> | |
| Office Supplies and Non Capitalized Equipment | | | \$ 470 | |
| Cash | | | | \$ 470 |
| Office Supplies | \$ 150 | | | |
| Surveyor – Minor Equipment | 320 | | | |
| <i>(Purchases by Treasurer and Surveyor)</i> | | | | |

Basis of Accounting

The simplest way to understand the concept of basis of accounting is to determine the timing of a particular transaction.

3.23 Cash Basis

Under the cash basis of accounting, revenues and expenditures are recognized as cash is received and disbursed.

3.24 Modified Accrual

Under the modified accrual basis of accounting, revenues and other financial resources are recognized when they become both measurable and available to finance expenditures of the current period. Each special district should adopt an availability period for all revenue. Expenditures are usually recognized when the fund liability is incurred, such as taking out a loan. Modified accrual of accounting is most suited for governmental type funds.

The modified accrual basis of accounting describes when transactions are recorded, not what transactions are recorded. Therefore allocations, such as depreciation and amortization, are not recorded as expenditures in a modified accrual system.

3.25 Accrual Basis

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

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

Following are examples that illustrate the effects of the differences outlined above:

| Billing for Services Rendered | |
|---|---|
| Fund Financial Statements | Government-Wide Financial Statements |
| DR Cash CR Revenue CR Unearned Revenue | DR Receivable CR Revenue |
| <i>Only the amount available to finance liabilities of the current period would be recognized as revenue.</i> | <i>Entire revenue recognized in the period in which service was provided. The timing of collection is not relevant.</i> |

| Employees Earn Vacation Leave that will be Taken or Paid Out in the Future | |
|---|---|
| Fund Financial Statements | Government-Wide Financial Statements |
| DR Expense CR Accrued Liability | DR Expense CR Accrued Liability |
| <i>Leave would be recognized as expenditure to the extent it is expected to be liquidated with current spendable resources.</i> | <i>The liability has been incurred.</i> |

| Fund Balance/Net Position The Difference Between Assets and Liabilities | |
|--|---|
| Fund Financial Statements | Government-Wide Financial Statements |
| Fund Balance | Net Position |
| Non-Spendable | Net invested in capital assets, net of related debt |
| Restricted | Restricted (Expendable/Non Expendable) |
| Committed | Unrestricted |
| Assigned | |
| Unassigned | |

Basic Governmental Accounting Principles

A government accounting system must make it possible to both:

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

In California, there are few, if any, provisions of general statutory law that conflict with GAAP. However, if a conflict does exist, financial statements must be prepared in conformance with the statutory law. This does not mean that two accounting systems are required. Books of account should be maintained on a legal compliance basis, but should include sufficient additional reports to permit GAAP-based reporting.

3.26 Accounting Principles

The following are basic principles of accounting and reporting that are applicable for special districts when choosing to apply fund-based accounting as integrated into the GASB Codification of Governmental Accounting and Financial Reporting Standards. These principals are covered in detail throughout the *Special Districts Uniform Accounting and Reporting Procedures (SPD)* manual.

- Accounting and Reporting Capabilities
- Fund Types
- Fund Accounting Systems
- Number of Funds
- Reporting Capital Assets
- Valuation of Capital Assets
- Depreciation of Capital Assets
- Reporting Long-Term Liabilities
- Measurement Focus and Basis of Accounting
- Budgeting, Budgetary Control, and Budgetary Reporting
- Transfer, Revenue, and Expenditure Account Classification
- Common Terminology and Classification
- Interim and Annual Financial Reports
- Contingency Appropriation
- Interfund Activities (Transactions)

Common terminology and classification should be applied consistently throughout the budget, the accounts, and the financial reports of each fund.

- The term *expenditure* should be used only in connection with governmental funds.
- The term *fund balance* should be used only in connection with governmental funds and should not be used in government-wide or proprietary funds.
- The term *expense* applies only to proprietary funds and to the government-wide financial statements.
- The term *net position* is the difference between a government’s assets and its liabilities. The net position should be displayed in three components: invested in capital assets, net of related debt; restricted (distinguishing between major categories of restrictions); and unrestricted.
- The terms *receipts* and *disbursements* imply cash basis accounting and are not used in connection with accrual or modified accrual basis financial statement reporting.

Appropriate interim financial statements and other pertinent information should be prepared to facilitate management control of financial operations, legislative oversight, and, where necessary or desired, for external reporting purposes. Comprehensive Annual Financial Reports (CAFR) allows users to distinguish between a primary government and its component units.

3.27 Measurement Focus

Special districts may maintain their accounting records on a modified accrual basis of accounting, which measures the flow of current financial resources. When preparing the government-wide financial statements, special districts must convert the financial information to the accrual basis of accounting, which measures the flow of economic resources (refer to Chapter 17, *Financial Reports*).

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

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

| Receipt of Long-Term Debt Proceeds | |
|--|---|
| Fund Financial Statements | Government-Wide Financial Statements |
| Increase in spendable resources | Economic position not improved |
| DR Cash CR Other Financing Sources | DR Cash CR Bonds Payable (Activity Statement only) |
| Payment of Principal on Long-Term Debt | |
| Fund Financial Statements | Government-Wide Financial Statements |
| Decrease in spendable resources | Economic position not diminished |
| DR Expenditure CR Cash | DR Bonds Payable CR Cash |

| Capital Acquisition | |
|---------------------------------|--------------------------------------|
| Fund Financial Statements | Government-Wide Financial Statements |
| Decrease in spendable resources | Economic position not diminished |
| DR Expenditure CR Cash | DR Equipment CR Cash |

| Exhaustion of Capital Assets | |
|----------------------------------|--|
| Fund Financial Statements | Government-Wide Financial Statements |
| No effect on spendable resources | Economic position diminished |
| Depreciation is not recognized | DR Depreciation Expense CR Accumulated Depreciation |

| Deferrals and Amortization | |
|---|--|
| Fund Financial Statements | Government-Wide Financial Statements |
| Decrease in spendable resources at the time the expenditure is incurred | Economic position diminished only by the expense for the benefited period |
| DR Expenditure CR Cash | DR Deferred Outflow CR Cash DR Amortization Expense CR Deferred Outflow <i>Expenses allocated over the entire period of benefit.</i> |

3.28 Minimal Accounting Requirements for Special Districts

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

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

The legislative body of the special district may adopt a resolution for the destruction or disposition of their categorized records or adopt and comply with a record retention schedule that complies with guidelines provided by the California Secretary of State (refer to section 3.07).

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

Miscellaneous Accounting Processes

3.29 Stabilization Arrangements

Many special districts currently set aside part of their fund balance for emergencies, working capital, cash flows, revenue shortages, or other contingencies. The authority to set aside these amounts usually comes from ordinances or resolutions. These funds are known as *stabilization arrangements*.

For special districts to be able to set aside these types of funds as restricted or committed, the special district must define when these amounts may be used and specify a situation that cannot be expected to occur on a routine basis. For example, identifying funds to be accessed in an emergency does not sufficiently detail the circumstances or conditions that must be met to consider the funds committed. The special district must be more specific in defining an emergency to commit these funds.

If the arrangement meets the criteria outlined in GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Types Definitions*, as amended, it would be reported as either restricted or committed, depending on the source of the constraints. Stabilization arrangements that do not meet the requirements outlined in GASB Statement No. 54, as amended, should be reported as part of unassigned fund balance in the general fund.

Governments that establish stabilization arrangements, even if an arrangement does not meet the criteria to be classified as restricted or committed, should disclose the following information in the notes to financial statements:

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

3.30 Uncollectible

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

Chapter 4: Funds

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Chapter 4: Funds

Fund Accounting Systems

Governmental accounting systems should be organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts that record cash and other financial resources, together with all related liabilities and transfers or balances, and changes therein. Funds are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

4.01 Use of Funds

Governmental units should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established because unnecessary funds may result in inflexibility, undue complexity, and inefficient financial administration.

Fund Categories

Governmental funds primarily are used to account for the sources, uses, and balances of current financial resources and often have a budgetary orientation. Current financial resources are those assets that are expendable during a budgetary period and they are often segregated into a specific governmental fund based on restrictions imposed by outside authorities or parties, or strategies established by internal management. Liabilities of a governmental fund are matured obligations paid from the current period resources held by that particular fund.

Proprietary funds are used to account for special district activities similar to those that may be performed by the commercial enterprise-type organizations. Proprietary funds use the accrual basis of accounting and economic resources measurement focus.

Fiduciary funds are used to account for assets held by a special district for other parties (either as a trustee or as an agent) and that cannot be used to finance the special district's own operating programs.

4.02 Standard Funds

The three categories of funds used in governmental accounting: Governmental Funds, Proprietary Funds, and Fiduciary Funds.

| Funds | Definition |
|--|---|
| Governmental Funds account for most governmental functions. | |
| General | To account for all financial resources except those required to be accounted for in another fund. |
| Special Revenue | To account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditure for specified purposes. |
| Capital Projects | To account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). |
| Debt Service | To account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. |
| Permanent | To account for received resources from other parties, whereby the use of the resources is restricted to the extent that only earnings, and not principal, may be used for purposes that support the special district's programs. |
| Proprietary Funds account for a government's ongoing activities that are similar to those found in the private sector. | |
| Enterprise | To account for operations (a) that are financed and operated in a manner similar to private business enterprises—where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. |
| Internal Service | To account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis. |
| Fiduciary Funds account for assets held by a governmental unit in a trustee or agent capacity. | |
| Trust and Agency | <p>To account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations other governmental units, or other funds. These funds include:</p> <ul style="list-style-type: none"> • Pension (and Other Employee Benefit) Trust Funds; • Investment Trust Funds; • Private Purpose Trust Funds; and • Agency Funds. |

4.03 General Fund

| Category | Governmental |
|-----------------------------------|--|
| Purpose | To account for and report all financial resources except those required to be accounted for in another fund. |
| Basis of Accounting | Modified Accrual. |
| Primary Means of Spending Control | Annual budget appropriation limitations. |
| Usual Financing Sources | All sources except bonds. |
| Measurement Focus | Flow of current financial resources. |
| Specific Accounting Treatment | Capital asset purchases are expenditures. Capital assets and long-term liabilities are not recorded. |

4.04 Special Revenue Funds

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

4.05 Capital Projects Funds

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

4.06 Debt Service Funds

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

4.07 Permanent Funds

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

4.08 Enterprise Funds

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

4.09 Internal Service Funds

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

4.10 Trust and Agency Funds

Trust and agency funds are comprised of the following categories:

- Pension (and Other Employee Benefit) Trust Funds
- Investment Trust Funds
- Private Purpose Trust Funds
- Agency Funds

(A) Pension (and Other Employee Benefit) Trust Funds

| Category | Fiduciary |
|-----------------------------------|---|
| Purpose | To account for assets held by a government in a trustee capacity for public employee retirement system and other employee benefits in the public employee retirement system. |
| Basis of Accounting | Accrual. |
| Primary Means of Spending Control | Contractual arrangements, legislative requirements (e.g., pension and OPEB provisions of the law), etc. |
| Usual Financing Sources | Contributions by private entities, employee/employer contributions, investment earnings, etc. |
| Measurement Focus | Flow of economic resources. |
| Specific Accounting Treatment | <ul style="list-style-type: none"> • Capital assets and long-term liabilities are included in the funds' accounts. • Plan assets used in plan operations (for example, buildings, equipment, furniture and fixtures, and leasehold improvements) should be reported at historical cost less accumulated depreciation or amortization. |

(B) Investment Trust Funds

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

(C) Private Purpose Trust Funds

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

(D) Agency Funds

| Category | Fiduciary |
|-----------------------------------|---|
| Purpose | To account for assets held by a government in an agency capacity for individuals, private organizations, and other governments. |
| Basis of Accounting | Accrual. |
| Primary Means of Spending Control | Fiduciary agreements and laws. |
| Usual Financing Sources | Agency funds financing sources typically include resources held in a custodial capacity. This includes resources such as receipt, temporary investment, and remittance of fiduciary resources to their respective owners. |
| Measurement Focus | Flow of economic resources. |
| Specific Accounting Treatment | Agency funds are custodial in nature, merely clearing accounts (assets equal liabilities). At all times, total agency fund assets are offset by related liabilities, including “due to.” Where cash is the only asset, agency funds may be combined, showing one cash account and the individual liabilities. |

Fund Purpose and Concepts

Governmental accounting and financial reporting are intended to provide assurance that available governmental resources are controlled and spent in accordance with the organization spending, product and service delivery decisions, and a variety of legal and contractual provisions.

4.11 Classifying Restrictions on Fund Balance—Governmental Funds

A special district should classify its fund balances based on the nature of the particular net resources reported in a governmental fund. The special district would first start by identifying non-spendable net resources, followed by restricted, committed, assigned and, lastly, unassigned. This will classify a fund’s net resources from those that have the most constraints placed on their use to the least.

A fund’s net resources also are affected by the spending policy of that special district. A special district should determine the order of use of resources when expenditures/expenses are incurred.

4.12 Fund Balance Reporting

| Fund Balance Reporting | | |
|------------------------|--|---|
| Classification | Definition | Examples |
| Non-Spendable | <p>Amounts that cannot be spent because they are either:</p> <p>(a) Not in spendable form; or</p> <p>(b) Legally or contractually required to be maintained intact.</p> | <ul style="list-style-type: none"> • Inventories • Prepaid items • Long-term receivables in the general fund • Permanent principal of permanent funds |
| Restricted | <p>Fund balances should be reported as restricted when constraints placed on the use of resources are either:</p> <p>(a) Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or</p> <p>(b) Imposed by law through constitutional provisions or enabling legislation.</p> | <ul style="list-style-type: none"> • Restricted by state statute • Unspent bond proceeds • Grants earned but not spent • Debt covenants • Taxes dedicated to a specific purpose • Revenues restricted by enabling legislation |

| Fund Balance Reporting (continued) | | |
|------------------------------------|--|---|
| Classification | Definition | Examples |
| Committed | Used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. | <ul style="list-style-type: none"> • The governing board has decided to spend \$1M for a new city hall (self-imposed restriction) • Property tax levies set for a specific purpose by resolution • Property tax levies set for a specific purpose by resolution |
| Assigned | Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. | <ul style="list-style-type: none"> • Governing board has set aside \$2M for a county hospital, and the county manager may amend this up to \$10M • Governing body delegates the authority to assign fund balances to the finance officer • Governing board has appropriated fund balance to balance next year's budget • Positive residual balances in governmental funds other than the general fund |
| Unassigned | Unassigned fund balance is the residual classification for the general Fund. This is fund balance that has not been reported in any other classification. The general Fund is the only fund that can report a positive unassigned fund balance. Other governmental funds would report deficit fund balances as unassigned. | |

4.13 Interfund Activities

Activity that takes place between funds or blended component units within the same district—such as transfers and their associated due to and due from, and revenues and expenses/expenditures with their associated receivable and payable—is called *interfund activity*.

This interfund activity within the fund statements must be analyzed, reclassified, and eliminated in the government-wide statement of net assets and statement of activities. This interfund activity reported in the fund statements can be either reciprocal or nonreciprocal.

Reciprocal interfund activity is the internal counterpart to exchange and exchange-like transactions, and includes interfund loans and interfund services. Reciprocal interfund activity generally should be reported as revenues and expenses or expenditures in the fund operating statements, and as receivables and payables in the fund balance sheet.

Nonreciprocal internal activity is the internal counterpart to nonexchange transactions, including interfund transfers and interfund reimbursements, and should be reported as other financing uses or sources.

In the handling of transactions and transfers between funds, care must be exercised to see that the proper financing sources and uses are reflected in each fund.

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

| Interfund Transactions (continued) | | | |
|--|---|--|---|
| Interfund Transfers (Nonreciprocal) | Governmental Funds should report these transactions as other financing uses and other financial sources of funds. Proprietary Funds should report this type of transfer in their activity statements | 1. Within the government or business-type activities: should not be eliminated 2. Between governmental and business-type activities: present as internal balances | 1. Within governmental or business-type activities: should not be eliminated 2. Between governmental or business-type activities: present as internal activity |
| Reimbursements (Reciprocal) | 1. Expenditures/Expenses in reimbursing fund 2. Reduction of expenditure/expenses in fund that is reimbursed | Not Applicable | 1. Expense in reimbursing entity 2. Reduction of expenses in entity that is reimbursed |
| Transfers between special district and fiduciary funds (Non Reciprocal) | Governmental Funds should report these transactions as other financing uses and other financial sources of funds. Proprietary Funds should report this type of transfers in their activity statements | Receivables/Payables from external parties | Revenues/Expenses from external parties |
| Transfers between special district and discrete component units (Reciprocal) | Receivables/Payables Revenues/Expenses or Expenditures | Receivables/Payables shown as separate line item (receivable from state, payable to component units) | Revenues/Expenses from external parties |

4.14 Fund Financial Statements

GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, as amended, requires that the following financial statements be presented for governmental funds:

- **Balance Sheet:** report information on current financial resources in each major governmental fund and, in aggregate, nonmajor governmental funds; and
- **Statement of Revenues, Expenditures, and Changes in Fund Balance:** report information about inflows, outflows, and balances of financial resources of each major governmental fund and, in aggregate, nonmajor governmental funds.

Required financial statements for fiduciary funds are:

- **Statement of Fiduciary Net Position:** should include information about the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position for each fiduciary fund type.
- **Statement of Changes in Fiduciary Net Position:** should include information about the additions to, deductions from, and net increase (or decrease) for the year in net position for each fiduciary fund type. The statement should provide information about significant year-to-year changes in net position.

The following financial statements should be prepared by any special districts using enterprise funds.

Statement of Net Position: Assets and liabilities should be classified as current and noncurrent. Special districts can prepare the statement of net position in the net position (refer to GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, as amended, and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, as amended).

- **Statement of Changes in Net Position** (refer to GASB Statement No. 34, as amended): While preparing the statement of revenues, expenses, and changes in net position, special districts should ensure that revenues are reported as a major source; revenues restricted for the payment of revenue bonds should be identified.

- **Statement of Cash Flows:** The statement of cash flows should be prepared in accordance with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, as amended, is one of the required financial statements for enterprise funds. The statement of cash flows classifies cash receipts and payments according to whether they stem from operating, noncapital financing, capital and related financing, or investing activities. In accordance with GASB Statement No. 34, as amended, the direct method of presenting cash flows from operating activities (including a reconciliation of operating cash flows to operating income) should be used.

Under the direct method, gross receipts and payments should be reported by major classes such as cash receipts from customers, cash payments to employees for services, cash payments to suppliers for goods and services, etc. Under the indirect method, the reconciliation described for the direct method replaces the information on gross cash flows related to operating activities on the face of the cash flows statement. Also, a reconciliation of cash flows from operating activities to operating net income must be presented; this would include reconciling items such as changes in receivables relating to operating activities, changes in inventory, changes in payables and add-back of noncash expenses. GASB Statement No. 9, as amended, also requires that noncash transactions that affect financial positions (e.g., acquisition of an asset with debt) be disclosed separately in either a narrative or tabular format.

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Chapter 5: Budgetary Accounting

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Chapter 5: Budgetary Accounting

Principles of Budgetary Accounting

Budgeting is an important component of financial planning, control, and the evaluation of processes for most governments, including special districts. Every special district should prepare a comprehensive budget covering all governmental, proprietary, and fiduciary funds for each annual biennial fiscal period.

5.01 The Budgetary Accounts

A budget is typically regarded as a plan of financial operation for a given period of time. There are typically two types of budgets:

- *Annual Budget:* provides a basis of control of financial operations during a fiscal year.
- *Long Term Budgets:* presents estimates of revenues and expenditures or expenses for a period of several years—usually four to six years. The long-term budget is typically regarded as a planning document or a capital outlay plan—commonly referred to as a capital budget.

Formal budgetary integration is generally necessary for any capital projects fund that is used to account for multiple projects. Special districts sometimes employ formal budgetary integration to protect against capital projects cost overruns and to ensure that sufficient resources are available on a timely basis to meet expenditure requirements during the course of the year. Amounts encumbered for specific purposes should be classified as restricted, committed, or assigned fund balance, depending upon the spending limitations of the funding source. Special districts should not report an amount if it is going to cause a deficit in the unassigned fund balance within the general fund.

Budgetary accounts are those necessary to reflect budget operations and conditions. Budgetary accounts are generally used as a control mechanism for general, special revenue and similar governmental funds because the annual budget is a legal requirement for dependent special districts. This does not mean that independent special districts are prohibited from using budgetary accounting as a control mechanism. Although largely based on estimates, budgetary accounts are used exclusively for control purposes and therefore do not affect actual revenues and expenditures. Government code section 29000 et al. specifies the content of the budget, budget adoption procedures, and dates by which actions must be taken.

Special districts whose affairs and finances are under the supervision and control of a county board of supervisors are subject to the same rules and regulations. While many special district acts require special districts to adopt an annual budget, Government Code section 53901 requires special districts to file their adopted budget with the county in which the special district conducts its principal operation. Flexible budgets embody estimates based on fluctuating demands for goods and services.

In proprietary funds, the demand for goods and services typically drives revenues and expenses—therefore they are better suited for proprietary fund planning, control, and evaluation purposes than are fixed budgets. Fixed budgets typically contain estimates of fixed dollar amounts.

Special districts have the option to use encumbrances. Special districts that use encumbrance accounting should disclose significant encumbrances in the notes to the financial statements.

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

Budgetary Accounts

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

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

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

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

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

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

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

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

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

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

5.02 Control and Subsidiary Ledger Accounts

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

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

Combined Subsidiary Ledgers

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

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

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

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

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

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

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

5.03 The Encumbrance System

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

Example:

1. A purchase order is issued for a laptop for the district manager. The estimated cost is \$2,500.

| Account Name | Debit | Credit |
|---|----------|----------|
| Encumbrances—Manager—Equipment | \$ 2,500 | |
| Budgetary Fund Balance— Reserved for Encumbrances | | \$ 2,500 |
| <i>To record encumbrance for manager's laptop</i> | | |

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

| Account Name | Debit | Credit |
|--|----------|----------|
| Budgetary fund balance reserved for encumbrances r Encumbrances | \$ 2,500 | |
| Encumbrances—Manager—Equipment | | \$ 2,500 |
| <i>To reverse the encumbrance for managers laptop</i> | | |

| Account Name | Debit | Credit |
|---|----------|----------|
| Expenditures—Manager— Equipment | \$ 2,530 | |
| Cash | | \$ 2,530 |
| <i>To record the payment for manager's laptop</i> | | |

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

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

5.04 Extent of Application

When an encumbrance system is used, appropriations should be encumbered for all purchase orders, contracts, and other written commitments.

5.05 The Need for an Encumbrance System

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

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

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

5.06 Year-End Treatment of Budgetary Accounts

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

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

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

Example:

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

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

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

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

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

| Account Name | Debit | Credit |
|--------------------------|-----------|-----------|
| Encumbrances | \$ 50,000 | |
| Reserve for Encumbrances | | \$ 50,000 |

5.07 Deposit with Others

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

Example:

- A deposit is made for the project.

| Account Name | Debit | Credit |
|--|-----------|-----------|
| Encumbrances | \$ 50,000 | |
| Reserve for Encumbrances | | \$ 50,000 |
| <i>(Professional and special services)</i> | | |

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

- Upon completion of the project, the district’s share of the cost is \$46,000. The remaining \$4,000 on deposit is refunded. Payments are expensed and the encumbrance reversed when the deposit is applied to project costs.

| Account Name | Debit | Credit |
|--|-----------|-----------|
| Reserve for Encumbrances | \$ 50,000 | |
| Encumbrances | | \$ 50,000 |
| <i>(Professional and special services)</i> | | |

| Account Name | Debit | Credit |
|--|----------|-----------|
| Cash | \$ 4,000 | |
| Expenditures | 46,000 | |
| Deposits with Other | | \$ 50,000 |
| <i>(Professional and special services)</i> | | |

5.08 Budgetary Comparisons

Special districts prepare a budgetary comparison for the general fund and each major special revenue fund for which it legally adopts an annual budget. If the special district legally adopts a budget for any of its other funds, it may present a budgetary comparison for those funds in its financial report, but it is not generally required.

Original Budget

The amounts in the original budget column of a ledger come from the budget originally adopted for the year. The original budget numbers may also reflect legally authorized adjustments made to the adopted budget subsequent to adoption but prior to the beginning of the fiscal year.

Examples include adjustments to reserves, transfers, allocations, and supplemental appropriations. If the special district is required to carry over appropriations from one year to the next by law, these amounts are also included within the original budget numbers.

Final Budget

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

Actual Amounts

Budgetary comparison reports contain actual amounts of outflows and inflows alongside the corresponding budgetary amounts (refer to Table 5.1).

Note: For required budget schedules see the State Controller's Office (SCO), *County Budget Guide* which can be found at the SCO website for local government publications at https://www.sco.ca.gov/pubs_guides.html.

Budgetary Comparison Schedule or Report

The budgetary comparison schedule, also known as a variance report, is a statement that compares the actual budget against the amounts in the governmental funds statement of revenues, expenditures, and changes in net position. The amounts in the budgetary comparison schedule and the governmental funds financial statements are different primarily because the governmental funds financial statements are prepared following GAAP, while budgets are not. Special districts must often budget on a cash or near-cash basis, or include encumbrances and other items that would not be considered revenues or expenditures in the financial statement.

Table 5.1 that follows is an illustrative example of a budgetary comparison schedule for a special district general fund.

Table 5.1 Special District
Budgetary Comparison Schedule for the General Fund
For the Year Ended June 30, 2xxx

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variances</u> | | <u>Budget to GAAP</u> Reconciliation | <u>Actual</u> |
|-------------------------|-------------------------|-------------------|---------------------------------|---|--------------------|---|----------------------------|
| | Original | Final | Amounts Budgetary Reports | Positive (Negative) Original to Final | Final to Actual | | Amounts GAAP Reports |
| REVENUES | | | | | | | |
| Property Taxes | \$52,017,833 | \$51,853,018 | \$51,173,436 | \$ (164,815) | \$ (679,582) | \$ ----- | \$51,173,436 |
| Other Taxes | 12,841,209 | 12,836,024 | 13,025,392 | (5,185) | 189,368 | ----- | 13,025,392 |
| Fees and Fines | 718,800 | 718,800 | 606,946 | ----- | (111,854) | ----- | 606,946 |
| Licenses and Permits | 2,126,600 | 2,126,600 | 2,287,794 | ----- | 161,194 | ----- | 2,287,794 |
| Intergovernmental | 6,905,898 | 6,571,360 | 6,119,938 | (334,538) | (451,422) | ----- | 6,119,938 |
| Charges for Services | 12,392,972 | 11,202,150 | 11,374,460 | (1,190,822) | 172,310 | ----- | 11,374,460 |
| Interest | 1,015,945 | 550,000 | 552,325 | (465,945) | 2,325 | ----- | 552,325 |
| Miscellaneous | 3,024,292 | 1,220,991 | 881,874 | (1,803,301) | (339,117) | ----- | 881,874 |
| Total Revenues | 91,043,549 | 87,078,943 | 86,022,165 | (3,964,606) | (1,056,778) | ----- | 86,022,165 |

Table 5.1 continued...

| | Original | Final | Budgetary Reports | Original to Final | Final to Actual | Reconciliation | GAAP Reports |
|------------------------|------------|-------------|-------------------|-------------------|-----------------|----------------|--------------|
| EXPENDITURES | | | | | | | |
| General Governmental | 11,837,534 | 9,468,155 | 8,621,500 | 2,369,379 | 846,655 | (1) 9,335 | 8,630,835 |
| Public Safety | 33,050,966 | 33,983,706 | 33,799,709 | (932,740) | 183,997 | (1) (70,086) | 33,729,623 |
| Public Works | 5,215,630 | 5,025,848 | 4,993,187 | 189,782 | 32,661 | (1) (17,412) | 4,975,775 |
| Engineering Services | 1,296,275 | 1,296,990 | 1,296,990 | (715) | ----- | (1) 2,655 | 1,299,645 |
| Health and Sanitation | 5,756,250 | 6,174,653 | 6,174,653 | (418,403) | ----- | (1) 104,621 | 6,070,032 |
| Cemetery | 724,500 | 724,500 | 706,305 | ----- | 18,195 | ----- | 706,305 |
| Culture and Recreation | 11,059,140 | 11,368,070 | 11,289,146 | (308,930) | 78,924 | (1) (122,539) | 11,411,685 |
| Education | 22,000,000 | 22,000,000 | 21,893,273 | ----- | 106,727 | ----- | 21,893,273 |
| Total Expenditures | 90,940,295 | 90,041,922 | 88,774,763 | 898,373 | 1,267,159 | (57,590) | 88,717,173 |
| Excess of Revenues | 103,254 | (2,962,979) | (2,752,598) | (3,066,233) | 210,381 | 57,590 | (2,695,008) |

Table 5.1 continued...

| | Original | Final | Budgetary Reports | Original to Final | Final to Actual | Reconciliation | GAAP Reports |
|--|--------------|--------------|----------------------|----------------------|--------------------|----------------|-----------------|
| OTHER FINANCING SOURCES | | | | | | | |
| Transfer In | 939,525 | 130,000 | 129,323 | (809,525) | (677) | ----- | 129,323 |
| Transfer Out | (2,970,256) | (2,163,759) | (2,163,759) | 806,497 | ----- | ----- | (2,163,759) |
| Total Other Financing Sources | (2,030,731) | (2,033,759) | (2,034,436) | (3,028) | (677) | ----- | (2,034,436) |
| SPECIAL ITEM | | | | | | | |
| Proceeds from Sale of Park Land | 1,355,250 | 3,500,000 | 3,476,488 | 2,144,750 | (23,512) | ----- | 3,476,488 |
| Net Change in Fund Balance | (572,227) | (1,496,736) | (1,310,546) | (924,511) | 186,192 | 57,590 | (1,252,956) |
| Fund Balances – Beginning | 3,528,750 | 2,742,799 | 2,742,799 | (785,951) | ----- | (2) | 165,523 |
| Fund Balances – Ending | \$ 2,956,523 | \$ 1,246,061 | \$ 1,432,253 | \$(1,710,462) | \$ 186,192 | \$ 223,113 | \$ 1,655,366 |

Explanation of Differences:

(1) The special district's budgets for claims and compensated absences only to the extent expected to be paid, rather than on the modified accrual basis. \$ (129,100)

Encumbrances for goods and services ordered but not received are reported as expenditures in the year the orders are placed for budgetary purposes but are reported in the year the goods and services are received for GAAP purposes. 186,690

\$ 57,590

(2) The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting and in preparing the special district's budget. This amount differs from the fund balance reported in the statement of revenues, expenditures, and changes in fund balances because of the cumulative effect of transactions such as those described above.

Chapter 6: Revenue and Expense/Expenditure Accounts

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Chapter 6: Revenue and Expense/Expenditure Accounts

Principles of Accounts

6.01 Use of Accounts

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

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

6.02 Resource Flows Statements

Resource flows statements are made up of inflows and outflows of resources and the activities (inflows/outflows of resources) retains a specific relationship with the statement of net position. The net of all activity in the resource flows statements for a given period is equivalent to the change in net position for that period. These statements exclude the deferred resources that are applicable to future periods, identified as deferred inflow of resources and deferred outflow of resources on the statement of net position or balance sheet.

The revenue element of the resource flows statement should be defined as an inflow of resources, resulting in an acquisition of net position by the entity that is applicable to the reporting period, while expenses or expenditures are defined as an outflow of resources.

6.03 Expenses/Expenditures

Expenses are decreases in net position resulting from the outflow of resources in the course of operations for non-governmental funds (includes providing goods and services) and represent the full costs associated with providing services. Expense transactions may be costs paid within the current period, but they can also come from current recognition of outflows that were previously included in the deferred outflows on the statement of net position or balance sheet.

Special districts should use multiple classifications (such as functions/programs, objects/object classes, activities, organization unit, location, and character) to meet the reporting and budgetary requirements of the local governments.

Special districts should report expenses by function (program), as well as by object, except for those that meet the definitions of special and extraordinary items, which is described later in this chapter. Direct expenses are those that are specifically associated with a particular service or program; they should be clearly identifiable to that function in the financial statements. Some functions, such as support services and administration, are indirect expenses of other functions. Special districts are not required to allocate these indirect expenses to other functions; however, they should do so if statutorily required.

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

Expenditures are the focus of governmental fund financial statements rather than expenses. Expenditures are outflows of resources that are recognized on the modified accrual basis, in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on long-term debt. They are decreases in (uses of) fund financial resources other than through interfund transfers or expirations of demand bond takeout agreements. Multiple classifications of governmental fund expenditure data is important from both internal and external management control and accountability viewpoints. It facilitates the aggregation and analysis of data in different ways for different purposes and in manners that cross fund and organization lines, for internal evaluation, external reporting, and intergovernmental comparison purposes. The major accounting classifications of expenditures are by fund, function (or program), organization unit, activity, character, and object class.

6.04 Program Revenues

Program revenues are directly linked to the functions/programs or from parties outside the reporting government's taxpayers or citizenry, as a whole; they reduce the net cost of the function to be financed from the government's general revenues. Examples of program revenues are:

- Charges for purchases of goods or services
- Program-specific operating grants and contributions
- Program-specific capital grants and contributions
- Revenues from outside the district's citizenry

Charges for services may include a variety of program-related fees, such as garbage collection fees, museum admissions, ball field permits, and parking fines.

Most grants and contributions include aid for specific functions and programs, like educational aid, but may also include amounts provided by not-for-profit organizations and other nongovernmental entities. Grants and contributions for “operating purposes” and “capital projects” are identified separately. Multi-purpose grants, if program-specific, should be reported as program revenue; if not program-specific, they should be reported as general revenue.

To identify the function to which a program revenue pertains, the determining factors are:

- For charges for services, the function that generates the revenue;
- For grants and contributions, the determining factor is the function to which the revenues are “restricted”; and
- For other revenues, the function that generates the revenue.

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

6.05 General Revenues

All revenues are deemed general revenues unless they are required to be reported as program revenues. Typically taxes are presented as general revenues, usually by type—despite the fact that they are levied for a specific purpose. Examples of these taxes include sales tax, property tax, and franchise tax. Revenues such as grants, contributions, or charges for service that are non-restrictive in nature do not qualify as program revenues and should be treated as general revenue. Examples include unrestricted aid from other governments and grants that are provided for general support and are not tied to particular program. Investment earnings (unrestricted) are typically reported as general revenues.

6.06 Extraordinary and Special Items

Extraordinary items are increased or decreases in net assets that are both unusual in nature and infrequent in occurrence. *Special items* are within the control of the special district and are either unusual in nature or infrequent in occurrence. A special item might be the gain or loss on the sale of a capital asset for a special district that does not commonly sell capital assets. Special and extraordinary items are set apart because they are not a part of the usual inflows and outflows of the fiscal year. Showing them separately helps the reader assess whether the special district is covering its routine costs with routine resources, or if it is resorting to other means.

6.07 Sales, Pledges, and Intra-Entity Transfers of Future Revenues

Sales of Receivables

As stated in GASB Cod. Sec. S20.103 (Section S20, paragraph .103), a sale of receivables is a transaction in which a government receives or is entitled to receive proceeds in exchange for future cash flows from its account receivables if the government's relationship with those receivables is effectively terminated. A government's continuing involvement is effectively terminated if all of the following criteria are met:

- The transferee's ability to subsequently sell or pledge the receivables is not significantly limited by constraints of the transferor government.
- The transferor government does not have the option or ability to unilaterally substitute or reacquire specific accounts from the receivables transferred, except as opted by the transferee.
- The sale agreement is not cancelable by either party.
- The transferor government has been isolated from the receivables and the cash resulting from their collection.

According to GASB Cod. Sec. S20.110 (Section S20, paragraph .110), the sale of receivables should no longer be carried as an asset by the transferor. For nongovernmental funds, the difference between the proceeds and the carrying value of the receivables should be recognized as a gain or loss in the period of the sale. In governmental funds, the difference between the proceeds received and the receivables sold should be recognized as revenue. If the transferee is a government outside of the transferor government's financial reporting entity, the transferee government should recognize the acquisition of the receivables at cost. For a description of intra-entity transfers refer to the section entitled "Intra-Entity Transfers" within this chapter.

Sales of Future Revenues

As discussed in GASB Cod. Sec. S20.105 (Section S20, paragraph .105), a transaction in which a government receives proceeds in exchange for cash flows from specific future revenues should be reported as a sale if all of the following criteria's are met:

- The transferor government will not have an active involvement in the future generation of those revenues.
- The transferee's ability to subsequently sell or pledge the future cash flows is not significantly limited by constraints imposed by the transferor.
- The cash resulting from collection of the future revenues has been isolated from the transferor government, other than to pass on receipts of the revenue to the transferee.
- The contract, agreement, or other arrangement between the original resource provider and the transferor government does not prohibit the transfer or assignment of those resources.
- The sale agreement is not cancelable by either party.

The GASB determined in GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, as amended, that accelerating revenue recognition ahead of the point that revenues would normally be recognized does not result in a faithful representation of the government's financial position or changes in financial position. Therefore, resources from the sales of future revenues represent an increase to net assets and should be classified as a deferred inflow of resources. The deferred inflows should be recognized by the transferor in future periods over the duration of the agreement. The transferee should record the receivables at the purchase price. The transferee should recognize the receivables as revenue when the recognition criteria appropriate to the type of revenue are met. For a description intra-entity transfers refer to the section entitled "Intra-Entity Transfers".

Pledges

According to GASB Cod. Sec. S20.108 and Sec. S20.109 (Section S20, paragraphs .108 and .109), when the sale of receivables or future revenues do not meet the criteria required for sale reporting identified, the transaction should be reported as a collateralized borrowing and should be considered *pledged* rather than sold. The proceeds received by the pledging government should be reported as a liability in its statements of net position and as an other financing source in its governmental funds statement of revenues, expenditures, and changes in fund balance, if governmental funds receive the proceeds. The pledging government would still carry the accounts receivable on its balance sheet or state as an asset, as it is not a sale and treat pledged revenues as their own revenues following normal revenue recognition rules. If the transferee receives revenues, it should reduce the pledging government's liability to the transferee.

Intra-Entity Transfers

When accounting for intra-entity (within the same financial reporting entity) sales of accounts receivable or future revenues, a transferee government should record the receivables or future revenues at the carrying value of the transferor. The difference between the amount paid and the carrying value of the receivables transferred should be reported as a gain or loss by the transferor and as a revenue or expenditure/expense by the transferee in their separately-issued statements, but reclassified as transfers or subsidies—as appropriate—in the financial statements of the reporting entity.

The GASB determined in GASB Statement No. 65 that the amount paid should be attributed to the future periods benefiting from the cash flow. Therefore, the carrying value should be recorded as a deferred outflow of resources, amortized over the duration of the sale agreement by the transferee. The transferor government should report the proceeds of the sale as a deferred inflow of resources and recognize the revenue over the life of the sale agreement.

Disclosure of Future Revenues Sold

Special districts should disclose in the notes to the financial statements any information about the specific revenue sold in the year of sale.

Disclosure of Future Revenues Pledged

Pledging governments should disclose pledged revenues that have been formally committed to collateralize or secure debt, or to collateralize or secure debt of a component unit.

6.08 Nonexchange Transactions

Nonexchange transactions are transactions in which one entity provides value (benefit), such as cash, goods or services, to another party without directly receiving equal value in exchange. Examples include imposed taxes, fines, assessments, mandated programs, and grants.

Exchange transactions are the transfers between parties, in which each party receives benefits of essentially equal value. Examples include buying a product at fair market value, or receiving fair pay for services performed.

Nonexchange transactions are often controlled by either legislation or contractual requirements or both, and these factors are essential in determining when revenues, expenses, or expenditures from nonexchange transactions should be recognized. For example, a special district should recognize tax revenues when the related exchange transaction has occurred, as defined by the enabling legislation. Alternatively, the special district could recognize a nonexchange revenues when it has an enforceable legal claim to receive the revenues. The enforceable legal claim is generally based on the special district's legislative authority to impose and collect the tax.

When both parties to a nonexchange transaction are governmental entities, the same recognition standards should be in use by both entities, given GAAP standards. This does not always mean that the two participating governmental parties will record the revenue and expense/expenditure in the same period.

Government-mandated or voluntary nonexchange transactions frequently have eligibility requirements that must be met. When it is probable that recipient will not be able to commit to eligibility requirements or comply with restrictions placed on it, as a condition of receiving resources, the recipient will be required to return all or part of the resources already received.

GASB Statement 33, as reflected in GASB Cod. Sec. N50.104 (Section N50, paragraph .104) has defined nonexchange transactions of government into four classes, based on their principle characteristics:

- Derived tax revenues
- Imposed nonexchange revenues
- Government-mandated nonexchange transactions
- Voluntary nonexchange transactions

Derived Tax Revenues

Derived tax revenues come from assessments imposed by a government on exchange transactions. Examples include retail sales tax and personal income tax. The principal characteristics of derived tax revenue transactions are:

- The assessing government imposes the provision of resources on the entity that acquires the income, goods or services; and
- The government's assessment is on an exchange transaction (e.g., an exchange of motor fuel for the market price of the fuel, or an exchange of services for fair wages).

Derived tax revenues should be recognized as assets and revenues in the period when the underlying exchange transaction occurs or when the resources are received, whichever comes first. Revenues should be recognized net of estimated refunds and uncollectable amounts. Once the taxable transaction has occurred, the assessing government has an enforceable legal claim to the tax resources. Resources received in advance should be reported as liabilities.

Enabling legislation sometimes require derived tax revenues to be used for specific purposes, for example, an airport district levies a special tax to be used for maintenance of airports within its boundaries. If the resources related to the enforceable legal claim are available to the special district, then, under the modified accrual basis of accounting, the special district should record revenue.

Imposed Nonexchange Revenues

Imposed nonexchange revenues come from government assessments on nongovernmental entities, other than assessments on exchange transactions. An example of an imposed nonexchange transaction is a special tax imposed by a special district to fund its operations, such as a water district imposing a fee on a water bill for upgrading district-wide water distribution services. Imposed nonexchange revenues can include property seizures and escheats. The government's imposed assessment is on a nonexchange transaction, such as property ownership or a violation of law.

In addition to purpose restriction, the government may specify the time requirements when the resources are to be used, this may not be the same time period that payment is due or within which a lien can be filed.

Imposed nonexchange revenues should be recognized as assets and revenues in the period when the enforceable legal claim to the assets arises or when the resources are received, whichever comes first. The timing of the enforceable legal claim is generally specified in the enabling legislation, generally referred to as the lien date. Revenues from property taxes should be recognized net of estimated refunds and uncollectable amounts in the period for which the assessments are levied, even if the enforceable legal claim or payment due date occurs in another period. All other imposed nonexchange revenues should be recognized in the same period that the assets are recognized, absent time requirements in the enabling legislation. Resources received in advance should be reported as liabilities.

Government-Mandated Nonexchange Transactions

Government-mandated nonexchange transactions occur when a government (including the federal government) provides resources to another government and requires the recipient to use the resources for a specific purpose or purposes as established in enabling legislation. The provider establishes the restrictions and also may establish time requirements. An example would be a water district receiving state funds to perform state-mandated conservation measures within its boundaries. The principal characteristics of these transactions are:

- Purpose restriction: a provider government mandates a recipient either perform or oversee another entity perform a particular program; and
- Eligibility requirements: fulfillment of certain requirements (other than the provision of cash or other assets in advance) is essential for the transaction to occur.

When all eligibility requirements, including time requirements, are met, the provider should recognize liabilities (or a decrease in assets) and expenses from government-mandated nonexchange transactions. Recipients should recognize revenues in the period when all applicable eligibility requirements have been met and the resources are available. Resources transferred before the eligibility requirements are met, excluding time requirements, should be recorded as assets by the provider and liabilities by the recipient. If recognized before the time requirements are met, they should be reported as deferred outflow of resources by the provider and deferred inflow of resources by the recipient.

Voluntary Nonexchange Transactions

Voluntary nonexchange transactions result from legislative or contractual agreements, other than exchanges, entered into willingly by two parties (governmental or nongovernmental). A typical example would include a special district receiving a grant or private donations. The characteristics of a voluntary nonexchange transaction are:

- No imposed exchange: it is not imposed on the provider or the recipient; and
- Eligibility requirements: fulfillment of certain requirements (other than the provision of cash or other assets in advance) is essential for the transaction to occur.

As with government-mandated nonexchange transactions, when all eligibility requirements, including time requirements, are met, the provider should recognize liabilities (or a decrease in assets) and expenses from voluntary nonexchange transactions. Recipients should recognize revenues in the period when all applicable eligibility requirements have been met and the resources are available. Resources transferred before the eligibility requirements are met, excluding time requirements, should be recorded as assets by the provider and liabilities by the recipient. If recognized before the time requirements are met, resources transferred should be reported as deferred outflow of resources by the provider and deferred inflow of resources by the recipient.

Refer to GASB Statements No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as amended, or GASB Cod. Section N50, *Nonexchange Transactions*, for more details.

6.09 Operating vs. Nonoperating

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

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

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

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

Nonoperating Expenses: expenses a special district incurs outside its primary activity, such as interest on capital financing.

6.10 Reporting Revenue, Expenses and Expenditures Classifications

Revenue Classification

The primary classification for governmental fund revenues is by fund and source. Governmental funds often also classify revenues by organizational units which includes departments, bureaus and divisions. Proprietary fund revenues should be reported by major source. Activity, function, and program codes are often better suited to source classifications in governmental accounting. However, reporting of revenues by object may serve other needs of the district. Each district must evaluate their own reporting needs when establishing their coding structure.

Expense/Expenditure Classification

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

According to GASB Code Section 1800.132-.141 (Section 1800, Paragraphs .132-.141) “multiple classification of governmental fund expenditure data is important from both internal and external management control and accountability standpoints. The major accounting classifications of expenditures are by fund, function (or program), organization unit, activity, character, and object class.

Function or program classification provides information on the overall purposes or objectives of expenditures. Functions group related activities that are aimed at accomplishing a major service or regulatory responsibility. Programs group activities, operations, or organizational units that are directed to the attainment of specific purposes or objectives. Governmental units using program budgeting may use the program classifications and sub classifications in addition to or instead of functional classifications.

Classification of expenditures by organization unit is essential to responsibility accounting. This classification corresponds with the governmental unit's organization structure. A particular organization unit may be charged with carrying out one or several activities or programs. Moreover, the same activity or program is sometimes carried on by several organization units because of its inherent nature or because of faulty organization structure.

Activity classification is particularly significant because it facilitates evaluation of the economy and efficiency of operations by providing data for calculating expenditures per unit of activity. That is, the expenditure requirements of performing a given unit of work can be determined by classifying expenditures by activities and providing for performance measurement where such techniques are practicable. These expenditure data, in turn, can be used in preparing future budgets and in setting standards against which future expenditure levels can be evaluated. Thus, each of the above types of classification—function (or program), organization unit, and activity—provides useful information.

Expenditures should be further classified by *character*, that is, on the basis of the fiscal period they are presumed to benefit. The major character classifications of expenditures are "Current Expenditures," which benefit the current fiscal period; "Capital Outlays," which are presumed to benefit both the present and future fiscal periods; and "Debt Service," which presumably benefits prior fiscal periods as well as current and future periods. "**Intergovernmental**," a fourth character classification, is appropriate where one governmental unit transfers resources to another, such as when states transfer "shared revenues" to local governments or act as an intermediary in federally financed programs. Character classification may be accomplished by grouping the object classifications, discussed below, which are subdivisions of the character classifications.

Finally, expenditures should be classified by *object classes*, that is, according to the types of items purchased or services obtained. Examples of "Current Operating" objects of expenditure classifications are personal services, supplies, and other services and charges. ("Capital Outlays" and "Debt Service" also are major objects of expenditure classifications.) Excessively detailed object classifications should be avoided because they complicate the accounting procedure and are of limited use in financial management. Use of few object classifications is sufficient because budget preparation and control emphasis should be on organization units, functions (or programs), and activities rather than on objects of expenditure *per se*."

6.11 Chart of Activities/Programs:

Common terminology and classifications should be used throughout the budgeting, accounting, and financial reporting activities for special districts.

The list of accounts in the charts below are not exhaustive. Where appropriate special districts should supplement these classifications with additional ones in light of local circumstances. Other accounts may be required in the preparation of financial statements.

Revenues

Accounts are numbered in sequence for exemplary purposes only. . The list identified below is not all-inclusive and account examples can cross between special districts.

| Explanation of Revenues by Activity/Program | | |
|---|----------------------------------|--|
| Code | Accounts | Definition |
| Operating Revenues | | |
| Water Utility Districts | | |
| 401.00 | Water Sales | This account represents potable water sales. |
| - .10 | -Residential | This account includes revenues earned from water supplied to single or multiple family dwellings for domestic household purposes. |
| - .20 | -Business | This account includes revenues earned from water supplied to premises devoted primarily to operations for profit including offices, stores, markets, apartments, multiple-unit residential, hotels, motels, service stations, etc., but excluding industrial. |
| - .30 | -Industrial | This account includes revenues earned from water supplied to premises where the water is used primarily in manufacturing or processing activities. |
| - .40 | -Irrigation | This account includes revenues earned from water supplied for irrigation purposes and billed under district irrigation rates. |
| - .50 | -Sales for Resale | This account includes all billings for water supplied (including standby service) to other water utilities for resale purposes i.e. wholesale. |
| - .60 | -Interfund | This account includes all amounts charged by the water fund for water supplied by it to other funds of the utility. |
| - .70 | -Other | This account includes all charges for sales of water which are not properly includible in above Water Sales accounts. |
| - .80 | -Drought | This account includes all drought related revenues charged only during a drought such as surcharge, and penalties to keep them spate from normal charges to ensure accurate comparisons year over year. |
| 402.00 | Water Services | This account includes all billings for water service rendered to hydrants or other facilities, income from rental of fire hydrants and for water delivered in connection therewith for general fire prevention. |
| - .10 | -Fire Protection | This account includes all billings for services rendered in connection with replenishment of the supply of ground water. |
| - .20 | -Ground Water Replenishment | This account includes a charge upon a parcel of land to which water is made available for any purpose by the district, whether the water is actually used or not. |
| - .30 | -Standby or Availability Charges | This account includes service-type assessments other than standby or availability charges which are used for operating purposes and are levied against properties in the district on a per unit, acre, parcel, etc. basis. |
| - .40 | -Service Type Assessments | This account includes billings for customer installations of meters and service connections and all billings for water service rendered which are not properly includible in above Water Services accounts. Includes periodic finance charges or penalties collected from customers. |

| Explanation of Revenues by Activity/Program | | |
|---|------------------------------------|--|
| Code | Accounts | Definition |
| Water Utility Districts (Continued) | | |
| -50 | -Other | This account includes all billings for water service rendered to hydrants or other facilities, income from rental of fire hydrants and for water delivered in connection therewith for general fire prevention. |
| 403.00 | Recycled (Raw) Water Sales | This account represents non-potable water sales. |
| Harbor and Port Districts | | |
| 410.00 | Marine | |
| -.10 | -Dockage | This account includes revenues from charges for docking privileges. |
| -.20 | -Wharfage | This account includes revenues from wharfage charges. |
| -.30 | -Storage, Demurrage & Space Rental | This account includes charges for storage and demurrage, handling in connection with storage and rental of facilities. |
| -.40 | -Loading & Unloading | This account includes loading and unloading charges for cars, trucks, cargo vans and barges. |
| -.50 | -Service Charges – Bulk loader | This account includes bulk loaders service charges and trimming and thru-put charges. |
| -.60 | -Service Charges - Cargo | This account includes charges for inbound and outbound cargo services and charges for hatch clerk service. |
| -.70 | -Stevedoring | This account includes charges for loading and unloading ships. |
| -.80 | -Sales & Other Services | <p>This account includes sales of electricity, water and gasoline and other services not provided for elsewhere. This includes:</p> <p>Usage charges for:</p> <ul style="list-style-type: none"> • Belt railroad • Drawbridge <p>Service charges for:</p> <ul style="list-style-type: none"> • Cotton compressing • Labelling, tagging • Sorting, segregating • Fumigating • Transferring • Palletizing • Strapping • Pre-palletizing • Coopering <p>Lift truck and other equipment rental. Crane Rental Side shore Power (used in cruise and ship repair facilities) Labor and materials furnished on a "cost-plus" basis.</p> |
| 411.00 | Harbor | |
| -.10 | -Slip Rentals | This account includes revenues from slip rentals. |
| -.20 | -Launching Charges | This account includes revenues from launching charges. |
| -.30 | -Fuel Sales | This account includes revenues from the sale of gasoline, diesel and oil. |
| -.40 | -Rents & Concessions | <p>This account includes charges for the use of district property. Examples include:</p> <ul style="list-style-type: none"> • Building and grounds rental • parking meter revenue • Vending machines commissions • Public telephone commissions • Contracted restaurant and fountain |
| -.50 | -Other Sales & Services | This account includes other sales and services not provided for elsewhere. This includes the sale of supplies, ice and bait. |

| Explanation of Revenues by Activity/Program | | |
|---|-------------------------------------|---|
| Code | Accounts | Definition |
| Airport Districts | | |
| 420.00 | Landing Fees | This account includes revenues from landing fees. |
| 421.00 | Aircraft Storage Fees | This account includes revenues from aircraft storage fees. |
| 422.00 | Fuel Flowage Fees | This account includes revenues from fuel flowage fees. |
| 423.00 | Concessions | This account includes the district's share of revenue from insurance counter, auto rental, vending machine commissions, public telephone, contracted restaurant and bar operations, etc. |
| 424.00 | Rents and Leases | This account includes rent and lease revenues from land, buildings, or other property. |
| 425.00 | Other Services | This account includes revenues from other services not provided for elsewhere. |
| 426.00 | Sales of Surplus Property | This account includes revenue from the sale of supplies purchased for self-consumption. |
| 427.00 | Sales | This account includes revenue from the sale of items purchased and held for resale. |
| 428.00 | Other | This account includes revenues not properly chargeable to another account. |
| 429.00 | Landing Fees | This account includes revenues from landing fees. |
| Public Transit Operators | | |
| 430.00 | Passenger Fares for Transit Service | <p>This category covers revenue earned from carrying passengers along regularly scheduled routes. Each revenue object class is to include the base fare, zone premiums, express service premiums, extra cost transfers and quantity purchase discounts applicable to the passenger's ride. Passenger fares include:</p> <p>Full Adult Fares - revenues earned from carrying passengers who pay the full adult fare;</p> <p>Senior Citizens Fares - revenues earned from carrying passengers who pay a special, reduced fare because they are older than a prescribed limit;</p> <p>Student Fares - revenues earned from carrying passengers who pay a special, reduced fare because they are enrolled in an educational institution;</p> <p>Child Fares - revenues earned from carrying passengers who pay a special, reduced fare because they are younger than a prescribed age limit;</p> <p>Handicapped Fares - revenues earned from carrying passengers who pay a special, reduced fare because they are physically handicapped;</p> <p>Parking Lot Revenues - revenues earned from parking fees paid by passengers who drive to "park and ride" parking lots operated by the transit operator in order to utilize transit service. Revenues earned from parking lots which are not "park and ride" should be posted to account Non-transportation Revenues;</p> <p>Other Primary Rides Fares - revenues earned from carrying passengers who pay a special, reduced fare for some reason other than those specified above.</p> |

| Explanation of Revenues by Activity/Program | | |
|---|-----------------------------|---|
| Code | Accounts | Definition |
| Public Transit Operators (Continued) | | |
| 431.00 | Special Transit Fares | <p>This category covers revenues earned for rides given in regular transit service, but paid for by some organization rather than by the rider; and for rides given along special routes for which revenues may be guaranteed by a beneficiary of the service. This includes :</p> <p>Special Route Guarantees - the amounts paid by industrial firms, shopping centers, public and private universities, etc., to guarantee minimum revenue on a line operated especially for the benefit of the payer. To qualify as a special route guarantee the following conditions must be met:</p> <p>(A) Payments must be made to the operator (or to a service provider for entities purchasing service) by an entity other than the operator or the service provider. The payment must be made under a contractual arrangement between the operator or the service provider and the paying entity.</p> <p>(B) The payment must be made to guarantee minimum revenue on a specific route. Payments on a per-rider basis would not constitute a route guarantee.</p> <p>(C) The route for which revenue is guaranteed must be operated especially for the benefit of the paying entity. The paying entity may either be a public or private entity (e.g. an industrial firm, shopping center, university, etc.). However, this category does not include general operating assistance or "purchase of service" payments from units of local governments. Such payments would be included in Local Cash Grants and Reimbursements General Operating Assistance.</p> <p>Special Contract Fares - revenues earned under contractual arrangements with state or local governments or nongovernmental entities for transit fares other than those arrangements specified in "Special Route Guarantees". To qualify as a special contract fare the following conditions must be met :</p> <p>(A) Payments must be made to the operator (or to a service provider for entities purchasing service) by an entity other than the operator or the service provider. The payment must be made under a contractual arrangement between the operator or the service provider and the paying entity.</p> <p>(B) The payment must be made to pay the full fare for a specified class of passengers for whom the paying entity is acting as an agent. This means there must be no charge to passengers in the specified class and no limit to the number of rides that may be taken by them. The specified class of passengers may be narrowly defined or, for example, so broadly defined as to include all residents of a given area.</p> <p>(C) The payment must be for a fixed amount (lump sum) established at the beginning of the contract period. The amount may not vary with the quantity of service actually provided. The payment may not, for example, be on a per-rider basis.</p> <p>(D) The payment may not be made to reserve the vehicle (s) exclusively for members of the specified class of passengers. That would constitute a charter service, which should be posted to Charter Service Revenues.</p> <p>Non-Contract Special Service Fares - revenues earned by providing rides on services other than regularly scheduled routes (e.g. sporting events, sight-seeing, etc.), where revenues are not guaranteed on a contractual basis, including the fares paid directly by passengers on such services.</p> |
| 432.00 | School Bus Service Revenues | This category covers amounts paid by schools under school bus contracts for the operation of buses exclusively to carry children to and from their schools. |
| 433.00 | Freight Tariffs | This category covers revenues earned from carrying freight on runs whose primary purpose is passenger operations. |

| Explanation of Revenues by Activity/Program | | |
|---|-------------------------------------|--|
| Code | Accounts | Definition |
| Public Transit Operators (Continued) | | |
| 434.00 | Charter Service Revenues | This category covers revenue earned from operating vehicles under charter contracts. |
| 435.00 | Passenger Fares for Transit Service | <p>This category covers revenue earned from carrying passengers along regularly scheduled routes. Each revenue object class is to include the base fare, zone premiums, express service premiums, extra cost transfers and quantity purchase discounts applicable to the passenger's ride. Passenger fares include:</p> <p>Full Adult Fares - revenues earned from carrying passengers who pay the full adult fare;</p> <p>Senior Citizens Fares - revenues earned from carrying passengers who pay a special, reduced fare because they are older than a prescribed limit;</p> <p>Student Fares - revenues earned from carrying passengers who pay a special, reduced fare because they are enrolled in an educational institution;</p> <p>Child Fares - revenues earned from carrying passengers who pay a special, reduced fare because they are younger than a prescribed age limit;</p> <p>Handicapped Fares - revenues earned from carrying passengers who pay a special, reduced fare because they are physically handicapped;</p> <p>Parking Lot Revenues - revenues earned from parking fees paid by passengers who drive to "park and ride" parking lots operated by .the transit operator in order to utilize transit service. Revenues earned from parking lots which are not "park and ride" should be posted to account Non-transportation Revenues;</p> <p>Other Primary Rides Fares - revenues earned from carrying passengers who pay a special, reduced fare for some reason other than those specified above.</p> |
| Electric Utility Districts | | |
| 440.00 | Sales of Electricity | |
| -.10 | -Residential | This account includes revenues earned from electricity supplied for residential or domestic purposes. |
| -.20 | -Business and Industrial | This account includes revenues earned from electricity supplied for business and industrial purposes. |
| -.30 | -Rural | This account includes revenues earned from electricity supplied to rural or farm customers and billed under distinct rural or farm rates. |
| -.40 | -Sales to Public Authorities | This account includes revenues earned from electricity supplied to municipalities or divisions of federal or state governments under special contracts or agreements applicable only to public authorities. |
| -.50 | -Sales for Resale | This account includes revenue earned from electricity supplied to other utilities for resale purposes. For example, this includes renewable energy such as hydroelectric and recycled waste. |
| -.60 | -Interfund | This account includes all amounts charged by the electric fund for electricity supplied by it to other funds of the utility. |
| -.70 | -Other Sales | This account includes all charges for sales of electricity which are not properly includible in above accounts. |
| 441.00 | Other Electric Revenues | |
| -.10 | -Servicing of Customers' Revenues | This account includes charges to customers for the maintenance of appliances, wiring, piping or other installations on customers' premises. |

| Explanation of Revenues by Activity/Program | | |
|---|--|---|
| Code | Accounts | Definition |
| Electric Utility Districts (Continued) | | |
| -020 | -Other | <p>This account includes charges for changing, connecting or disconnecting service and other services and charges billed to customers which are not properly includible elsewhere. This includes:</p> <p>Sales of water and water power. Sale of steam, but not including sales made by steam heating department.</p> <p>Commission on sale or distribution of electricity of others when sold under rates filed by such others.</p> <p>Compensation for minor or incidental services provided for others such as customer billing, engineering, etc.</p> <p>Profit on sale of materials and supplies not ordinarily purchased for resale.</p> <p>Revenues from transmission of electricity of others over transmission facilities of the utility.</p> <p>Service-type assessments used for operating purposes levied against properties in the district on a per unit, parcel, acre, etc. basis.</p> |
| Waste Management Districts | | |
| 450.00 | Service Charges | This account includes revenues from sewer service charges based on flat rates or metered effluent output and charges for solid waste disposal. Flat rates are based on diameter of service, structure size, area front footage or other similar unit. |
| 451.00 | Permit and Inspection Fees | This account includes revenues from permits for septic tank dumping and permits and inspection for main and house lines. |
| 452.00 | Connection Fees | This account includes revenues from charges for service connections. |
| 453.00 | Standby and Availability Charges | This account includes a charge upon a parcel of land to which sewer service lines are in place and made available for use by the district, whether the sewer lines are actually used or not. |
| 454.00 | Service-Type Assessments | This account includes service-type assessments other than standby and availability charges which are used for operating purposes and are levied against properties in the district on a per unit, acre, parcel, etc. basis. |
| 455.00 | Other Services | This account includes all charges for sewer services which are not properly includible in above accounts. Includes such charges as those for maintenance of service lines (piping) or other installations on customers' premises, sales of effluent, the by-product sludge sold as fertilizer and solid waste. |
| 456.00 | Sales of Reclaimed Water | This account includes revenues from the sales of reclaimed water. |
| 457.00 | Resource Recovery | This account includes fees from receiving organic waste products otherwise directly going to landfill. |
| 458.00 | Power and Fuel Sales | This account includes revenues from other revenues generating power and fuel by-products for sale. |
| Non-Operating Revenues | | |
| 460.00 | Rents and Leases (Water, Electric, Waste Only) | This account includes all rent revenues from land, buildings, or other property. |
| 461.00 | Interest Revenues | This account includes interest revenues on special deposits, loans, notes, advances, securities and all other interest bearing assets; also included, unless otherwise provided by law, are earnings on bonds or other borrowed monies prior to construction. |
| 462.00 | Taxes and Assessments | |
| -005 | -Property Taxes-Current Secured | All taxes apportioned as a result of levies made against the secured roll of the county for the current fiscal year. |

| Explanation of Revenues by Activity/Program | | |
|---|--|--|
| Code | Accounts | Definition |
| Non-Operating Revenues (Continued) | | |
| -.10 | -Property Taxes-Current Unsecured | All taxes apportioned as a result of levies made against the unsecured roll of the county for the current fiscal year. |
| -.15 | -Property Taxes-Prior Secured | All taxes apportioned as a result of levies made against the secured rolls of the county in prior fiscal periods. Also includes revenues from tax deeded land sales. |
| -.20 | -Property Taxes- Prior Unsecured | All taxes apportioned as a result of levies made against the unsecured rolls of the county in prior fiscal periods. |
| -.25 | -Property Taxes-Current Year Voter Approved Indebtedness | Ad valorem property tax revenues which were levied in the current fiscal year to pay for interest and redemption charges on indebtedness approved by a majority of the voters prior to July 1, 1978, or approved by the voters after that date by a two-thirds vote, and which are in excess of the 1% tax rate limitation prescribed by subdivision (a) of Section 1 of Article XIII A of the State Constitution. Voter approved debt includes general obligation bonds, contractual agreements between special districts and state or federal agencies, and pension obligations. |
| -.30 | -Property Taxes-Prior Year Voter Approved Indebtedness | Ad valorem property tax revenues which were levied in prior fiscal periods to pay for interest and redemption charges on indebtedness approved by a majority of the voters prior to July 1, 1978, or approved by the voters after that date by a two-thirds vote, and which are in excess of the 1% tax rate limitation prescribed by subdivision (a) of Section 1 of Article XIII A of the State Constitution. |
| -.35 | -Property Assessments-Current | Non ad valorem levies made against properties in the district on a per unit, parcel, acre, etc. basis in the current fiscal year. NOTE: Service-type assessments other than standby or availability charges which are used for operating purposes should be reported in Account Service Type Assessment. Capital assessments should be treated as contributed capital. |
| -.40 | - Property Assessments-Prior | Non ad valorem levies made against properties in the district on a per unit, parcel, acre, etc. basis in the prior fiscal year. |
| -.45 | -Penalties and Costs on Delinquent Taxes and Assessments | Include all amounts apportioned as a result of penalties and costs charged against property owners for tax delinquency, exclusive of such amounts required to be apportioned as taxes. |
| -.50 | - Supplemental Property Taxes-Current | Property tax revenues (secured and unsecured) received pursuant to Chapter 3 of the Revenue and Taxation Code (Change in Ownership and New Construction After the Lien Date). |
| -.55 | - Supplemental Property Taxes-Current Year Voter Approved Indebtedness | Property tax revenues received pursuant to Chapter 3.5 of the Revenue and Taxation Code (Change in Ownership and New Construction after the Lien Date) to pay for interest and redemption charges on indebtedness approved by a majority of the voters prior to July 1, 1978, or approved by the voters after that date by a two-thirds vote. |
| -.60 | - Supplemental Property Taxes-Prior Year Taxes and Penalties | Prior year supplemental roll property taxes, interest, and penalties. |
| -.65 | -Special District Augmentation Fund | This account includes revenues allocated to the utility from the County Special District Augmentation Fund as determined pursuant to Revenue and Taxation Code 98.6(b). |
| 463.00 | Intergovernmental Revenues | |
| -.10 | -Federal | This account includes amounts received from the federal government for general operating purposes or in support of a specified function. |
| -.20 | -State-Homeowner's Property Tax Relief | This account includes amount received from the State to compensate the district for revenue lost because of the Homeowners ' Property Tax Exemption. |
| -.30 | -State-Other | This account includes amounts received from the State for general operating purposes or in support of a specified function. |

| Explanation of Revenues by Activity/Program | | |
|---|---|---|
| Code | Accounts | Definition |
| Non-Operating Revenues (Continued) | | |
| -40 | -Local-Other | This account includes amounts received from local government sources for general operating purposes or in support of a specified function. |
| 464.00 | Annexation Charges (Water, Electric, Waste Only) | Charges imposed in annexed territory for the payment of bonds, contracts, or other obligations incurred by reason of the annexation. Note: Annexation charges which are imposed for the acquisition or use of the existing facilities of the district shall be recorded as capital contribution. |
| 465.00 | Franchises (Waste Only) | Revenue from persons, firms and corporations for the privilege of conducting a waste disposal business within the district, usually involving the elements of regulation and monopoly. |
| 466.00 | Gain on Disposal of Fixed Assets | This account includes a gain on the sale, retirement, or casualty of fixed assets measured by the difference in book value less the proceeds received from the sale, salvage, or insurance claims. |
| 467.00 | Other Non-operating Revenues | This account includes all non-operating revenues, which are not properly included in above Non-operating Revenues accounts. |
| Public Transit Operators | | |
| 470.00 | Auxiliary Transportation Revenues | |
| 471.00 | Nontransportation Revenues | |
| 472.00 | Taxes Levied Directly by the Transit System | |
| -.10 | -Property Tax Revenue | |
| -.20 | -Sales Tax Revenue | |
| -.30 | -Other Tax Revenue | |
| 473.00 | Local Cash Grants and Reimbursements | |
| -.10 | -General Operating Assistance | This category covers revenues earned from operations closely associated with transportation operations. This includes advertising revenues from displaying advertising materials on transit system vehicles and property. |
| -.20 | -Other Financial Assistance – Local Transportation Fund | This category covers revenues earned from activities not associated with the provisions of the operator's transit services. This includes: Rental of Revenue Vehicles - revenues earned from leasing transit system revenue vehicles to some other operator; Rental of Buildings and Other Property - revenues earned from leasing transit system buildings and property to other organizations; Investment Income - revenues earned from investing available funds in marketable securities. (This does not include earnings on capital grant funds advanced by the grantor; such earnings are to be credited to the same account as the capital grant itself); Parking Lot Revenues - revenues earned from parking fees generated from parking lots not normally used as "park and ride" locations. |
| -.30 | -Motor Vehicle Fuel Tax | These categories cover tax revenues to transit systems that are organized as independent political subdivisions with their own taxation authority. Revenues to transit systems that come from local, state, or federal governments and have been raised through the taxing authority of the grantor governmental unit (which is not synonymous with the transit system) are covered in categories 484 through 487. |
| -.40 | -Local Article XIX Guideway Funds | The revenue earned by taxing the property within the political subdivision constituting the transit system. |

| Explanation of Revenues by Activity/Program | | |
|---|--|--|
| Code | Accounts | Definition |
| Public Transit Operators (Continued) | | |
| -50 | -Special District Augmentation Fund | The revenue earned by taxing sales of goods and/or services that occur within the political subdivision constituting the transit system. This account should not include any of the Transportation Development Act 1/4 cent sales tax (Local Transportation Fund) which must be recorded in account 484.991; this account also should not include transactions and use tax revenues raised through the taxing authority of another local government which must be recorded in account 484.995. |
| -60 | -Other Financial Assistance – Transaction and Use Tax | The revenue earned by taxation on some basis other than those specified in categories 483.010 through 483.020 when the taxing authority is the transit system. |
| 474.00 | Local Special Fare Assistance | This category covers funds obtained from local government units to assist in paying the cost of operating transit services. (The local government units are those not synonymous with the transit system; revenues for these units are covered in Category 483.) The breakdown of local government grants and reimbursements to the sub-categories is to be based on the factor that determines the amount of the grant or reimbursement. |
| 475.00 | State Cash Grants and Reimbursements | The receipt or accrual of local government payments to help cover the operating costs of providing transit services. This category covers general operating assistance not that based on special fares or certain expense items as described in the following categories. It includes "purchase of service" payments from local government units. |
| -10 | -Homeowners Property Tax Relief | This category covers revenues earned from the Local Transportation Fund for general operating assistance in accordance with the Transportation Development Act as amended to date. Local Transportation Funds which are restricted solely for capital purposes should be posted to account 495 - Capital Contributions. |
| -20 | -Article XIX Guideway Funds | This category applies to agencies that receive funds from a locally imposed 1 cent tax on motor vehicle fuels pursuant to Public Utilities Code 99500. |
| -30 | -State Transit Assistance Fund | This category applies to agencies that receive funds from the local portion of Article XIX guideway funds as authorized by Proposition 5 (1974). |
| -40 | -Transportation Planning & Development (TP & D) Guideway Fund (P.U.C. 99317) | This category covers revenues allocated to the operator from the Special District Aug- mentation Fund as determined pursuant to Revenue and Taxation Code 98.6(b). |
| -50 | -Other State Provisions and Grants | This category applies to agencies which receive Transactions and Use Tax monies from another local agency that is authorized to impose such a tax pursuant to Part 1.6 (commencing with Section 7251), Division 2 of the Revenue and Taxation Code. |

| Explanation of Revenues by Activity/Program | | |
|---|--|--|
| Code | Accounts | Definition |
| Public Transit Operators (Continued) | | |
| 476.00 | State Special Fare Assistance | <p>This category covers funds obtained from local government units to help cover the difference between full adult fares and special reduced fares. Subaccounts include:</p> <p>Handicapped Citizen Fare Assistance - the receipt or accrual of local government payments to help cover the difference between full adult fares and handicapped rider fares; Senior Citizen Fare Assistance – the receipt or accrual of local government payments to help cover the difference between full adult fares and special senior citizen fares;</p> <p>Student Fare Assistance - the receipt or accrual of local government payments to help cover the difference between full adult fares and special student fares;</p> <p>Other Special Fare Assistance - the receipt or accrual of local government payments to help cover the difference between full adult fares and special reduced fares other than those described above.</p> |
| 477.00 | Federal Cash Grants and Reimbursements | This category covers funds obtained from state governments to assist in paying the cost of operating transit services. |
| -.10 | -General Operating Assistance – UMTA Section 9 | This category covers revenues earned from the Homeowners Property Tax Relief apportioned by the County Auditor. |
| -.20 | -UMTA Section 18 | This category applies to agencies that receive funds from the State portion of Article XIX guideway funds as authorized by Proposition 5 (1974). |
| -.30 | -Special Demonstration Project Assistance | This category covers revenues earned from the State Transit Assistance Fund for general operating assistance in accordance with the Transportation Development Act as amended to date. State Transit Assistance Funds which are restricted solely for capital purposes should be posted to account 495.000 - Capital Contributions. |
| -.40 | -Other Financial Assistance | This category includes revenues received pursuant to Public Utilities Code Section 99317 and used for operating purposes rather than capital acquisition or construction. |
| 478.00 | Contributed Services | This category covers revenues received from the state for purposes not covered in any specific category in 48991 through 486.95. |
| -.10 | -State and Local Government | <p>This category covers funds obtained from the state government to help cover the difference between full adult fares and special reduced fares. Subaccounts include :</p> <p>Handicapped Citizen Fare Assistance - the receipt or accrual of state government payments to help cover the difference between full adult fares and handicapped rider fares;</p> <p>Senior Citizen Fare Assistance - the receipt or accrual of state government payments to help cover the difference between full adult fares and special senior citizen fares;</p> <p>Student Fare Assistance - the receipt or accrual of state government payments to help cover the difference between full adult fares and special student fares;</p> <p>Other Special Fare Assistance - the receipt or accrual of state government payments to help cover the difference between full adult fares and special reduced fares other than those above.</p> |
| -.20 | -Contra Account for Expense | This category covers funds obtained from the federal government to assist in paying the cost of operating transit services. |

| Explanation of Revenues by Activity/Program | | |
|---|--|---|
| Code | Accounts | Definition |
| Public Transit Operators (Continued) | | |
| 479.00 | Subsidy from Other Sectors of Operations | The receipt or accrual of Federal government payments to help cover the operating costs of providing transit services, including Section 9 funds. This category covers general operating assistance not that based on special fares or specific expense items as described in the following categories. It includes "purchase of service" payments from federal government units. |
| 480.00 | System Capacity | This category applies to revenue received pursuant to Section 18 of the Urban Mass Transportation Act, and used for operating purposes rather than capital acquisition or construction. |
| 481.00 | Reimbursements | The receipt or accrual of Federal government payments to help cover the operating costs for special demonstration projects. |
| Capital Contributions | | |
| 490.00 | Federal Grant | Funds from the Federal government related to capital improvements |
| 491.00 | State Grant | Funds from the State government related to capital improvements |
| 492.00 | Developer Contributions | Fees from developers to perform capital improvements on behalf of the developer |
| 493.00 | System Capacity Fees | Fees from developers to buy into the current system related to expanding capacity |
| 494.00 | Other | Additions to permanent and term endowments, special and extraordinary items (detailed), and transfers |
| 495.00 | Federal Grant | Funds from the Federal government related to capital improvements |

Expenses/Expenditures

Accounts are numbered in sequence for exemplary purposes only. The list below is not all inclusive and account examples can cross between special districts.

| Explanation of Expense and Expenditure Accounts by Activity/Program | | |
|---|--|---|
| Code | Accounts | Definition |
| Water Utility District | | |
| Operating Expenses | | |
| 501.00 | Water – Transmission & Distribution – Supervision, Labor & Expense | |
| -.10 | -Water – Transmission & Distribution – Maintenance-Structures & Improvements | This account includes the cost of labor and materials used and expenses incurred in the general supervision and operation of water source of supply activities. This includes supervision expenses such as planning, organizing, budgeting, etc. Also, included are operating labor and expenses such as cutting brush and weeds, electrolysis and soil corrosion investigations , keeping plant logs and records , operating gates and valves, patrolling and inspecting , preparing maps , tools and supplies, and other items associated with operating the source of supply facilities. |
| -.20 | -Water – Customer Accounts | This account includes the cost of labor and materials used and expenses incurred in connection with maintaining the source of supply facilities included in account Pumping Plant. Examples include: Supervising of maintenance work; inspecting, testing and reporting on the condition of source of supply plant; restoring the condition of source of supply plant damaged by storms, floods or other casualties ; restoring the condition of source of supply plant items damaged by wear and tear; and other maintenance items. |

| Explanation of Expense and Expenditure Accounts by Activity/Program | | |
|---|---|---|
| Code | Accounts | Definition |
| Water Utility District | | |
| Operating Expenses (Continued) | | |
| -30 | -Water – Customer Accounts – Supervision, Meter Reading & Other Expense | This account includes the cost at the point of delivery of water purchased for resale, charges for resale, including charges for readiness to serve and the portion applicable to each accounting period of payments for the right to divert water at the source of supply. |
| -40 | -Water – Customer Accounts – Uncollectible Accounts | This account includes costs of water purchased for or replenishing the groundwater supplies and /or for charges paid to other utilities for services rendered in the replenishment of groundwater. |
| 502.00 | Water – Administrative & General | |
| -10 | -Water – Administrative & General – Salaries | <p>This account includes the cost of labor and materials used and expenses incurred in the general supervision and operation of pumping activities. This includes:</p> <p>Supervision and Engineering - the planning, organizing, budgeting, etc. of pumping operations;</p> <p>Power Production - costs of operating generators, boilers, or other equipment for the production of power used to operate pumps;</p> <p>Pumping Labor & Expenses – the costs of operating pumps and auxiliary equipment;</p> <p>Miscellaneous Expense - general clerical, office supplies, tools, etc. associated with pumping activities.</p> |
| -20 | -Water – Administrative & General – Office Supplies & Other Expenses | <p>This account includes the costs of labor and materials used and expenses incurred in connection with maintaining structures and improvements of pumping plant included in account Water Treatment Plant. This includes:</p> <p>Supervision and Engineering - the costs of labor and expenses incurred in the general supervision and direction of the maintenance of power production and pumping ;</p> <p>Maintenance of Structures and Improvements and Equipment - inspecting, testing and reporting on the condition of pumping plant; restoring the condition of pumping plant damaged by storms, floods or other casualties; restoring the condition of pumping plant items damaged by wear and tear; rearranging the location of pumping plant; installing, maintaining and removing temporary facilities, and other maintenance items.</p> |
| -30 | -Water – Administrative & General – Memberships and Sponsorships | This account includes the cost of fuel or power purchased which is used directly for operation of pumps, including the cost of power transferred to water pumping operations from other departments under the joint facility arrangements. |

| Explanation of Expense and Expenditure Accounts by Activity/Program | | |
|---|--|--|
| Code | Accounts | Definition |
| Water Utility District | | |
| Operating Expenses (Continued) | | |
| 503.00 | Water – Administrative & General– Travel and Meetings | |
| -.10 | -Water – Administrative & General – Contractual Services | <p>This account includes the cost of labor and materials used and expenses incurred in the general supervision and operation of water treatment facilities. This includes:</p> <p>Supervision and Engineering - the planning, organizing, budgeting, etc. of water treatment operations;</p> <p>Operation Labor and Expense - the costs of operating water treatment plant such as, cleaning basins, filters, removal of sediment, , charts, lab expenses, clerical, supplies, etc.</p> |
| -.20 | -Water – Administrative & General – Property Insurance, Injuries & Damages | <p>This account includes the costs of labor and materials used and expenses incurred in connection with maintaining structures and improvements of water treatment plant included in account Transmission & Distribution Plant. This includes:</p> <p>Supervision and Engineering -the cost of labor and expenses incurred in the general supervision and direction of maintenance of water treatment plant;</p> <p>Maintenance of Structures, Improvements, and Equipment - inspecting, testing and reporting on the condition of water treatment plant; restoring the condition of water treatment plant damaged by storms, floods, or other casualties; restoring the condition of water treatment plant items damaged by wear and tear; rearranging the location of water treatment plant; installing, maintaining and removing temporary facilities; and other maintenance items.</p> |
| -.30 | -Water – Administrative & General – Employees Retirement & Benefits | <p>This account includes the cost of all chemicals used in the treatment of water. Note that some chemicals are taxable and some are not. - the costs of operating water treatment plant such as application of chemicals, operation of water softening or fluoridation plant, and all chemicals and filtering materials used in the treatment of water such as activated carbon, ammonia, chlorine, fluorine compound, lime, soda ash, etc.</p> |
| -.40 | -Water – Administrative & General – Franchise Requirements | <p>This account includes the cost of electricity, fuel and oil used in the operation of motive equipment. This would include the cost of fuel used in the product of power to operate pumps and equipment used in the water treatment process.</p> |

| Explanation of Expense and Expenditure Accounts by Activity/Program | | |
|---|---|---|
| Code | Accounts | Definition |
| Water Utility District | | |
| Operating Expenses (Continued) | | |
| 504.00 | Water – Administrative & General – Rents & Leases | |
| -.10 | -Water – Administrative & General – Maintenance – General Plant | <p>This account includes the cost of labor and materials used and expenses incurred in the general supervision and operation of transmission and distribution facilities. This includes:</p> <p>Supervision and Engineering - the planning, organizing, budgeting, etc. of transmission and distribution facilities.</p> <p>Storage Facilities Expenses - expenses incurred in the operation of distribution reservoirs, tanks and standpipes;</p> <p>Transmission and Distribution Lines Expense – expenses incurred in the operation of transmission and distribution mains, fire mains, and hydrants;</p> <p>Meter Expense - expenses incurred in the operation of customer meters and associated equipment. Removing and resetting, disconnecting and reconnecting, changing and relocating meters and associated equipment, except the cost of first testing and setting of a meter which shall be charged to utility plant account General Plant;</p> <p>Customer Installations expenses incurred in work on customer installations, inspecting premises and in rendering services to customers.</p> <p>Note - billings to customers for work, the cost of which is includible herein, shall be credited to account Service-Type Assessments, Other Water Service Revenues;</p> <p>Miscellaneous Expense - miscellaneous cost in the operations of the transmission and distribution system such as preparing maps, clerical, operating records, supplies, etc.</p> |
| -.20 | -Water – Administrative & General – Other | <p>This account includes the costs of labor and materials used and expenses incurred in connection with maintaining structures and improvement of transmission and distribution plant included in account General Plant. This includes:</p> <p>Supervision and Engineering - the costs of labor and expenses incurred in the general supervision and direction of the maintenance of transmission and distribution plant;</p> <p>Maintenance of structures and Improvements - the costs associated with maintaining structures of the transmission and distribution system, reservoir and tanks, transmission and distribution mains, fire mains, meters, hydrants, and service lines such as inspecting, testing and reporting on the condition of transmission and distribution plant; restoring the condition of plant items damaged by storms, floods, -or other casualties ; restoring the condition of plant items damaged by wear and tear; rearranging the location of transmission and distribution plant; installing, maintaining and removing temporary facilities, and other maintenance costs of the transmission and distribution plant.</p> |

| Explanation of Expense and Expenditure Accounts by Activity/Program | | |
|---|---|---|
| Code | Accounts | Definition |
| Water Utility District Operating Expenses (Continued) | | |
| 505.00 | Water – Recreation | |
| - .10 | -Water – Pension Expense | <p>This account includes the costs of labor and materials used and expenses incurred in connection with customer accounting and collecting activities. This includes:</p> <p>Supervision - the costs of labor and expenses incurred in the general supervision of customer accounting ;</p> <p>Meter Reading Expenses - the costs incurred in reading customer meters and determining consumption;</p> <p>Customer Records and Collection Expenses - the cost incurred in work on customer applications, contracts, orders, credit investigations, billing and accounting, collections, and complaints.</p> |
| - .20 | -Water – Transmission & Distribution – Supervision, Labor & Expense | <p>This account includes accounts receivable estimated to eventually prove uncollectible based on a constant monthly charge or a percentage of revenues. A concurrent credit is made to account Allowance for Uncollectible Accounts.</p> |
| 506.00 | Water – Transmission & Distribution – Maintenance-Structures & Improvements | |
| - .05 | -Water – Customer Accounts | <p>This account includes salaries and other considerations (but not director’s fees) for services of officers and other employees of the utility properly chargeable to utility operation and not chargeable directly to a particular operating function.</p> |
| - .10 | -Water – Customer Accounts – Supervision, Meter Reading & Other Expense | <p>This account includes office supplies and other expenses incurred in connection with the general administration of the utility’s operations. Such expenses include:</p> <ul style="list-style-type: none"> • Automobile service • Bank messenger and service charges • Books, periodicals, subscriptions, tax services, etc. • Building service expenses (except rent) for customer accounts, sales and administrative and general purposes • Office equipment of small value or short life used by general departments • Postage, printing and stationary • Court costs and legal expenses • Utility services |
| - .15 | -Water – Customer Accounts – Uncollectible Accounts | <p>This account includes the cost of memberships and sponsorships in and with societies, associations of officials, trade associations and other organizations.</p> |
| - .20 | -Water – Administrative & General | <p>This account includes the cost of:</p> <ul style="list-style-type: none"> • Gasoline used in travel • Leased or rented vehicles • Reimbursement for private car use • Reimbursement for meals, lodging, conference expenses, bridge tolls, study material, train, bus, air fares; any other authorized travel expense |
| - .25 | -Water – Administrative & General – Salaries | <p>This account includes the fees and expenses of professional consultants and others for general services which are not applicable to a particular operating function or to other accounts. This includes fees, pay and expenses of accountants and auditors, actuaries, appraisers, attorneys, engineering consultants, management consultants, fiscal agents, etc.</p> |

| Explanation of Expense and Expenditure Accounts by Activity/Program | | |
|---|--|---|
| Code | Accounts | Definition |
| Water Utility District | | |
| Operating Expenses (Continued) | | |
| -30 | -Water – Administrative & General – Office Supplies & Other Expenses | <p>This account includes the cost of insurance or reserve accruals to protect the utility against losses and damages to property owned or leased, and against injuries and damages claims of employees or others. Includes the cost of insurance premiums for fire, storm, burglary, boiler explosion, lightning, public liability, property damage, casualty and employee liability. Also includes the cost of labor and related supplies and expenses incurred in such activities. Insurance premium dividends or refunds shall be credited to this account.</p> <p>Recoveries from insurance companies or others for property damages and injuries and damages claims of employees or others shall be credited to the account charged with the cost of the damage.</p> |
| -35 | -Water – Administrative & General – Memberships and Sponsorships | <p>This account includes the employer's share of:</p> <ul style="list-style-type: none"> • Employee retirement systems • FICA or O.A.S.D.I and SSI • Health, dental, life and accident insurance • Unemployment insurance • State disability insurance • Workers' Compensation premiums • Leave (Holiday, Vacation, Sick, etc.) |
| -40 | -Water – Administrative & General – Travel and Meetings | <p>This account includes payments to municipal or other governmental authorities in compliance with franchise, ordinance or other similar requirements. Also includes the cost of materials, supplies and services furnished such authorities without reimbursement in compliance with such requirements.</p> |
| -45 | -Water – Administrative & General – Contractual Services | <p>This account includes rental and lease payments properly includible in utility operating expenses for the property of others used, occupied or operated. Taxes paid by the lessee with respect to such property are included in this account.</p> <p>The cost of operating and maintaining leased property shall be charged to the appropriate accounts for the expense as if the property were owned.</p> |
| -50 | -Water – Administrative & General – Property Insurance, Injuries & Damages | <p>This account includes the costs assignable to customer accounts, sales and administrative and general functions of labor and materials used and expenses incurred in the maintenance of property, the cost of which is includible in Utility Plant - General, and of similar property leased from others.</p> <p>Also include the cost of repairing for reuse materials which previously were included in this account.</p> <p>Maintenance expense of office furniture and equipment used elsewhere other than in general offices shall be charged to the appropriate functional account.</p> |
| -55 | -Water – Administrative & General – Employees Retirement & Benefits | <p>This account includes all other general and administrative expenses which are not properly includible in accounts 506.10 through 506.80.</p> |
| 507.00 | Water – Administrative & General – Franchise Requirements | <p>This account is the net amount of revenue and expenses related to recreation activities. Some water companies have watershed lands serving two purposes supply and recreation. Since recreation is not an primary revenue source but serves operating activities, the net amount is reporting in operating revenues separate like Administration and General.</p> |
| 508.00 | Water – Administrative & General – Rents & Leases | <p>Per GASB 68, this amount reflects the change in net pension liability from prior year to current year. The alternative approach for recording this expense is allocating the total into all operating and capital salary and fringe benefit expenses.</p> |

| Explanation of Expense and Expenditure Accounts by Activity/Program | | |
|---|---|--|
| Code | Accounts | Definition |
| Water Utility District Non-Operating Expenses | | |
| 510.00 | Water – Other Operating Expenses | |
| -.10 | -Water – Other Operating Expenses – Depreciation & Amortization | This account includes such amounts of depreciation and amortization as the utility may determine to be equitably chargeable to each month's operations. |
| -.20 | -Water – Other Operating Expenses – Taxes | <p>This account includes the amount of federal, state, county, municipal and other taxes, which are properly chargeable to utility operations. This account shall be charged each month with the amount of taxes which are applicable thereto, and concurrent credits shall be made to Taxes Accrued.</p> <p>When it is not possible to determine the exact amount of taxes, the amount shall be estimated and the estimate for the period charged to the account, and adjustments shall be made as the actual tax levies become known.</p> <p>Gasoline, sales and use taxes shall be charged as far as practicable to the account to which the material on which the tax levied is charged.</p> <p>Amounts payable annually or more frequently under the terms of franchises shall be charged to Franchise Requirements.</p> <p>Special assessments for street and similar improvements shall be included in the utility plant account in which the property with which the taxes are identified is included.</p> <p>Taxes applicable to construction shall be capitalized. Social Security and State Unemployment Insurance taxes shall be charged to Employees Retirement & Benefits.</p> |
| -.30 | -Water – Other Operating Expenses – Other Operating Expenses | This account includes all operating expenses not chargeable to any other operating account. |
| 511.00 | Water – Nonoperating Expenses | |
| -.10 | -Water – Nonoperating Expenses – Interest on Long-Term Debt | This account includes the amount of interest applicable to outstanding long-term debt issued or assumed by the utility. Notes: The long term debt is included in Accounts Long-Term Liabilities inclusive. An interest amount charged to this account shall be credited concurrently to Account Accrued Interest Payable. |
| -.20 | -Water – Nonoperating Expenses – Other Interest | <p>This account includes all interest charges not provided for elsewhere, including interest on the following:</p> <ul style="list-style-type: none"> • Assessments for public improvements past due; • Claims and judgments; • Customers' deposits; • Notes payable on demand or maturing one year or less from date of issue; • Open accounts; • Tax assessments past due; |
| -.30 | -Water – Nonoperating Expenses – Loss On Disposal of Fixed Assets | This account includes a loss on the sale, retirement, or casualty of fixed assets measured by the difference in book value less the proceeds received from the sale, salvage, or insurance claims. |

| Explanation of Expense and Expenditure Accounts by Activity/Program | | |
|---|--|--|
| Code | Accounts | Definition |
| Water Utility District | | |
| Non-Operating Expenses (Continued) | | |
| -40 | -Water – Nonoperating Expenses – Other Nonoperating Expenses | This account includes all other nonoperating expenses which are not properly includible in accounts 408.10 through 508.30. |
| Harbor and Port Districts | | |
| Operating Expenses | | |
| 520.00 | Harbor and Port – Operating & Security | <p>This expense center includes all costs of salaries and supervision and other expenses incurred in the operation and security of the district. <u>Terminal labor & expenses for the following activities:</u> warehousing, weighing, checking, compressing, storage, switching & cartage, stevedoring, police & patrol, coopering, clerical, fumigation.</p> <p>Such expenses include:</p> <ul style="list-style-type: none"> • Supervision & salaries expenses. • Handling equipment rents & expenses. • Pier & float rentals. • Seawall & bulkhead expense. • Launching ramp expense. • Cost of harbor supplies used or sold. • Fuel for equipment boats. • Fire protection systems. |
| 521.00 | Harbor and Port – Maintenance | <p>This expense center includes all costs of salaries and supervision and other expenses associated with district maintenance and repair. Such expenses include:</p> <ul style="list-style-type: none"> • Maintenance & repair of: <ul style="list-style-type: none"> ○ Structures & substructures. ○ Cranes, lift trucks & other handling equipment. ○ Buildings & grounds. ○ Automotive vehicles. ○ Railroad tracks, roads, parking areas. ○ Floats. ○ Water & utility systems. • Maintenance supervision & expense. <ul style="list-style-type: none"> ○ Janitorial labor & expense. ○ Dredging of slips & channels. |
| 522.00 | Harbor and Port – Administration and General | <p>This expense center includes the costs associated with the general administration of the district's operation such expenses include:</p> <ul style="list-style-type: none"> • Salaries & expenses of officers whose jurisdiction extends over entire system. • Salaries of general office clerical employees. Office supplies & expense. • Legal & auditing fees. • Insurance, traffic, solicitation, communications expenses. Dues & subscriptions. • Rental & lease of general structures & equipment. |
| -05 | -Harbor and Port — Salaries and Wages | This account includes salaries, wages and other considerations for services of officers and other employees of the district properly chargeable to district operations. |

| Explanation of Expense and Expenditure Accounts by Activity/Program | | | | | | | | | | | | | | |
|---|--|--|-------------------|-----------|-------|--------------|--------|-------|-----------------|----------|-------|-------------------|---------|--|
| Code | Accounts | Definition | | | | | | | | | | | | |
| Harbor and Port Districts | | | | | | | | | | | | | | |
| Operating Expenses (Continued) | | | | | | | | | | | | | | |
| -10 | -Harbor and Port Employee Benefits | This account includes the employer's share of: <ul style="list-style-type: none"> • Employee retirement systems • FICA or O.A.S.D.I and SSI • Health, dental, life and accident insurance • Unemployment insurance • State disability insurance • Workers' Compensation premiums • Leave (Holiday, Vacation, Sick, etc) | | | | | | | | | | | | |
| -15 | -Harbor and Port– Director’s Fees | This account includes fees paid to directors for meeting attendance. | | | | | | | | | | | | |
| -20 | -Harbor and Port – Centers – Objects – Cost of Sales | This account includes the cost of: <ul style="list-style-type: none"> • Gasoline and other fuels • Lubricants • Other items purchased primarily for resale which have been sold. | | | | | | | | | | | | |
| -25 | -Harbor and Port– Advertising & Promotion | This account includes the cost of promotional activities and advertising surplus items for public sale. | | | | | | | | | | | | |
| -30 | -Harbor and Port — Clothing and Personal Supplies | This account includes the cost of items for personal use, including safety appliances. This includes: <table border="0" style="margin-left: 20px;"> <tr> <td>Badges & Chevrons</td> <td>Raincoats</td> </tr> <tr> <td>Belts</td> <td>Rubber boots</td> </tr> <tr> <td>Gloves</td> <td>Shoes</td> </tr> <tr> <td>Goggles & masks</td> <td>Uniforms</td> </tr> <tr> <td>Gowns</td> <td>Uniform allowance</td> </tr> <tr> <td>Helmets</td> <td></td> </tr> </table> | Badges & Chevrons | Raincoats | Belts | Rubber boots | Gloves | Shoes | Goggles & masks | Uniforms | Gowns | Uniform allowance | Helmets | |
| Badges & Chevrons | Raincoats | | | | | | | | | | | | | |
| Belts | Rubber boots | | | | | | | | | | | | | |
| Gloves | Shoes | | | | | | | | | | | | | |
| Goggles & masks | Uniforms | | | | | | | | | | | | | |
| Gowns | Uniform allowance | | | | | | | | | | | | | |
| Helmets | | | | | | | | | | | | | | |
| -35 | -Harbor and Port– Communications | This account includes the cost of telephone, telegraph and teletype services; radio and microwave services; and messenger services. | | | | | | | | | | | | |
| -40 | -Harbor and Port– Election Expense | This account includes the costs of election notices, printing of ballots and contractual election services, rent of polling places and ballot boxes, pay of election officials and other election expenses. | | | | | | | | | | | | |
| -45 | -Harbor and Port– Gasoline, Oil and Fuel | This account includes the cost of fuel and oil used in the operation of motive equipment. | | | | | | | | | | | | |
| -50 | -Harbor and Port– Insurance | This account includes the cost of insurance premiums for fire, burglary, public liability, collision, property damage, individual and blanket bonds, money and securities, boiler and forgery. Also includes periodic charges for self-insurance. Insurance premium dividends or refunds shall be credited to this account. | | | | | | | | | | | | |
| -55 | -Harbor and Port– Memberships and Sponsorships | This account includes the cost of memberships and sponsorships in and with societies, associations of officials, trade associations and other organizations. | | | | | | | | | | | | |
| -60 | -Harbor and Port– Office Expense | This account includes the cost of office-type supplies and services. This includes: <ul style="list-style-type: none"> • Accounting and report forms • Books and manuals • Envelopes, letterheads, postage • Microfilm services • P. O. box rental • Small stapling, dating and numbering machines • Subscriptions to magazines, clipping services, periodicals • Wastebaskets | | | | | | | | | | | | |
| -65 | -Harbor and Port– Operating Supplies | This account includes the cost of supplies purchased for use in the operations which are not chargeable to another account. | | | | | | | | | | | | |

| Explanation of Expense and Expenditure Accounts by Activity/Program | | | | | | | | | | | | | | | | | | | | | | |
|---|--|--|------|----------|----------|--------|---------|----------|---------|---------------|--------|-------|-------------|---------|--------|--------------|---------|---------|----------|------------|---------|-------------------|
| Code | Accounts | Definition | | | | | | | | | | | | | | | | | | | | |
| Harbor and Port Districts | | | | | | | | | | | | | | | | | | | | | | |
| Operating Expenses (Continued) | | | | | | | | | | | | | | | | | | | | | | |
| -70 | -Harbor and Port– Contractual Services | This account includes the cost of services of a non-professional nature which are not properly chargeable to another account | | | | | | | | | | | | | | | | | | | | |
| -75 | -Harbor and Port– Professional Services | This account includes the cost of professional services. This includes: <ul style="list-style-type: none"> • Actuarial studies • Appraisals • Auditing and accounting • Engineering services • Fiscal agents' fees • Management, salary surveys • Outside defense counsel, legal services | | | | | | | | | | | | | | | | | | | | |
| -80 | -Harbor and Port– Publication and Legal Notices | This account includes the cost of the publication of legally required notices and reports. This includes: <ul style="list-style-type: none"> • Bids for purchases • Bond sale notices • Budgets • Delinquent tax lists • Employment opportunities • Financial reports • Ordinances • Proceedings of governing body | | | | | | | | | | | | | | | | | | | | |
| -85 | -Harbor and Port– Rents and Leases | This account includes rents and leases paid for the use of land, structures and improvements and equipment. Include amounts paid under operating lease agreements. | | | | | | | | | | | | | | | | | | | | |
| -90 | -Harbor and Port– Repairs and Maintenance | This account includes the expenses of maintaining useful life of structures, improvements and equipment. This includes: <ul style="list-style-type: none"> • Automotive supplies • Contractual repairs, overhauls • Radio repair services and supplies • Repair parts • Service contracts for maintenance • Fire extinguisher refills • Heating and cooling system repairs | | | | | | | | | | | | | | | | | | | | |
| -95 | -Harbor and Port– Small Tools and Equipment | This account includes the cost of minor equipment of insufficient life or value to require classification as a fixed asset, and replacement parts of such tools and instruments. This includes: <table border="0" style="width: 100%;"> <tr> <td>Bits</td> <td>Lanterns</td> </tr> <tr> <td>Calipers</td> <td>Levels</td> </tr> <tr> <td>Chisels</td> <td>Oil cans</td> </tr> <tr> <td>Cutters</td> <td>Paint brushes</td> </tr> <tr> <td>Drills</td> <td>Picks</td> </tr> <tr> <td>Flashlights</td> <td>Reamers</td> </tr> <tr> <td>Gauges</td> <td>Screwdrivers</td> </tr> <tr> <td>Hammers</td> <td>Shovels</td> </tr> <tr> <td>Handsaws</td> <td>Tool boxes</td> </tr> <tr> <td>Ladders</td> <td>Welding equipment</td> </tr> </table> | Bits | Lanterns | Calipers | Levels | Chisels | Oil cans | Cutters | Paint brushes | Drills | Picks | Flashlights | Reamers | Gauges | Screwdrivers | Hammers | Shovels | Handsaws | Tool boxes | Ladders | Welding equipment |
| Bits | Lanterns | | | | | | | | | | | | | | | | | | | | | |
| Calipers | Levels | | | | | | | | | | | | | | | | | | | | | |
| Chisels | Oil cans | | | | | | | | | | | | | | | | | | | | | |
| Cutters | Paint brushes | | | | | | | | | | | | | | | | | | | | | |
| Drills | Picks | | | | | | | | | | | | | | | | | | | | | |
| Flashlights | Reamers | | | | | | | | | | | | | | | | | | | | | |
| Gauges | Screwdrivers | | | | | | | | | | | | | | | | | | | | | |
| Hammers | Shovels | | | | | | | | | | | | | | | | | | | | | |
| Handsaws | Tool boxes | | | | | | | | | | | | | | | | | | | | | |
| Ladders | Welding equipment | | | | | | | | | | | | | | | | | | | | | |
| -96 | -Harbor and Port– Travel and Meetings | This account includes the cost of: <ul style="list-style-type: none"> • Gasoline used in travel • Leased or rented vehicles • Reimbursement for private car use • Reimbursement for meals, lodging, conference expenses, bridge tolls, study material, train, bus, air fares; any other authorized travel expense | | | | | | | | | | | | | | | | | | | | |

| Explanation of Expense and Expenditure Accounts by Activity/Program | | |
|---|--|--|
| Code | Accounts | Definition |
| Harbor and Port Districts | | |
| Operating Expenses (Continued) | | |
| -97 | -Harbor and Port– Bad Debt Expense | This account includes accounts receivable estimated to be uncollectible based on a constant monthly charge or a percentage of revenues. A concurrent credit is made to account Allowance for Uncollectible Accounts. |
| -98 | -Harbor and Port– Utilities | This account includes the cost of: <ul style="list-style-type: none"> • Coal & wood • Electricity • Heating and cooling supplies for buildings • Natural gas, butane, fuel oil • Refuse disposal • Street lighting • Water |
| -99 | -Harbor and Port– Other | This account includes all other operating expenses not includible in accounts 5103.01 through 513.22. |
| Harbor and Port Districts | | |
| Non-Operating Expenses | | |
| 530.00 | Harbor and Port – Nonoperating Expenses – Interest on Long-Term Debt | This account includes the amount of interest applicable to outstanding long-term debt issued or assumed by the district. NOTE: The long-term debt is included in Accounts Long-Term Liabilities inclusive. An interest amount charged to this account shall be credited concurrently to Account Accrued Interest Payable. |
| 531.00 | Harbor and Port – Nonoperating Expenses – Other Interest | This account includes all interest charges not provided for elsewhere, including interest on the following: <ul style="list-style-type: none"> • Assessments for public improvements past due; • Claims and judgments; • Notes payable on demand or maturing one year or less from date of issue; • Open accounts; • Tax assessments past due |
| 532.00 | Harbor and Port – Nonoperating Expenses – Judgments and Damages | This account includes settlement of claims against the district for injury to persons and property. |
| 533.00 | Harbor and Port – Nonoperating Expenses – Loss on Disposal of Fixed Assets | This account includes a loss on the sale, retirement, or casualty of fixed assets measured by the difference in book value less the proceeds received from the sale, salvage, or insurance claims. |
| 534.00 | Harbor and Port – Nonoperating Expenses – Other Nonoperating Expenses | This account includes all other nonoperating expenses which are not properly includible in accounts Nonoperating Expenses. |

| Explanation of Expense and Expenditure Accounts by Activity/Program | | |
|---|--|--|
| Code | Accounts | Definition |
| Airport Operating Expenses | | |
| 540.00 | Airport— Landing Areas | <p>This expense center includes all costs of salaries and supervision and other expenses associated with landing areas of the district. Such expenses include costs associated with:</p> <ul style="list-style-type: none"> • Ground areas assigned to landing, take off and taxiing operations: <ul style="list-style-type: none"> ○ Runways Aprons ○ Taxiways ○ Clear zones • Navigational aids • Utility systems & facilities |
| 541.00 | Airport— Terminal Buildings & Areas | <p>This expense center includes all costs of salaries and supervision and other expenses associated with terminal buildings and areas of the district. Such expenses include costs associated with:</p> <ul style="list-style-type: none"> • Buildings with tenants who provide terminal-type services: • Restaurant • Insurance • Bar • Auto parking • Baggage • Observation, sightseeing facilities • Newsstand • Ground passenger transportation • Other concessions • Fingers, canopies, parking space, passenger loading areas, access roads. • Improvements to land, landscaping, paving, building fixtures. |
| 542.00 | Airport— Other Buildings & Areas | <p>This expense center includes all costs of salaries and supervision and other expenses associated with buildings and areas which are not includible elsewhere. This includes:</p> <ul style="list-style-type: none"> • T-hangers • Aircraft storage • Ground rentals • Fixed base operator leaseholds |
| 543.00 | Airport— General Shops & Equipment | <p>This expense center includes labor, supplies and expenses of monitoring and repairing facilities of the district.</p> |
| 544.00 | Airport— Administration & General | <p>This expense center includes the costs associated with the general administration of the district's operations. Such expenses include:</p> <ul style="list-style-type: none"> • Salaries & expenses of officers whose jurisdiction extends over entire system. • Salaries of general office clerical employees. • Office supplies & expense. • Legal & auditing fees. • Insurance, traffic, solicitation, communications expenses. • Dues & subscriptions. • Rental & lease of general structures & equipment. |
| 545.00 | Airport— Administration & General – Salaries and Wages | <p>This account includes salaries, wages and other considerations for services of officers and other employees of the district properly chargeable to district operations.</p> |

| Explanation of Expense and Expenditure Accounts by Activity/Program | | |
|---|---|--|
| Code | Accounts | Definition |
| Airport | | |
| Operating Expenses (Continued) | | |
| -05 | -Airport— Administration & General – Employee Benefits | This account includes the employer's share of: <ul style="list-style-type: none"> • Employee retirement systems • FICA or O.A.S.D.I and SSI • Health, dental, life and accident insurance • Unemployment insurance • State disability insurance • Workers' Compensation premiums • Leave (Holiday, Vacation, Sick, etc) |
| -10 | -Airport— Administration & General – Directors' Fees | This account includes fees paid to directors for meeting attendance. |
| -15 | -Airport— Administration & General – Cost of Sales | This account includes the cost of: <ul style="list-style-type: none"> Gasoline and fuels Lubricants Other items purchased primarily for resale which have been sold |
| -20 | -Airport— Administration & General – Advertising & Promotion | This account includes the cost of promotional activities and advertising surplus items for public sale |
| -25 | -Airport— Administration & General – Clothing & Personal Supplies | This account includes the cost of items for personal use, including safety appliances. This includes: <ul style="list-style-type: none"> Badges Chevrons Belts Gloves Goggles, masks Helmets Raincoats Gowns Shoes Uniforms Uniform allowance |
| -30 | -Airport— Administration & General – Communications | This account includes the cost of telephone, telegraph and teletype services; radio and microwave services; and messenger services. |
| -35 | -Airport— Administration & General – Education | This account includes the cost of textbooks and course materials and registration fees. |
| -40 | -Airport— Administration & General – Election Expense | This account includes the costs of election notices, printing of ballots and contractual election services, rent of polling places and ballot boxes, pay of election officials and other election expenses. |
| -45 | -Airport— Administration & General – Insurance | This account includes the cost of insurance premiums for fire, burglary, public liability, collision, property damage, individual and blanket bonds, money and securities, boiler and forgery. Also includes periodic charges for self-insurance. Insurance premium dividends or refunds shall be credited to this account. |
| -50 | -Airport— Administration & General – Memberships and Sponsorships | This account includes the cost of memberships and sponsorships in and with societies, associations of officials, trade associations and other organizations. |
| -55 | -Airport— Administration & General – Office Expense | This account includes the cost of office type supplies and services. This includes: <ul style="list-style-type: none"> • Accounting and report forms • Books and manuals • Envelopes, letterheads, postage • Microfilm services • P. O. box rental • Small stapling, dating and numbering machines • Subscriptions to magazines, clipping services, periodicals • Wastebaskets |

| Explanation of Expense and Expenditure Accounts by Activity/Program | | | | | | | | | | | | | | | | | | | | | | |
|---|--|---|------|------------|----------|----------|---------|--------|---------|----------|--------|---------------|-------------|-------|--------|---------|---------|--------------|----------|---------|---------|-------------------|
| Code | Accounts | Definition | | | | | | | | | | | | | | | | | | | | |
| Airport | | | | | | | | | | | | | | | | | | | | | | |
| Operating Expenses (Continued) | | | | | | | | | | | | | | | | | | | | | | |
| -60 | -Airport– Administration & General – Operating Supplies | This account includes the cost of supplies purchased for use in the operations which are not chargeable to another account. | | | | | | | | | | | | | | | | | | | | |
| -65 | -Airport– Administration & General – Contractual Services | This account includes the cost of services of a non-professional nature which are not properly chargeable to another account. | | | | | | | | | | | | | | | | | | | | |
| -70 | -Airport– Administration & General – Professional Services | This account includes the cost of professional services. This includes: <ul style="list-style-type: none"> • Actuarial studies Appraisals • Auditing and accounting • Engineering services • Fiscal agents' fees • Management, salary surveys • Outside defense counsel, legal services | | | | | | | | | | | | | | | | | | | | |
| -75 | -Airport– Administration & General – Publication and Legal Notices | This account includes the cost of the publication of legally required notices and reports. This includes: <ul style="list-style-type: none"> • Bids for purchases • Bond sale notices • Budgets • Delinquent tax lists • Employment opportunities • Financial reports • Ordinances • Proceedings of governing body | | | | | | | | | | | | | | | | | | | | |
| -80 | -Airport– Administration & General – Rents and Leases | This account includes rents and leases paid for the use of land, structures and improvements and equipment. Include amounts paid under operating lease agreements. | | | | | | | | | | | | | | | | | | | | |
| -85 | -Airport– Administration & General – Repairs and Maintenance | This account includes the expenses of maintaining useful life of structures, improvements and equipment. This includes: <ul style="list-style-type: none"> • Automotive supplies • Contractual repairs, overhauls • Radio repair services and supplies • Repair parts • Service contracts for maintenance • Fire extinguisher refills • Heating and cooling system repairs | | | | | | | | | | | | | | | | | | | | |
| -90 | -Airport– Administration & General – Small Tools and Equipment | This account includes the cost of minor equipment of insufficient life or value to require classification as a fixed asset, and replacement parts of such tools and instruments. This includes: <table style="width: 100%; border: none;"> <tr> <td>Bits</td> <td>Tool boxes</td> </tr> <tr> <td>Calipers</td> <td>Lanterns</td> </tr> <tr> <td>Chisels</td> <td>Levels</td> </tr> <tr> <td>Cutters</td> <td>Oil cans</td> </tr> <tr> <td>Drills</td> <td>Paint brushes</td> </tr> <tr> <td>Flashlights</td> <td>Picks</td> </tr> <tr> <td>Gauges</td> <td>Reamers</td> </tr> <tr> <td>Hammers</td> <td>Screwdrivers</td> </tr> <tr> <td>Handsaws</td> <td>Shovels</td> </tr> <tr> <td>Ladders</td> <td>Welding equipment</td> </tr> </table> | Bits | Tool boxes | Calipers | Lanterns | Chisels | Levels | Cutters | Oil cans | Drills | Paint brushes | Flashlights | Picks | Gauges | Reamers | Hammers | Screwdrivers | Handsaws | Shovels | Ladders | Welding equipment |
| Bits | Tool boxes | | | | | | | | | | | | | | | | | | | | | |
| Calipers | Lanterns | | | | | | | | | | | | | | | | | | | | | |
| Chisels | Levels | | | | | | | | | | | | | | | | | | | | | |
| Cutters | Oil cans | | | | | | | | | | | | | | | | | | | | | |
| Drills | Paint brushes | | | | | | | | | | | | | | | | | | | | | |
| Flashlights | Picks | | | | | | | | | | | | | | | | | | | | | |
| Gauges | Reamers | | | | | | | | | | | | | | | | | | | | | |
| Hammers | Screwdrivers | | | | | | | | | | | | | | | | | | | | | |
| Handsaws | Shovels | | | | | | | | | | | | | | | | | | | | | |
| Ladders | Welding equipment | | | | | | | | | | | | | | | | | | | | | |
| -95 | -Airport– Administration & General – Travel and Meetings | This account includes the cost of: <ul style="list-style-type: none"> Gasoline used in travel Leased or rented vehicles Reimbursement for private car use Reimbursement for meals, lodging, conference expenses, bridge tolls, study material, train, bus, air fares; any other authorized travel expense | | | | | | | | | | | | | | | | | | | | |

| Explanation of Expense and Expenditure Accounts by Activity/Program | | |
|---|---|---|
| Code | Accounts | Definition |
| Airport | | |
| Operating Expenses (Continued) | | |
| -96 | -Airports – Administration & General – Uncollectable Accounts Expense | This account includes accounts receivable estimated to be uncollectible based on a constant monthly charge or a percentage of revenues. A concurrent credit is made to allowance for uncollectible accounts. |
| -97 | -Airport– Administration & General – Utilities | This account includes the cost of: <ul style="list-style-type: none"> • Coal, wood Electricity • Heating and cooling supplies for buildings • Natural gas, butane, fuel oil • Refuse disposal • Street lighting • Water |
| -98 | -Airport– Administration & General – Other | This account includes all operating expenses not includible in accounts 535.01 through 535.22. |
| -99 | -Airport– Depreciation and Amortization | This account includes periodic depreciation and amortization chargeable to the district's operations. |
| 546.00 | Airport– Taxes | <p>This account includes the amount of federal, state, county, municipal and other taxes, which are properly chargeable to district operations. This account shall be charged each month with the amount of taxes which are applicable thereto, and concurrent credits shall be made to Taxes Accrued. When it is not possible to determine the exact amount of taxes, the amount shall be estimated and the estimate for the period charged to the account, and adjustments shall be made as the actual tax levies become known.</p> <p>Gasoline, sales and use taxes shall be charged as far as practicable to the account to which the material on which the tax levied is charged.</p> <p>Special assessments for street and similar improvements shall be included in the utility plant account in which the property with which the taxes are identified is included.</p> <p>Taxes applicable to construction shall be capitalized. Social Security and State Unemployment Insurance taxes shall be charged to Employees Retirement & Benefits.</p> |
| 547.00 | Airport– Other Operating Expenses | This account includes all operating expenses not chargeable to any other operating account. |
| 548.00 | Airport – Pension Expense | Per GASB 68, this amount reflects the change in net pension liability from prior year to current year. The alternative approach for recording this expense is allocating the total into all operating and capital salary and fringe benefit expenses. |
| 549.00 | Airport– Landing Areas | <p>This expense center includes all costs of salaries and supervision and other expenses associated with landing areas of the district. Such expenses include costs associated with:</p> <ul style="list-style-type: none"> • Ground areas assigned to landing, take off and taxiing operations: <ul style="list-style-type: none"> ○ Runways Aprons ○ Taxiways ○ Clear zones • Navigational aids • Utility systems & facilities |

| Explanation of Expense and Expenditure Accounts by Activity/Program | | |
|---|--|--|
| Code | Accounts | Definition |
| Airport | | |
| Non-Operating Expenses | | |
| 550.00 | Interest on Long-Term Debt | This account includes the amount of interest applicable to outstanding long term debt issued or assumed by the district. NOTE: The long term debt is included in accounts Long-Term Liabilities. An interest amount charged to this account shall be credited concurrently to account Accrued Interest Payable. |
| 551.00 | Other Interest | This account includes all interest charges not provided for elsewhere, including interest on the following: <ul style="list-style-type: none"> • Assessments for public improvements past due; • Claims and judgments; • Notes payable on demand or maturing one year or less from date of issue; • Open accounts; • Tax assessments past due |
| 552.00 | Judgment and Damages | This account includes claims against the district for injury to persons and property. |
| 553.00 | Loss on Disposal of Fixed Assets | This account includes a loss on the sale, retirement, or casualty of fixed assets measured by the difference in book value less the proceeds received from the sale, salvage, or insurance claims. |
| 554.00 | Other Nonoperating Expenses | This account includes all nonoperating expenses which are not properly includible in accounts 541.00 through 544.00. |
| 555.00 | Interest on Long-Term Debt | This account includes the amount of interest applicable to outstanding long term debt issued or assumed by the district. NOTE: The long term debt is included in accounts Long-Term Liabilities. An interest amount charged to this account shall be credited concurrently to account Accrued Interest Payable. |
| Public Transit Operators | | |
| Operating Expenses | | |
| 560.00 | Public Transit – Labor | "Labor" is the pay and allowances due employees in exchange for the labor services they render in behalf of the transit system. It is necessary to distinguish the allowances to be included in "Fringe Benefits". The "Labor" allowances include payments direct to the employee arising from the performance of a piece of work, such as shift differentials, overtime premiums, minimum guarantees, etc. The "Fringe Benefit" allowances include payments direct to the employee, but not arising from the performance of a piece of work. The latter allowances include paid absence for illness, holidays, vacations, jury duty, etc. |
| -.10 | -Public Transit – Labor-Operators Salaries and Wages | The labor of employees of the operator who are classified as revenue vehicle operators or crewmen. |
| -.20 | -Public Transit – Labor-Other Salaries and Wages | The labor of employees of the transit system who are not classified as revenue vehicle operators or crewmen. |
| 561.00 | Public Transit – Fringe Benefits | This account includes the employer's share of: <ul style="list-style-type: none"> • Employee retirement systems • FICA or O.A.S.D.I and SSI • Health, dental, life and accident insurance • Unemployment insurance • State disability insurance • Workers' Compensation premiums • Leave (Holiday, Vacation, Sick, etc) |

| Explanation of Expense and Expenditure Accounts by Activity/Program | | |
|---|--|---|
| Code | Accounts | Definition |
| Public Transit Operators | | |
| Operating Expenses (Continued) | | |
| 562.00 | Public Transit – Services | <p>Service is labor and other work provided by outside organizations for fees and related expenses. This includes:</p> <p>Management Service Fees - the labor and services provided by a management service company engaged to provide operating management to the transit system;</p> <p>Professional and Technical Services - the labor and services provided by attorneys, accountants and auditors, computer service companies, management consultants, etc.</p> <p>Temporary Help - the labor of persons who are not employees of the transit system, but who work for a temporary period under the supervision of the transit system personnel</p> <p>Contract Maintenance Services - the maintenance of plant and equipment, under contract or on a single job basis with an outside organization.</p> |
| 563.00 | Public Transit – Materials and Supplies Consumed | "Materials and Supplies" are tangible products obtained from outside suppliers or manufactured internally. Freight-in, purchase discounts, cash discounts, sales taxes and excise taxes (except on fuel and lubricants) are to be included in the cost of the material or supply. Charges to these expense accounts will be for the materials and supplies issued from inventory for use and for the materials and supplies purchased for immediate use, i.e., without going through inventory. |
| -.10 | -Public Transit – Materials and Supplies Consumed – Fuels and Lubricants | Costs of gasoline, diesel fuel, propane, lubricating oil, transmission fluid, grease, etc., for use in vehicles. |
| -.20 | -Public Transit – Materials and Supplies Consumed – Tires and Tubes | This category includes lease payments for tires and tubes rented on a time period or mileage basis or the replacement costs of tires and tubes on vehicles. |
| -.30 | -Public Transit – Materials and Supplies Consumed – Other Materials and Supplies | The cost of materials and supplies not specifically identified in object classes 504.010 and 504.020 issued from inventory or purchased for immediate consumption, e.g., vehicle maintenance parts, track materials, cleaning supplies, office forms, etc. |
| 564.00 | Public Transit – Utilities | Payments made to various utilities for utilization of their resources (e.g., electric, gas, water, telephone, etc.) |
| 565.00 | Public Transit – Casualty and Liability Costs | <p>"Casualty and Liability Costs" include cost elements covering:</p> <p>Protection of the operator from loss through insurance programs,</p> <p>Compensation of others for their losses due to acts for which the transit system is liable, and,</p> <p>Recognition of the cost of a miscellaneous category of corporate losses.</p> <p>The costs of repairing damaged property are recorded in labor, fringe benefit, material and services object classes. The costs of operator employees engaged in insuring and processing claims for and against the operator are recorded in labor and fringe benefit object classes.</p> <p>This includes payments or accruals for insurance premiums for property and liability insurance.</p> |

| Explanation of Expense and Expenditure Accounts by Activity/Program | | |
|---|---|---|
| Code | Accounts | Definition |
| Public Transit Operators | | |
| Operating Expenses (Continued) | | |
| 566.00 | Public Transit – Taxes | "Taxes" are those taxes levied against the operator by Federal, State, and Local Governments. Sales and excise taxes on materials and services purchased other than fuel and lubricants are not included in this category, but are accounted for as part of the base price of the material or service. |
| 567.00 | Public Transit – Purchased Transportation Service | "Purchased Transportation Service" is the payment or accrual to other transit systems for providing transportation service. (Note: include fare revenues that are retained by the service provider.) |
| 568.00 | Public Transit – Miscellaneous Expense | "Miscellaneous Expenses" are those expenses which cannot be attributed to any of the other major expense categories. This includes payments for fines and penalties, bad debt expenses, advertising fees, etc. |
| 569.00 | Public Transit – Memberships and Sponsorships | This account includes the cost of memberships and sponsorships in and with societies, associations of officials, trade associations and other organizations. |
| 570.00 | Public Transit – Travel and Meetings | This account includes the cost of: Gasoline used in travel Leased or rented vehicles Reimbursement for private car use Reimbursement for meals, lodging, conference expenses, bridge tolls, study material, train, bus, air fares; any other authorized travel expense |
| 571.00 | Public Transit – Uncollectable Accounts | This account includes accounts receivable estimated to be uncollectible based on a constant monthly charge or a percentage of revenues. A concurrent credit is made to account Allowance for Uncollectible. |
| 572.00 | Public Transit – Expense Transfers | <p>Certain situations in the accounting structure and the internal accounting practice of some transit systems require a means of recording expense transfers. These occur when some functions or expense accounts serve as "intermediate depositories" of costs to be ultimately distributed to other functions or accounts. These could be made by debiting and crediting within the specific object classes in which the expenses were originally recorded, but this would become too cumbersome. Therefore, "expense transfers" are accounts to be used for reporting adjustments or reclassifications of expenses into other functions or accounts. The following types of expense transfers are recognized in this account:</p> <p>Function Reclassifications are reclassifications of expenses from one function to another;</p> <p>Expense Reclassifications are a composite category of expenses encompassing labor, fringe benefits, materials and services used in the transit system's internal information system to reclassify costs between cost centers and work orders;</p> <p>Capitalization of Nonoperating Costs - a credit amount composed of a combined group of object class expenses (labor, materials, services, etc.) in this function which have been capitalized as property or transferred to other asset accounts (receivables, inventory, etc.).</p> |
| 573.00 | Public Transit – Interest Expense | "Interest Expense" are charges for the use of borrowed capital incurred by the operator. Interest charges pertaining to construction debt which are capitalized will not be reflected as interest expense. |
| 574.00 | Public Transit – Lease and Rentals | |
| -10 | -Public Transit – Lease and Rentals- Vehicles | "Leases and Rentals" are payments for the use of capital assets not owned by the operator. This object class includes leases and rentals of passenger revenue vehicles (buses, vans, etc.) or service vehicles. |

| Explanation of Expense and Expenditure Accounts by Activity/Program | | |
|---|---|---|
| Code | Accounts | Definition |
| Public Transit Operators | | |
| Operating Expenses (Continued) | | |
| -.20 | -Public Transit – Lease and Rentals - Other Capital Assets | "Leases and Rentals" are payments for the use of capital assets not owned by the operator. This object class includes all other leases and rentals other than vehicles such as parking facilities, buildings, data processing facilities, revenue collection and processing facilities, general administrative facilities, etc. |
| 575.00 | Public Transit – Depreciation and Amortization | "Depreciation and Amortization" are charges that reflect the loss in service value of the operator's assets and these charges are related below to the assets in the following accounts. |
| -.10 | -Public Transit – Depreciation and Amortization – Property Acquired with District (Other) Funds | This category includes all depreciation and amortization of tangible and intangible assets acquired with operator funds. For larger districts it would be appropriate to set up the property sub-accounts to avoid the necessity of making this apportionment. |
| -.20 | -Public Transit – Depreciation and Amortization – Property Acquired with Capital Grant Funds | This category includes all depreciation and amortization of tangible and intangible assets acquired with grant funds. |
| 576.00 | Public Transit – Pension Expense | Per GASB 68, this amount reflects the change in net pension liability from prior year to current year. The alternative approach for recording this expense is allocating the total into all operating and capital salary and fringe benefit expenses. |
| Public Transit Operators | | |
| Non-Operating Expenses | | |
| 580.00 | Public Transit- Gain on Disposal of Fixed Assets | This nonoperating revenue account includes a gain on the sale, retirement, or casualty of fixed assets measured by the difference in book value less the proceeds received from the sale, salvage, or insurance claims. |
| 581.00 | Public Transit- Loss on Disposal of Fixed Assets | This nonoperating expense account includes a loss on the sale, retirement, or casualty of fixed assets measured by the difference in book value less the proceeds received from the sale, salvage, or insurance claims. |
| Electric Utility Districts | | |
| Operating Expenses | | |
| 590.00 | Electric – Production – Steam Power Generation | |
| -.10 | -Electric – Production – Steam Power Generation – Supervision, Labor and Expense | This account includes the cost of labor and materials used and expenses incurred 1) in the general supervision of the operation of steam-power generating stations; 2) in the production of steam for electric generation; 3) in the operation of prime movers, generators and other electric equipment to the point where electricity leaves for conversion for transmission or distribution; and 4) for other expenses associated with steam power production plant operations. |
| -.20 | -Electric – Production – Steam Power Generation - Maintenance – Structures and Improvements | This account includes the cost of labor and materials used and expenses incurred in the maintenance of structures and improvements, boiler plant equipment, engines and engine driven generators, turbo generator units, accessory electric equipment, miscellaneous power plant equipment and other expenses associate with steam power production plant maintenance. |
| -.30 | -Electric – Production – Steam Power Generation – Fuel | This account includes the cost of fuel used in the production of steam for the generation of electricity, including expenses in unloading fuel from the shipping facility and putting in storage. |

| Explanation of Expense and Expenditure Accounts by Activity/Program | | |
|---|---|---|
| Code | Accounts | Definition |
| Electric Utility Districts | | |
| Operating Expenses (Continued) | | |
| 591.00 | Electric – Production – Nuclear Power Generation | |
| -.10 | -Electric – Production – Nuclear Power Generation – Supervision, Labor & Expense | This account includes the cost of labor and materials used and expenses incurred 1) in the general supervision of the operation of nuclear power generating stations; 2) for heat transfer materials and water used for steam and cooling purpose; 3) in the production of steam through nuclear processes; 4) in the operation of turbo generators, steam turbines, switch gear and other electric equipment to the point where electricity leaves for conversion for transmission or distribution; and 5) for other expenses associated with nuclear power production plant operations. |
| -.20 | -Electric – Production – Nuclear Power Generation – Maintenance – Structures and Improvements | This account includes the cost of labor and materials used and expenses incurred in the maintenance of structures and improvements, reactor plant equipment, turbo generator units, accessory electric equipment, miscellaneous nuclear generating plant and other expenses associated with nuclear power production plant maintenance. |
| -.30 | -Electric – Production – Nuclear Power Generation – Nuclear Fuel Expense | This account includes the amortization of the net cost of nuclear fuel assemblies used in the production of energy. The net cost of nuclear fuel assemblies subject to amortization shall be the cost of nuclear fuel assemblies plus or minus the expected net salvage value of uranium, plutonium and other by-products and unburned fuel. |
| 592.00 | Electric – Production – Hydraulic Power Generation | |
| -.10 | -Electric – Production – Hydraulic Power Generation – Supervision, Labor and Expense | This account includes the cost of labor used and expenses incurred 1) in the general supervision of the operation of hydraulic power generating stations; 2) in the operation of hydraulic works including reservoirs, dams and waterways; 3) in the operation of prime movers, generators and other electric equipment to the points where electricity leaves for conversion for transmission or distribution; and 4) for other expenses associated with hydraulic power production plant operations. |
| -.20 | -Electric – Production – Hydraulic Power Generation – Maintenance – Structures and Improvements | This account includes the cost of labor and materials used and expenses incurred and improvements in the maintenance of structures and improvements; reservoirs, dams, and waterways; accessory electric equipment; miscellaneous power plant equipment, and other expenses associated with hydraulic power production plant maintenance. |
| -.30 | -Electric – Production – Hydraulic Power Generation – Water for Power | This account includes the cost of water used for hydraulic power generation. This includes the cost of water purchased from others, periodic payments for licenses or permits from any governmental agency for water rights or payments based on the use of water and cloud seeding. |
| 593.00 | Electric – Production – Other Power Generation | |
| -.10 | -Electric – Production – Other Power Generation – Supervision, Labor and Expense | This account includes the cost and materials used and expenses in the general supervision of labor incurred of the operation of other power generation stations. |
| -.20 | -Electric – Production – Other Power Generation – Maintenance – Structures and Improvements | This account includes the cost of labor and materials used and expenses incurred in the maintenance of other power generation plant. |

| Explanation of Expense and Expenditure Accounts by Activity/Program | | |
|---|--|---|
| Code | Accounts | Definition |
| Electric Utility Districts | | |
| Operating Expenses (Continued) | | |
| -.30 | -Electric – Production – Other Power Generation – Fuel | This account includes the cost of fuel, such as gas, oil, kerosene and gasoline used in other power generation. |
| 594.00 | Electric – Production – Purchased Power | This account includes the cost of electricity purchased for resale. Also includes net settlements for exchange of electricity or power, such as economy energy, off-peak energy for on-peak energy, spinning reserve capacity, etc. |
| 595.00 | Electric – Production – Other Production Expenses | This account includes any production expenses which are not specifically provided for in other production expense accounts. |
| 596.00 | Electric – Transmission – Supervision, Labor and Expense | This account includes the cost of labor and materials used and expenses incurred 1) in the general supervision of the operation of the transmission system; 2) in the load dispatching operations pertaining to the transmission of electricity; 3) in the operation of transmission substations and switching stations; 4) in the operation of transmission lines; 5) in transmission map and record work; 6) in transmission office expenses; and 7) for other transmission expenses not included elsewhere. |
| 597.00 | Electric – Transmission – Maintenance - Structures and Improvements | This account includes the cost of labor and materials used and expenses incurred in the maintenance of the transmission system including structures and improvements; station equipment; towers and fixtures; poles and fixtures; overhead conductors and devices; and underground lines. |
| 598.00 | Electric – Distribution – Supervision, Labor and Expense | This account includes the cost of labor and materials used and expenses incurred 1) in the general supervision of the operation of the distribution system; 2) in the load dispatching operations pertaining to the distribution of electricity; 3) in the operation of overhead and underground distribution lines and stations; 4) in the operation of customer meters; and 5) in work on customer installations in inspecting premises. |
| 599.00 | Electric – Distribution – Maintenance - Structures and Improvements | This account includes the cost of labor and materials used and expenses incurred in the maintenance of the distribution system including structures and improvements; station equipment; storage battery equipment; poles, towers and fixtures; overhead conductors and devices; and underground lines. |
| 600.00 | Electric – Customer Accounts – Supervision, Meter Reading and Other Expenses | This account includes the costs of labor and materials used and expenses incurred in connection with customer accounting and collecting activities. This includes: <ul style="list-style-type: none"> • Supervision - the costs of labor and expenses incurred in the general supervision of customer accounting; • Meter Reading Expenses the costs incurred in reading customer meters and determining consumption; • Customer Records and Collection Expenses - the cost incurred in work on customer applications, contracts, orders, credit investigations, billing and accounting, collections and complaints. |
| 601.00 | Electric – Customer Accounts – Uncollectible Accounts | This account includes accounts receivable estimated to be uncollectable based on a constant monthly charge or a percentage of revenues. A concurrent credit is made to account allowance for uncollectable accounts. |
| 602.00 | Electric – Administrative & General – Salaries | This account includes salaries and other considerations (but not directors' fees) for services of officers and other employees of the utility properly chargeable to utility operations and not chargeable directly to a particular operating function. |

| Explanation of Expense and Expenditure Accounts by Activity/Program | | |
|---|--|--|
| Code | Accounts | Definition |
| Electric Utility Districts | | |
| Operating Expenses (Continued) | | |
| 603.00 | Electric – Administrative & General – Office Supplies & Other Expenses | This account includes office supplies and other expenses incurred in connection with the general administration of the utility's operations. Such expenses include: <ul style="list-style-type: none"> • Automobile service • Bank messenger and service charges • Books, periodicals, subscriptions; tax services, etc. • Building service expenses (except rent) for customer accounts, sales and administrative and general purposes • Office equipment of small value or short life used by general departments • Postage, printing and stationary • Court costs and legal expenses • Utility services |
| 604.00 | Electric – Administrative & General –Memberships and Sponsorships | This account includes the cost of memberships and sponsorships in and with societies, associations of officials, trade associations and other organizations. |
| 605.00 | Electric – Administrative & General – Travel and Meetings | This account includes the cost of: <ul style="list-style-type: none"> • Gasoline used in travel • Leased or rented vehicles • Reimbursement for private car use • Reimbursement for meals, lodging, conference expenses, bridge tolls, study material, train, bus, air fares; any other authorized travel expense |
| 606.00 | Electric – Administrative & General – Contractual Services | This account includes fees and expenses for professional and general services which are not applicable to a particular operating function or account. These services include expenses of accountants, auditors, actuaries, appraisers, attorneys, engineering consultants, management consultants, fiscal agents, etc. |
| 607.00 | Electric – Administrative & General – Property Insurance, Injuries & Damages | This account includes the cost of insurance or reserve accruals to protect the utility against losses and damages to property owned or leased, and against injuries and damages claims of employees or others. Also includes the cost of labor and related supplies and expenses incurred in such activities. Insurance premium dividends or refunds shall be credited to this account. Recoveries from insurance companies or others for property damages and injuries and damages claims of employees or other shall be credited to the account charged with the cost of damage. |
| 608.00 | Electric – Administrative & General – Employees Retirement & Benefits | This account includes the employer's share of: <ul style="list-style-type: none"> • Employee retirement systems • FICA or O.A.S.D.I and SSI • Health, dental, life and accident insurance • Unemployment insurance • State disability insurance • Workers' Compensation premiums • Leave (Holiday, Vacation, Sick, etc) |
| 609.00 | Electric – Administrative & General – Franchise Requirements | This account includes payments to municipal or other governmental authorities in compliance with franchise, ordinance or other similar requirements. Also includes the cost of materials, supplies and services furnished such authorities without reimbursement in compliance with such requirements. |
| 610.00 | Electric – Administrative & General – Rents & Leases | This account includes rental and lease payments properly includible in utility operating expenses for the property of others used, occupied or operated. Taxes paid by the lessee with respect to such property are included in this account. The cost of operating and maintaining leased property shall be charged to the appropriate accounts for the expense as if the property were owned. |

| Explanation of Expense and Expenditure Accounts by Activity/Program | | |
|---|---|--|
| Code | Accounts | Definition |
| Electric Utility Districts | | |
| Operating Expenses (Continued) | | |
| 611.00 | Electric – Administrative & General – Maintenance - General Plant | <p>This account includes the costs assignable to customer accounts, sales and administrative and general functions of labor and materials used and expenses incurred in the maintenance of property, the cost of which is includible in "Utility Plant – General", and of similar property leased from others. Also include the cost of repairing for reuse materials which previously were included in this account.</p> <p>Maintenance expense of office furniture and equipment used elsewhere other than in general offices shall be charged to the appropriate functional account.</p> |
| 612.00 | Electric – Administrative & General – Other | This account includes all general and administrative which are not expenses properly |
| 613.00 | Electric – Other Operating Expenses – Depreciation and Amortization | This account includes such amounts of depreciation and amortization as the utility may determine to be equitably chargeable to each month's operations. |
| 614.00 | Electric – Other Operating Expenses – Taxes | <p>This account includes the amount of federal, state, county, municipal and other taxes, which are properly chargeable to utility operations. This account shall be charged each month with the amount of taxes which are applicable thereto. When it is not possible to determine the exact amount of taxes, the amount shall be estimated and the estimate for the period charged to the account, and adjustments shall be made as the actual tax levies become known.</p> <p>Gasoline, sales and use taxes shall be charged as far as practicable to the account to which the material on which the tax levied is charged.</p> <p>Amounts payable annually or more frequently under the terms of franchises shall be charged to Franchise Requirements.</p> <p>Special assessments for street and similar improvements shall be included in the utility plant account in which the property with which the taxes are identified is included.</p> <p>Taxes applicable to construction shall be capitalized. Social Security and State Unemployment Insurance taxes shall be charged to Employees Retirement and Benefits.</p> |
| 615.00 | Electric – Other Operating Expenses – Other Operating Expenses | This account includes all operating expenses not chargeable to any other operating account. |
| 616.00 | Electric – Pension Expense | Per GASB 68, this amount reflects the change in net pension liability from prior year to current year. The alternative approach for recording this expense is allocating the total into all operating and capital salary and fringe benefit expenses. |
| Electrical Utility Districts | | |
| Non-Operating Expenses | | |
| 620.00 | Interest on Long-Term Debt | This account includes the amount of interest applicable to outstanding long-term debt issued or assumed by the utility. An interest amount charged to this account shall be credited concurrently to liability account. |

| Explanation of Expense and Expenditure Accounts by Activity/Program | | |
|---|--|---|
| Code | Accounts | Definition |
| Electrical Utility Districts | | |
| Non-Operating Expenses (Continued) | | |
| 621.00 | Other Interest | This account includes all interest charges not provided for elsewhere, including interest on the following: <ul style="list-style-type: none"> • Assessments for public improvements past due; • Claims and judgments; • Notes payable on demand or maturing one year or less from date of issue; • Open accounts; • Tax assessments past due |
| 622.00 | Loss on Disposal of Fixed Assets | This account includes a loss on the sale, retirement, or casualty of fixed assets measured by the difference in book value less the proceeds received from the sale, salvage, or insurance claims. |
| 623.00 | Other Non-operating Expenses | This account includes all non-operating expenses which are not properly includible above. |
| Waste Management Districts | | |
| Operating Expenses | | |
| 630.00 | Waste – Centers – Sewage Collection | This expense center includes all costs of salaries and supervision and other expenses incurred in the maintenance and operation of sewers and pumping stations related to sewage collection. |
| 631.00 | Waste – Centers – Sewage Treatment | This expense center includes all costs of salaries and supervision and other expenses incurred in the maintenance and operation of sewage treatment plant. Such expenses include: <ul style="list-style-type: none"> • Preliminary, primary and secondary treatment • Sludge treatment and disposal • Gas utilization • Sewage measurement • Screening, grit removal • Mixing and grease separation |
| 632.00 | Waste – Centers – Sewage Disposal | This expense center includes all costs of salaries and supervision and other expenses incurred in the maintenance and operation of effluent outfall lines and pumping stations. |
| 633.00 | Waste – Centers – Solid Waste Disposal | This expense center includes all costs of salaries and supervision and other expense incurred in the maintenance and operation, including street sweeping of solid waste facilities. |
| 634.00 | Waste – Centers – Administration and General | |
| -.05 | -Waste – Centers – Administration and General – Salaries and Wages | This expense center includes the costs associated with the general administration of the utility's operations. Such expenses include: <ul style="list-style-type: none"> • Salaries of general officers • Operation of general offices • Maintenance of general property • Legal, accounting and audit & fees • 4Unallocated insurance |
| -.10 | -Waste – Centers – Administration and General – Employee Benefits | This account includes the employer's share of: <ul style="list-style-type: none"> • Employee retirement systems • FICA or O.A.S.D.I and SSI • Health, dental, life and accident insurance • Unemployment insurance • State disability insurance • Workers' Compensation premiums • Leave (Holiday, Vacation, Sick, etc.) |

| Explanation of Expense and Expenditure Accounts by Activity/Program | | |
|---|--|--|
| Code | Accounts | Definition |
| Waste Management Districts | | |
| Operating Expenses (Continued) | | |
| -.15 | -Waste – Centers – Administration and General – Directors’ Fees | This account includes fees paid to directors for meeting attendance. |
| -.20 | -Waste – Centers – Administration and General – Clothing and Personal Supplies | This account includes the cost of items for personal use, including safety appliances. This includes: <ul style="list-style-type: none"> • Raincoats, • Rubber boots, • Shoes, • Uniforms, • Uniform allowance, • Badges, • Chevrons Belts, • Gloves, • Goggles, • Masks Gowns, • Helmets |
| -.25 | -Waste – Centers – Administration and General – Election Expense | This account includes the costs of election notices, printing of ballots and contractual election services, rent of polling places and ballot boxes, pay of election officials and other election expenses. |
| -.30 | -Waste – Centers – Administration and General – Gasoline, Oil, and Fuel | This account includes the cost of fuel and oil used in the operation of motive equipment. This would include the cost of fuel used in the production of power to operate pumps and equipment used in the sewage treatment process. |
| -.35 | -Waste – Centers – Administration and General – Insurance | This account includes the cost of insurance premiums for fire, burglary, public liability, collision, property damage, individual and blanket bonds, money and securities, boiler and forgery. Also includes periodic charges for self-insurance. Insurance premium dividends or refunds shall be credited to this account |
| -.40 | -Waste – Centers – Administration and General – Memberships and Sponsorships | This account includes the cost of memberships and sponsorships in and with societies, associations of officials, trade associations and other organizations. |
| -.45 | -Waste – Centers – Administration and General – Office Expenses | This account includes office supplies and other expenses incurred in connection with the general administration of the utility's operations. Such expenses include: <ul style="list-style-type: none"> • Automobile service • Bank messenger and service charges • Books, periodicals, subscriptions, tax services, etc. • Building service expenses (except rent) for customer accounts, sales and administrative and general purposes • Office equipment of small value or short life used by general departments • Postage, printing and stationary • Court costs and legal expenses • Utility services |
| -.50 | -Waste – Centers – Administration and General – Operating Supplies | This account includes the cost of supplies purchased for use in the operations which are not chargeable to another account. |

| Explanation of Expense and Expenditure Accounts by Activity/Program | | |
|---|---|---|
| Code | Accounts | Definition |
| Waste Management Districts | | |
| Operating Expenses (Continued) | | |
| -55 | -Waste – Centers – Administration and General – Chemicals | This account includes the cost of all chemicals used in the treatment of sewer. This includes: <ul style="list-style-type: none"> • Activated carbon, • Deodorants, • Caustic soda, • Chlorine • Copper sulfate, • Enzymes, • Iron sulfate, • Lime, • Soda ash • Ferric chloride, • Sulfuric acid, • Other chemicals |
| -60 | -Waste – Centers – Administration and General – Contractual Services | This account includes the cost of services of a non-professional nature and not chargeable to another account. |
| -65 | -Waste – Centers – Administration and General – Professional Services | This account includes the cost of professional services. This includes: <ul style="list-style-type: none"> • Actuarial studies • Appraisals • Auditing and accounting • Engineering services • Fiscal agents' fees • Management, salary surveys • Outside defense counsel, legal services |
| -70 | -Waste – Centers – Administration and General – Publication and Legal Notices | This account includes the cost of the publication of legally requirement notices and reports. This includes: <ul style="list-style-type: none"> • Bids for purchases, • Bond sale notices, • Budgets, • Delinquent tax lists, • Employment opportunities, • Financial reports, • Ordinances, • Proceedings of governing body |
| -75 | -Waste – Centers – Administration and General – Rents and Leases | This account includes rents and leases paid for the use of land, structures and improvements and equipment. Include amounts paid under operating lease agreements. |
| -80 | -Waste – Centers – Administration and General – Repairs and maintenance | This account includes the expenses of maintaining useful life of structures, improvements and equipment. This includes: <ul style="list-style-type: none"> • Automotive supplies • Contractual repairs, overhauls • Radio repair services and supplies • Repair parts • Service contracts for maintenance • Fire extinguisher refills • Heating and cooling system repairs |

| Explanation of Expense and Expenditure Accounts by Activity/Program | | |
|---|---|--|
| Code | Accounts | Definition |
| Waste Management Districts | | |
| Operating Expenses (Continued) | | |
| -85 | -Waste – Centers – Administration and General – Small Tools and Equipment | This account includes the cost of minor equipment of insufficient life or value to require classification as a fixed asset, and replacement parts of such tools and instruments. This includes: <ul style="list-style-type: none"> • Bits, • Calipers, • Chisels, • Cutters, • Drills, • Flashlights, • Gauges, • Hammers, • Handsaws, • Laboratory equipment, • Lanterns, • Levels Oil cans, • Paint brushes, • Picks, • Reamers, • Screwdrivers, • Shovels, • Tool boxes, • Welding equipment |
| -90 | -Waste – Centers – Administration and General – Research and Monitoring | This account includes the cost of contractual ocean work, laboratory test and analysis and testing new processes or products. |
| -95 | -Waste – Centers – Administration and General – Travel and Meetings | This account includes the cost of: <ul style="list-style-type: none"> • Gasoline used in travel • Leased or rented vehicles • Reimbursement for private car use • Reimbursement for meals, lodging, conference expenses, bridge tolls, study material, train, bus, air fares; any other authorized travel expense |
| -96 | -Waste – Centers – Administration and General – Uncollectable Accounts | This account includes accounts receivable estimated to be uncollectible based on a constant monthly charge or a percentage of revenues. A concurrent credit is made to account allowance for uncollectible accounts. |
| -97 | -Waste – Centers – Administration and General – Utilities | This account includes the cost of: <ul style="list-style-type: none"> • Coal, • Wood • Electricity • Heating and cooling supplies for buildings • Natural gas, butane, fuel oil • Refuse disposal • Street lighting Telephone • Water |
| -98 | -Waste – Centers – Administration and General – Other | This account includes all operating expenses not includible above. |

| Explanation of Expense and Expenditure Accounts by Activity/Program | | |
|---|--|--|
| Code | Accounts | Definition |
| Waste Management Districts | | |
| Operating Expenses (Continued) | | |
| 635.00 | Waste – Other Operating Expenses – Depreciation and Amortization | This account includes periodic depreciation and amortization chargeable to the utility's operations. |
| 636.00 | Waste – Other Operating Expenses – Taxes | <p>This account includes the amount of federal, state, county, municipal and other taxes, which are properly chargeable to utility operations. This account shall be charged each month with the amount of taxes which are applicable thereto. When it is not possible to determine the exact amount of taxes, the amount shall be estimated and the estimate for the period charged to the account, and adjustments shall be made as the actual tax levies become known.</p> <p>Gasoline, sales and use taxes shall be charged as far as practicable to the account to which the material on which the tax levied is charged.</p> <p>Special assessments for street and similar improvements shall be included in the utility plant account in which the property with which the taxes are identified is included.</p> <p>Taxes applicable to construction shall be capitalized. Social Security and State Unemployment Insurance taxes shall be charged to object "Employee Benefits" account.</p> |
| 637.00 | Waste – Other Operating Expenses – Other Operating Expenses | This account includes all operating expenses not chargeable to any other operating account. |
| 638.00 | Waste – Pension Expense | Per GASB 68, this amount reflects the change in net pension liability from prior year to current year. The alternative approach for recording this expense is allocating the total into all operating and capital salary and fringe benefit expenses. |
| Waste Management Districts | | |
| Non-Operating Expenses | | |
| 640.00 | Interest on Long-Term Debt | This account includes the amount of interest applicable to outstanding long-term debt issued or assumed by the utility. An interest amount charged to this account shall be credited concurrently to liability account. |
| 641.00 | Other Interest | <p>This account includes all interest charges not provided for elsewhere, including interest on the following:</p> <ul style="list-style-type: none"> • Assessments for public improvements past due; • Claims and judgments; • Notes payable on demand or maturing one year or less from date of issue; • Open accounts; • Tax assessments past due |
| 642.00 | Loss on Disposal of Fixed Assets | This account includes a loss on the sale, retirement, or casualty of fixed assets measured by the difference in book value less the proceeds received from the sale, salvage, or insurance claims. |
| 643.00 | Other Non-operating Expenses | This account includes all non-operating expenses which are not properly includible above. |

6.12 Chart of Objects (Accounts): Revenues, Expenses and Expenditures

Common terminology and classifications should be used throughout the budgeting, accounting, and financial reporting activities for special districts.

The list of accounts in the charts below are not exhaustive. Where appropriate special districts should supplement these classifications with additional ones in light of local circumstances. Other accounts may be required in the preparation of financial statements.

Revenues

Accounts are numbered in sequence for exemplary purposes only.

| Revenues by Object (Account) | |
|---|--|
| Code | Accounts |
| Taxes | |
| 1 | Sales and Use Taxes |
| 2 | Other Taxes |
| Licenses, Permits, and Franchises | |
| 10 | Animal Licenses |
| 11 | Business Licenses |
| 12 | Construction Permits |
| 13 | Road Privileges and Permits |
| 14 | Zoning Permits Administration |
| 15 | Franchises |
| 16 | Other Licenses and Permits |
| Fines, Forfeitures, and Penalties | |
| 20 | Vehicle Code Fines |
| 21 | Other Court Fines |
| 22 | Forfeitures and Penalties |
| 23 | Penalties and Costs on Delinquent Taxes |
| Revenue From Use of Money and Property | |
| 30 | Investment Income |
| 31 | Rents and Concessions |
| 32 | Royalties |
| Intergovernmental Revenues | |
| 40 | State – Aviation |
| 41 | State – Highway Users Tax |
| 42 | State – Motor Vehicle In-Lieu Tax |
| 43 | Other State – In-Lieu Tax |
| 44 | State – Public Assistance Administration |
| 45 | State – Public Assistance Program |
| 46 | State – health Administration |
| 47 | State – California Children Services |
| 48 | State- Cerebral Palsy |
| 49 | State – Mental Health |
| 50 | State – Tuberculosis Control |

| Revenues by Object (Account) | |
|---|--|
| Code | Accounts |
| Intergovernmental Revenues (Continued) | |
| 51 | Other State - Health |
| 52 | State – Agriculture |
| 53 | State – Civil Defense |
| 54 | State – Construction |
| 55 | State – Corrections |
| 56 | State – County Fairs |
| 57 | State – Disaster Relief |
| 58 | State – Veterans’ Affairs |
| 59 | State –Homeowners’ Property Tax Relief |
| 60 | State – Proposition 172 Public Safety Funds |
| 61 | State – Citizens Option for Public Safety (COPS) |
| 62 | State – Other |
| 63 | Federal – Public Assistance Administration |
| 64 | Federal – Public Assistance Programs |
| 65 | Federal – Health Administration |
| 66 | Federal – Construction |
| 67 | Federal – Disaster Relief |
| 68 | Federal – Forest Reserve Revenue |
| 69 | Federal – Grazing Fees |
| 70 | Federal – In-Lieu Taxes |
| 71 | Federal – Other |
| 72 | Other – In-Lieu Revenues |
| 73 | Other – Governmental Agencies |
| Charges For Services | |
| 80 | Assessment and Tax Collection Fees |
| 81 | Auditing and Accounting Fees |
| 82 | Communication Services |
| 83 | Election Services |
| 84 | Legal Services |
| 85 | Personnel Services |
| 86 | Planning and Engineering Services |
| 87 | Purchasing Fees |
| 88 | Agricultural Services |
| 89 | Civil Process Services |
| 90 | Estate Fees |
| 91 | Humane Services |
| 92 | Law Enforcement Services |
| 93 | Recording Fees |
| 94 | Road and Street Services |
| 95 | Health Fees |
| 96 | Mental Health Services |
| 97 | California Children’s Services |

| Revenues by Object (Account) | |
|---|------------------------------|
| Code | Accounts |
| Charges For Services (Continued) | |
| 98 | Educational Services |
| 99 | Library Services |
| 100 | Park and Recreation Services |
| 101 | Airport Services |
| 102 | Electric Services |
| 103 | Gas Services |
| 104 | Harbor and Port Services |
| 105 | Hospital Services |
| 106 | Sewer Services |
| 107 | Transit Services |
| 108 | Water Services |
| 109 | Inter-fund Revenue |
| Miscellaneous Revenues | |
| 110 | Other Revenues |
| 111 | Tobacco Settlement |
| 112 | Miscellaneous |
| Other Financing Sources | |
| 113 | Sale of Capital Assets |
| 114 | Transfer-In |
| 115 | Long-Term Debt Proceeds |
| 116 | Other |
| Contributions, Special and Extraordinary Items | |
| 117 | Contributions |
| 118 | Extraordinary Items |

Expenses/Expenditures

Accounts are numbered in sequence for exemplary purposes only.

| Expense and Expenditure by Object (Account) | |
|--|--------------------------------|
| Code | Accounts |
| General | |
| 1 | Legislative and Administrative |
| 2 | Finance |
| 3 | Counsel |
| 4 | Personnel |
| 5 | Elections |
| 6 | Communication |
| 7 | Property Management |
| 8 | Plant Acquisition |
| 9 | Promotion |
| Public Protection | |
| 10 | Judicial |
| 11 | Police Protection |

| Expense and Expenditure by Object (Account) | |
|--|---|
| Code | Accounts |
| Public Protection (Continued) | |
| 12 | Detention and Correction |
| 13 | Fire Protection |
| 14 | Flood Control and Soil and Water Conservation |
| 15 | Protection Inspection |
| 16 | Other Protection |
| Public Ways and Facilities | |
| 20 | Public Ways |
| 21 | Transportation Terminals |
| 22 | Transportation Systems |
| 23 | Parking Facilities |
| Health and Sanitation | |
| 30 | Health |
| 31 | Hospital Care |
| 32 | California Children's Services |
| 33 | Sanitation |
| Public Assistance | |
| 40 | Administration |
| 41 | Aid Programs |
| 42 | General Relief |
| 43 | Care of Court Wards |
| 44 | Veterans' Services |
| 45 | Other Assistance |
| Education | |
| 50 | School Administration |
| 51 | Library Services |
| 52 | Agricultural Education |
| 53 | Other Education |
| Recreation and Cultural Services | |
| 60 | Recreation Facilities |
| 61 | Cultural Services |
| 62 | Veterans Memorial Buildings |
| 63 | Small Craft Harbors |
| Debt Service | |
| 70 | Retirement of Long-Term Debt |
| 71 | Interest on Long-Term Debt |
| 72 | Interest on Notes and Warrants |

6.13 Explanation of Revenue Objects (Accounts)

Following are the account titles and the suggested use of each account. As noted earlier, a special district should take into account their purpose and statutory requirements when designing their chart of accounts.

Accounts are numbered in sequence for exemplary purposes only.

| Explanation of Revenues by Object (Account) | |
|--|---|
| Code | Revenue Objects (Accounts) |
| Taxes | |
| 1 | <p>Sales and Use Taxes Includes the net amount received from the levy of a sales and use tax under the Bradley-Burns Uniform Sales Tax Law or other statutory provisions. An example of this type of revenue would be sales and use tax received under the Transportation Act of 1971.</p> |
| 2 | <p>Taxes and Assessments Includes revenues from taxes and assessments.</p> <p>The list below, not all-inclusive, includes types of tax revenues that might be posted under this category:</p> <ul style="list-style-type: none"> • Secured/unsecured property taxes • Voter approved takes • Pass-through property takes • Property assessments • Special assessments • Special taxes (for e.g. non-ad valorem taxes) • Penalties • Cost of delinquent taxes • Assessments • ¼ cent sales tax <p>Do not include revenues from the State, the federal government, or other agencies in lieu of taxes. These revenues should be posted generally under the category of "Intergovernmental Revenues."</p> |
| 3 | <p>Other Taxes Includes special district levied taxes not included elsewhere.</p> <p>The list below, not-all inclusive, includes types of tax revenues usually posted under any tax revenue category:</p> <ul style="list-style-type: none"> • Raw material processing taxes • Property transfer taxes • Timber yield taxes • Document charged by assessor, tax collector, and auditor |

| Explanation of Revenues by Object (Account) | |
|--|--|
| Code | Revenue Objects (Accounts) |
| Licenses, Permits, and Franchises | |
| 10 | <p>Animal Licenses Examples include dog licenses.</p> <p>Do not include:</p> <ul style="list-style-type: none"> • Kennel licenses—these revenues post to “Licenses, Permits, and Franchises—Business Licenses;” or • Impounding fees, placement fees, boarding fees, vaccination fees, and sale of animal carcasses—these revenues should be posted to accounts such as “Charges for Services—Human Services.” |
| 11 | <p>Business Licenses Include revenues from the licensing of business, occupations, and amusements.</p> <p>The list below, not all-inclusive, includes types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Taxi licenses • Private investigator licenses • Second-hand store licenses • Food market licenses • Carnival licenses • Food processing health permits • Milk and dairy health permits • Kennel licenses • Fire extinguisher serviceman permits • Motion picture operator permits • Pest control business registration • Other business licenses or permits issued primarily for regulation <p>Do not include services provided that are not primarily regulatory. These revenues should be posted to the accounts such as “Charges For Services.”</p> |

| Explanation of Revenues by Object (Account) | |
|--|--|
| Code | Revenue Objects (Accounts) |
| <i>Licenses, Permits, and Franchises (Continued)</i> | |
| 12 | <p>Construction Permits Includes revenues from different types of construction permits.</p> <p>The list below, not all-inclusive, includes types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Building permits • Electrical permits • Plumbing permits • Sidewalk, curb and gutter permits • Air pollution construction permits • Septic tank dumping or permits <p>Following is a list of revenues that are usually not recorded under this category:</p> <ul style="list-style-type: none"> • Plan or map checking services when not included above. These type of revenues should be posted to accounts such as “Charges For Services – Planning and Engineering Services.” • Road excavation permits. These types of revenues should be posted to accounts such as “Licenses, Permits, and Franchises – Road Privileges and Permits.” • Permit for breaking curb and gutter. These types of revenues should be posted to accounts such as “Licenses, Permits, and Franchises—Road Privileges and Permits.” • Air pollution variance permits. These types of revenues should be posted to accounts such as “Licenses, Permits, and Franchises – Other Licenses and Permits.” |

| Explanation of Revenues by Object (Account) | |
|--|---|
| Code | Revenue Objects (Accounts) |
| <i>Licenses, Permits, and Franchises (Continued)</i> | |
| 13 | <p>Road Privileges and Permits Includes revenue from the issuance of permits for the special use or obstruction of special district roads.</p> <p>The list below, not-all inclusive, includes types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Transportation permits (for movement of unusual loads on special districts roads) • Excavation permits • Permits for mains laid • Road obstruction permits • Permits for breaking curb and gutter |
| 14 | <p>Zoning Permits Administration Includes revenue from the issuance of permits to use property other than as provided in the zoning ordinance.</p> <p>The list below, not all-inclusive, includes types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Zone changes • Zone exceptions and special permits • Cemetery permits • Agricultural preserve applications fees <p>Do not include revenues such as subdivision fees. These types of revenues should be posted to accounts such as "Charges For Services – Planning and Engineering Services."</p> |

| Explanation of Revenues by Object (Account) | |
|--|---|
| Code | Revenue Objects (Accounts) |
| <i>Licenses, Permits, and Franchises (Continued)</i> | |
| 15 | <p>Franchises</p> <p>Includes revenue from persons, firms and corporations for the continuing use of property, usually involving the elements of regulation and monopoly.</p> <p>The list below, not all inclusive, includes types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Bids for franchises awarded. • Franchises based on gross receipts. • Franchises based on number of miles of pipeline, electrical transmission line, street railway, etc. <p>Do not include permits for attaching privately owned pipelines to special district bridges. These type of revenues should be posted to accounts such as “Licenses, Permits, and Franchises – Other Licenses and Permits.”</p> |

| Explanation of Revenues by Object (Account) | |
|--|--|
| Code | Revenue Objects (Accounts) |
| <i>Licenses, Permits, and Franchises (Continued)</i> | |
| 16 | <p>Other Licenses and Permits Includes revenue from all licenses and permits not included elsewhere.</p> <p>The list below, not all-inclusive, includes types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Bicycle licenses • Gun permits • Fire permits • Air pollution variance permits • Oil well permits • Burial permits • Other non-business licenses and permits that are primarily regulatory • Permits for attaching privately owned pipelines to bridges • Pleasure-riding permit fees • Mobile home use permit fees • Permit fees for explosives <p>Following is a list of revenues that are usually not recoded under this category:</p> <ul style="list-style-type: none"> • Air pollution construction permits. These types of revenues should be posted to accounts such as “Licenses, Permits, and Franchises–Construction Permits.” • Other licenses and permits for which the payment is primarily rent or a charge for current service. These types of revenues should be posted to the appropriate accounts, such as “Revenue from Use of Money and Property” or “Charges for Services.” |

| Explanation of Revenues by Object (Account) | |
|--|--|
| Code | Revenue Objects (Accounts) |
| Fines, Forfeitures, and Penalties | |
| 20 | <p>Vehicle Code Fines Includes revenue from court fines and forfeiture of bail for violations of the State Vehicle Code.</p> <p>The list below, not all-inclusive, includes types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Special districts share of State vehicle code fines, including the county’s share from arrests made in cities. • “Driving Under the Influence” fines. <p>Following is a list of revenues usually not recorded under this category:</p> <ul style="list-style-type: none"> • Violations of county traffic ordinances. These types of revenues should be posted to accounts such as “Fines, Forfeitures, and Penalties – Other Court Fines.” • Fines, penalties and court costs imposed as a condition of probation. These types of revenues should be posted to accounts such as “Fines, Forfeitures, and Penalties.” |
| 21 | <p>Other Court Fines Includes revenue from court fines and forfeitures of bail for violations of other than the State vehicle code.</p> <p>The list below, not all inclusive, includes types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Violations of special district traffic ordinances • Violations of other special district ordinances • Violations of the State’s fish and game code • Violations of any State law other than the vehicle code • Fines for possession of controlled substances • Littering fines • Unlawful burning fines • The special districts share of fines, other than State vehicle code fines, resulting from arrests by city officers • Fees for attending traffic school |

| Explanation of Revenues by Object (Account) | |
|--|---|
| Code | Revenue Objects (Accounts) |
| <i>Fines, Forfeitures, and Penalties (Continued)</i> | |
| 22 | <p>Forfeitures and Penalties Includes revenues forfeitures and penalties other than those included under “Fines, Forfeitures, and Penalties, Penalties and Costs on Delinquent Taxes.”</p> <p>The list below, not all-inclusive, includes types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Judgments and damages. • The sale of vehicles used in commission of a crime. • Surcharge and penalty assessment on parking, non-parking, and criminal fines. <p>Following is a list of revenues that are usually not recorded under this category:</p> <ul style="list-style-type: none"> • Penalties assessed for failure to secure business license. These revenues should be posted to accounts such as “Licenses and Permits – Business Licenses.” • The state share of penalty assessments. Since these revenues are owed to the state, they generally should be treated as liabilities by special districts. |
| 23 | <p>Penalties and Costs on Delinquent Taxes Includes all amounts apportioned as a result of penalties and costs charged against property owners for tax delinquency, exclusive of such amounts required to be apportioned as taxes.</p> <p>The list below, not all-inclusive, includes types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • 10% penalties for late payment of first and second installments of secured taxes. • 10% penalty for late payment of unsecured tax. • \$10 charge on each item of real estate unpaid as of April 10th for publishing delinquent roll. • \$15 fee for seizure and sale of unsecured personal property. • 1.5% per month redemption penalty on delinquent taxes. • Advertising of the tax-defaulted land sales. |

| Explanation of Revenues by Object (Account) | |
|--|--|
| Code | Revenue Objects (Accounts) |
| Revenue From Use of Money and Property | |
| 30 | <p>Investment Income Investment earnings on bank deposits and other forms of investment.</p> <p>The list below, not all-inclusive, includes types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Interest • Dividends • Changes in fair value of investments |
| 31 | <p>Rents and Concessions Includes revenue from the use of land, buildings, or equipment belonging to the county.</p> <p>The list below, not all-inclusive, includes of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Special district parking facilities • Parking meter collections • Vending machines • Public telephones • Pole attachment charges • Cafeteria and cigar stand • Concession payments, other than for recreation purposes • Tenant farmers • Leases of ground space, etc. <p>Rental of voting booths are usually not recorded under this category. These revenues should be post to accounts such as “Charges For Services – Election Services.”</p> |

| Explanation of Revenues by Object (Account) | |
|---|---|
| Code | Revenue Objects (Accounts) |
| <i>Revenue From Use of Money and Property (Continued)</i> | |
| 32 | <p>Royalties Includes revenues from the use, operation, or development of property rights belonging to the special district, other than public utility use.</p> <p>The list below, not all-inclusive, includes types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Oil and gas royalties. • Revenue from rights for removal of oil, gas, and other natural resources from special district property. <p>Do not include revenues from sales of rock, gravel and other raw materials under this category. These revenues should be posted to accounts such as “Miscellaneous Revenues—Other Sales.”</p> |
| Intergovernmental Revenues | |
| <p>NOTE: State and federal revenues for construction of facilities are usually posted to appropriate construction accounts, rather than accounts indicating the purpose of the construction. For example, state revenue for the construction of mental facilities is posted to “State Construction,” not to “Mental Health Facilities”</p> | |
| 40 | State – Aviation |
| 41 | State – Highway Users Tax |
| 42 | State – Motor Vehicle In-Lieu Tax |
| 43 | <p>Other State – In-Lieu Tax Includes any apportionments to the special district of state in-lieu taxes not included elsewhere. An example would be payments received from the State from rental of lands held for State highway purposes.</p> |
| 44 | <p>State – Public Assistance Administration Includes amounts received from the State as reimbursement for administrative costs of special district welfare activities.</p> <p>Do not include assistance payments, as distinguished from administrative reimbursements—These types of revenues should be posted to accounts such as “Intergovernmental Revenues – State-Public Assistance Programs.”</p> |
| 45 | <p>State – Public Assistance Program Includes amounts received from the State for families with dependent children, adoptions, potentially self-supporting blind individuals, and for other direct assistance programs.</p> |

| Explanation of Revenues by Object (Account) | |
|--|---|
| Code | Revenue Objects (Accounts) |
| <i>Intergovernmental Revenues (Continued)</i> | |
| 46 | <p>State – Health Administration Includes amounts received from the State for the administration of the special districts health program. An example would be payment for partial support of the special district health department to provide an increased level of service.</p> |
| 47 | State – California Children Services |
| 48 | State – Cerebral Palsy |
| 49 | State – Mental Health |
| 50 | State – Tuberculosis Control |
| 51 | <p>Other State – Health Includes any state revenue for health purposes not included elsewhere.</p> <p>The list below, not all-inclusive, includes types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Tumor registry • Mosquito/gnat control • Medically Indigent Adult Program • AB 8 Health Subvention |
| 52 | <p>State – Agriculture The list below, not all-inclusive, includes types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Partial reimbursement of the salary of the agricultural commissioner • The unclaimed agricultural gas refunds |
| 53 | <p>State – Civil Defense Do not include State revenues for disaster resulting from fire, flood, etc. Special districts should post these types of revenues to accounts such as “Intergovernmental Revenues – State-Disaster Relief.”</p> |
| 54 | <p>State – Construction The list below, not all-inclusive, includes types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • State revenue for construction of hospitals, juvenile halls and camps, etc. • State revenue for construction of civil defense facilities • State revenue for railroad crossings <p>Do not include amounts received for restoration of roads and other facilities damaged by disasters. These revenues should be post to accounts such as “Intergovernmental Revenues State-Disaster Relief.”</p> |

| Explanation of Revenues by Object (Account) | |
|--|---|
| Code | Revenue Objects (Accounts) |
| Intergovernmental Revenues (<i>Continued</i>) | |
| 55 | <p>State – Corrections Include revenues such as State payments received for operation of juvenile halls and camps.</p> |
| 56 | State – County Fairs |
| 57 | <p>State – Disaster Relief Includes amounts received from the State for emergency relief from disasters and restoration of damaged roads and other facilities.</p> |
| 58 | State – Veteran’s Affairs |
| 59 | <p>State – Homeowners’ Property Tax Relief Includes amounts received from the State to compensate the special district for revenues lost because of the Homeowners’ Property Tax Exemption.</p> |
| 60 | State – Proposition 172 Public Safety Funds |
| 61 | State – Citizens Option for Public Safety (COPS) |
| 62 | <p>State – Other Includes amounts received from the State for any purpose not included elsewhere.</p> <p>The list below, not all-inclusive, includes types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • SB 90 reimbursements • Tax-defaulted land rentals • State revenues for juvenile hall school operation and special milk program • Cigarette taxes • State subventions for special district libraries • State subventions based on recoveries from absent parents • Payments for tax losses because of open space assessments (Williamson Act) • Off-highway motor vehicle license fees • Cotton bale in-lieu taxes |
| 63 | <p>Federal – Public Assistance Administration Includes amounts received from the federal government as reimbursement for administrative costs of special district welfare activities.</p> |
| 64 | <p>Federal – Public Assistance Programs Includes amounts received from the federal government for families with dependent children, and other direct assistance programs.</p> |
| 65 | <p>Federal – Health Administration Includes amounts received from the federal government for administration of the special districts health program.</p> |

| Explanation of Revenues by Object (Account) | |
|--|---|
| Code | Revenue Objects (Accounts) |
| <i>Intergovernmental Revenues (Continued)</i> | |
| 66 | <p>Federal – Construction Includes amounts received from the federal government for construction projects.</p> |
| 67 | <p>Federal – Disaster Relief Includes amounts received from the federal government for emergency relief from disaster.</p> |
| 68 | <p>Federal – Forest Reserve Revenue Includes amounts received from the federal government as the special districts share of revenues of national forest areas.</p> <p>Do not include rental payments for grazing lands. These revenues should be posted to accounts such as “Intergovernmental Revenues – Federal-Grazing Fees.”</p> |
| 69 | <p>Federal – Grazing Fees Includes amounts received from the federal government as the special district’s share of revenues from the rental of grazing lands.</p> |
| 70 | <p>Federal – In-Lieu Taxes Includes items such as payments from federal housing authorities.</p> |
| 71 | <p>Federal – Other Includes all aid from the federal government not included elsewhere.</p> <p>The list below , not all-inclusive, includes types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Flood control land receipts • Funds for the purchase of surplus equipment for civil defense • Research grants • Subventions for maternal and child health, seasonal and farm workers, chronic illness and aging • Grants received from the California Council on Criminal Justice • Federal manpower program funds for which the county is responsible • Federal health grants • Child-support enforcement incentives |
| 72 | <p>Other – In-Lieu Revenues Includes amounts received from other agencies as payments in lieu of taxes and assessments. An example would be payments received from public housing authorities, other than federal authorities.</p> <p>Do not include payments by housing authorities. These revenues should be posted to accounts such as “Intergovernmental Revenues – Federal In-Lieu Taxes.”</p> |

| Explanation of Revenues by Object (Account) | |
|--|--|
| Code | Revenue Objects (Accounts) |
| Intergovernmental Revenues (Continued) | |
| 73 | <p>Other – Governmental Agencies Includes amounts, other than in-lieu revenues, received from other governmental agencies; for example, revenues received from redevelopment successor agencies.</p> <p>Revenues from redevelopment successor agencies usually come from the following sources:</p> <ul style="list-style-type: none"> • Excess low and moderate income housing funds • Excess funds, other than housing funds • Sales of capital assets • Reserve Balances |
| Charges For Services | |
| 80 | <p>Assessment and Tax Collection Fees Includes revenues from tax segregation and collection of taxes and special assessments of other governmental agencies.</p> <p>The list below, not all-inclusive, are types of revenues usually posted under this category.</p> <ul style="list-style-type: none"> • The sale of copies of assessment roll • The sale of indices • Documents fees charged by assessor, tax collector and auditor |
| 81 | <p>Auditing and Accounting Fees Included in this category are revenues received by providing accounting and/or system services to other government agencies or funds.</p> |
| 82 | <p>Communication Services The list below, not all inclusive, are types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Services provided under contract to other governmental agencies • Telephone service provided to other governmental agencies |
| 83 | <p>Election Services The list below, not all-inclusive, are types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Services provided to governmental agencies under contract • Rental of vending booths • Charges for consolidating elections |

| Explanation of Revenues by Object (Account) | |
|--|---|
| Code | Revenue Objects (Accounts) |
| <i>Charges For Services (Continued)</i> | |
| 84 | <p>Legal Services The list below, not all-inclusive, includes types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Legal services provided in connection with the public administrator’s duties. • Legal services provided for other governmental agencies. |
| 85 | <p>Personnel Services The list below, not all-inclusive, includes types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Services provided under contract to other governmental agencies • Examination fees |
| 86 | <p>Planning and Engineering Services The list below, not-all inclusive, includes types for revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Subdivision fees • Planning services provided to other governments and private entities under contract • Engineering services provided to other governments and private entities under contract • Legal advertising required by planning ordinance • Traffic surveys • The sale of plans and specifications • The sale of blueprints • Plan or map-checking fees, when not an integral part of permits listed below <p>Do not include revenues from building permits, electrical permits, plumbing permits, etc. for construction or alteration. These revenues should be posted to accounts such as “Licenses and Permits – Construction Permits.”</p> |
| 87 | <p>Purchasing Fees Includes revenue from commissions from the purchase of materials and supplies for other governmental agencies.</p> |

| Explanation of Revenues by Object (Account) | |
|--|---|
| Code | Revenue Objects (Accounts) |
| <i>Charges For Services (Continued)</i> | |
| 88 | <p>Agricultural Services The list below, not all-inclusive, includes types of revenues that are usually posted under this category:</p> <ul style="list-style-type: none"> • Enforcement of the plan pest-quarantine program for the other governments or private entities • Rodent abatement • Noxious weed abatement • Quarantine inspection fees • Standardization inspection fees for fruits, vegetables, milk, eggs, poultry, honey, aviaries, and nurseries |
| 89 | <p>Civil Process Services The list below, not all-inclusive, includes types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Fees and mileage for serving or executing notices, writs, levies of attachment, warrants or orders • Posting advertising or conducting sales of real or personal property • Subpoenaing witnesses • Summoning trial juries • Garnishment fees |
| 90 | <p>Estate Fees The list below, not all-inclusive, includes types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Statutory and extraordinary fees allowed the public administrator for administering estates; and • Handling charges for deposits by the public administrator |
| 91 | <p>Humane Services The list below, not all-inclusive, includes types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Veterinarian service provided to city zoos • Placement fees • Boarding fees • Vaccination fees • Impounding fees • Sale of animal carcasses |

| Explanation of Revenues by Object (Account) | |
|--|---|
| Code | Revenue Objects (Accounts) |
| <i>Charges For Services (Continued)</i> | |
| 92 | <p>Law Enforcement Services</p> <p>The list below, not all-inclusive, includes types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Services provided under contract to governmental agencies • Transporting prisoners <p>Do not include revenues such as “Care of Prisoners”. These revenues should be posted to accounts such as “Charges For Services – Institutional Care and Services.”</p> |
| 93 | <p>Recording Fees</p> <p>Includes recording and related fees.</p> <p>The list below, not all inclusive, includes types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Recording services • Certified copies |
| 94 | <p>Road and Street Services</p> <p>The list below, not all-inclusive, includes types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Street maintenance, construction, striping curb and gutter, and traffic signal work provided under contract to other governmental agencies. • Street side tree services provided under contract to other governmental agencies. • Cooperative road projects with adjoining property owners. • Payments for extraordinary maintenance of roads. |

| Explanation of Revenues by Object (Account) | |
|--|---|
| Code | Revenue Objects (Accounts) |
| <i>Charges For Services (Continued)</i> | |
| 95 | <p>Health Fees The list below, not all-inclusive, includes types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Services provided under contract to other governmental agencies • Search of health records • Preparation of medical reports • Clinic fees, other than hospital • Vaccination charge <p>Do not include revenues such as “Certified Copies of Birth and Death Certificates” — special districts should post these types of revenues to accounts such as “Charges For Services – Recording Fees.”</p> |
| 96 | <p>Mental Health Services Includes reimbursement for services provided under Mental Health program.</p> |
| 97 | <p>California Children’s Services Includes reimbursement for services provided under California Children’s program.</p> |
| 98 | <p>Educational Services The list below, not all-inclusive, are types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Reimbursement of the cost of the U.S. Veterans’ Administration medical training program. • Training nurses, peace officers, social workers, etc. • Other services provided under contract to other governmental agencies. <p>Following is a list of revenues that are usually not recorded under this category.</p> <ul style="list-style-type: none"> • Library services. These revenues should be posted to accounts such as “Charges For Services – Library Services.” <p>Museum exhibit admission fees and lending service charges. These revenues should be posted to accounts such as “Charges For Services – Park and Recreation Fees.”</p> |

| Explanation of Revenues by Object (Account) | |
|--|--|
| Code | Revenue Objects (Accounts) |
| <i>Charges for Services (Continued)</i> | |
| 99 | <p>Library Services The list below, not all-inclusive, includes types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Book fines (including fines related lost and damaged books) • Lost or damaged books • Reservation fees • Services provided under contract to other governmental agencies • Film or other special materials usage fees |
| 100 | <p>Park and Recreation Services Includes revenue from the use of special district recreational facilities.</p> <p>The list below, not all-inclusive, includes types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Boat usage fees • Park and recreation services to governmental agencies • Concessions for county recreation facilities • Golf and equipment usage fees • Swimming pool fees • Archery fees • Swimming pool charges to organizations • Art craft charges and sale of craft material • Lighting charges • Picnic area usage fees • Club house usage fees • Use of small craft harbor facilities • Camping fees • Museum exhibit admission fees and lending service charges • Parking fees from recreational facilities • Reimbursement for lost or damaged recreational equipment • Other recreational fees <p>Do not include revenue from fairs, including off-season rentals. These revenues should be posted to accounts such as "Revenue From Use of Money and Property – Rents and Concessions."</p> |

| Explanation of Revenues by Object (Account) | |
|--|--|
| Code | Revenue Objects (Accounts) |
| <i>Charges for Services (Continued)</i> | |
| 101 | <p>Airport Services Includes revenue for services that are not included elsewhere. The list below, not all-inclusive, includes types of revenues that maybe posted under this this category:</p> <ul style="list-style-type: none"> • Aircraft landing fees • Aircraft flight plan fees • Fuel Flowage Fees • Landing, Gate and Ramp Fees • Passenger Facility Charges <p>Do not include revenues such hangar rentals and sales from concessions under this category. These types of revenues should be recorded under “Rents and Concessions” or “Other Sales Revenue.”</p> |
| 102 | <p>Electricity Services Includes revenue related to electricity sales.</p> <p>The list below, not all-inclusive, includes types of revenues that maybe posted under this category:</p> <ul style="list-style-type: none"> • Electricity sales: residential, commercial industrial, and rural. • Sales to other public authorities, and utilities for resale. • Customer installations. • Other electricity services revenues services (not specifically identified under this category). |
| 103 | <p>Gas Services Includes revenue related to gas sales.</p> <p>The list below, not all-inclusive, are types of revenues that maybe posted under this category:</p> <ul style="list-style-type: none"> • Gas sales: residential, commercial, industrial, and rural. • Sales to other public authorities and utilities for resale. • Customer installations. • Other gas services related revenues (not specifically identified in this category). |
| Explanation of Revenues by Object (Account) | |

| Explanation of Revenues by Object (Account) | |
|--|---|
| Code | Revenue Objects (Accounts) |
| Code | Revenue Objects (Accounts) |
| <i>Charges for Services (Continued)</i> | |
| 104 | <p>Harbor and Port Services Includes revenue derived from harbor and port activities.</p> <p>The list below, not all-inclusive, includes types of revenues that maybe posted under this category:</p> <ul style="list-style-type: none"> • Marines sales and services: dockage, wharfage, storage, demurrage and space rental, loading and unloading, service charges (bulk loader and cargo), and stevedoring. • Other marine sales and services (not specifically identified in this category). • Harbor and sales services: slip rentals, launching charges, and fuel sales. • Other harbor sales and services revenues (not specifically identified in this category). |
| 105 | <p>Hospital Services Hospital type special districts should be following the chart of accounts prescribed in the <i>Accounting and Reporting Manual for California Hospitals</i> available at the California Office of Statewide Health Planning and Development website at: www.oshpd.ca.gov/hid/Products/Hospitals/AnnFinanData/Manuals/index.html.</p> |
| 106 | <p>Sewer Services The list below, is not all-inclusive, includes types of revenues that may be posted under this category:</p> <ul style="list-style-type: none"> • Service charges – sewer and drainage services • Inspection fees • Connection fees • Standby and availability charges • Service penalties • Other sewer services revenues (not specially identified under this category) <p>Do not include “Permits” or “Service-Type Assessments” revenues in this category. Permits should be recorded under the “Construction Permits” category and “Service-Type Assessments” should be recorded under the “Taxes and Assessments” category.</p> |

| Explanation of Revenues by Object (Account) | |
|--|--|
| Code | Revenue Objects (Accounts) |
| Charges for Services (Continued) | |
| 107 | <p>Transit Services Includes revenues derived from transit operations.</p> <p>The list below is not all-inclusive, include types of revenues that may be posted under this category:</p> <ul style="list-style-type: none"> • Passenger fares • Transportation revenues: school bus service, freight tariffs, charter service and auxiliary transportation revenues • Other transit revenues (not specifically identified under this category) <p>Do not include revenues such as “1/4 sales tax” and “Special District Augmentation Fund Revenues” under this category. “1/4 sales tax” should be recorded under the “Taxes and Assessments” category and “Special District Augmentation Fund Revenues” should be recorded under the “Special District Augmentation Fund” category.</p> <p>Note: Transit districts who are also special districts may also refer to the chart of accounts prescribed by the United States Department of Transportation: https://www.transit.dot.gov/ntd/uniform-system-accounts-usoa.</p> |
| 108 | <p>Water Services Includes revenues derived from water sales.</p> <p>The list below, not all-inclusive, include types of revenues that may be posted under this category:</p> <ul style="list-style-type: none"> • Retail water sales: residential, business, industrial, irrigation, and other utilities. • Water services revenue: fire prevention, groundwater replenishment, connection fees, and standby and availability charges. • Other retail water services (not specifically identified under this category). • Other water services revenue (not specifically identified under this category). <p>Do not include “Service-Type Assessments” revenues in this category. “Service-Type Assessments” should be recorded under the “Taxes and Assessments” category.</p> |

| Explanation of Revenues by Object (Account) | |
|--|---|
| Code | Revenue Objects (Accounts) |
| <i>Charges for Services (Continued)</i> | |
| 109 | <p>Interfund Revenues</p> <p>Includes revenues resulting from services performed by the internal service department.</p> <p>The list below, not all-inclusive, include types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Auditing and accounting fees • Communication services • Data processing • Legal services • Personnel services • Planning and engineering services • Purchasing services • Road and street services |

Example

| Explanation of Revenues by Object (Account) | |
|--|---|
| Code | Revenue Objects (Accounts) |
| Miscellaneous Revenue | |
| 110 | <p>Other Revenues</p> <p>The list below, not all-inclusive, include types of revenues that are not posted in any other category:</p> <ul style="list-style-type: none"> • Poison for pest extermination • Books, pamphlets, postcards • Slides, tobacco, candy, etc., purchased for resale • Commissary sales • Fire prevention codes • Directories, Indices, Ordinances, Surveys • Items produced in vocational programs for the aged and blind • Any other sales revenue type transactions that do not fit the criteria of “operating revenue” of a special district (do not include capital assets sale type transactions under this category). <p>Depending on the type of special district, some of the revenue items listed above may constitute operating revenues of a special district and therefore, may not be treated as other sales revenue.</p> <p>Below is a list of revenues that are usually not recorded under this category:</p> <ul style="list-style-type: none"> • Sale of certified copies and transcripts. These revenues should be posted to accounts such as “Charges for Services.” • Sale of copies of the assessment roll. These revenues should be posted to accounts such as “Charges for Services – Assessment and Tax Collection Fees.” • Meals for employees or others. These revenues should be posted to accounts such as “Charges for Services – Other.” • Art craft materials. These revenues should be posted to accounts such as “Charges for Services – Park and Recreation Fees.” • Animal carcasses. These revenues should be posted to “Charges for Services – Humane Services.” • Sewage by-products. These revenues should be posted to accounts such as “Charges for Services – Sanitation Services.” • Garbage. These revenues should be posted to accounts such as “Charges for Services – Sanitation Services.” |

| Explanation of Revenues by Object (Account) | |
|--|--|
| Code | Revenue Objects (Accounts) |
| <i>Miscellaneous Revenue (Continued)</i> | |
| 111 | Tobacco Settlement |
| 112 | <p>Miscellaneous Includes monetary donations from private agencies, persons, or other sources.</p> <p>The list below, not all-inclusive, includes types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Consultant fees from other sources • Services by private physicians in special district institutions • Contributions and donations • Insurance proceeds • Compensation insurance refunds • Contributions from trust funds • Cash overages • Cancelled warrants and checks <p>Some of the revenues listed above may fall under the <i>Special Items</i> or <i>Extraordinary items</i> category.</p> |

| Explanation of Revenues by Object (Account) | |
|--|---|
| Code | Revenue Objects (Accounts) |
| Other Financing Sources | |
| 113 | <p>Sale of Capital Assets Examples include land, buildings, other improvements, furniture and equipment.</p> |
| 114 | <p>Transfer-In Includes transfers between funds (governmental, proprietary or fiduciary) for which no reimbursement is expected.</p> <p>It is recommended that interfund accounts or subaccounts be used to identify and control interfund activity. Identifying such activities separately will be useful when preparing consolidated financial reports that require interfund eliminations (e.g., the State Controller's Office Annual Report of Financial Transactions concerning Special Districts and governmental GAAP compliant financial statements).</p> <p>The list below, not all-inclusive, includes types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Transfers of tax revenues from the general fund or a special revenue fund to the debt service fund. • Operating subsidy transfers from the general fund or a special revenue fund to an enterprise or internal services fund. <p>Transfers from the general fund to a special revenue fund or capital projects fund.</p> |
| 115 | <p>Long-Term Debt Proceeds Includes long-term obligations incurred to meet operating or capital requirements. The list below, not all-inclusive, includes types of revenues usually posted under this category:</p> <ul style="list-style-type: none"> • Bond proceeds • Long-term notes • Other long-term obligations • The discounted present value of capital leases <p>Following is a list of revenues that are usually not recorded under this category:</p> <ul style="list-style-type: none"> • Short-term obligations • Obligations incurred to cover short-term cash requirements |

| Explanation of Revenues by Object (Account) | |
|--|--|
| Code | Revenue Objects (Accounts) |
| Contributions, Special and Extraordinary Items | |
| 117 | <p>Contributions Includes revenues such as contributions to endowments from citizens or business.</p> |
| 118 | <p>Special and Extraordinary Items Includes revenues that are infrequent or unusual in nature. An example would include insurance money received due to storm damage to a special district facility, provided that storms are not a natural occurrence in the area where the facility is located.</p> |

6.14 Expenditure/Expense Objects and Subobjects (Accounts)

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

The use of subobjects, usually represented as accounts, is left to local choice. Samples of subobject accounts are listed in Section 6.14, *Chart of Objects and Subobjects*.

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

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

Used in this manner, the chart of accounts allow special districts to prepare financial reports for informational, statistical and other statutory purposes, such as the *Special Districts Financial Report* for submission to the State Controller. Subobjects can be produced separately or merged, as needed, for reporting purposes.

Interfund activity should classified and reported as follows:

- Reciprocal interfund activity – interfund loans
- Reciprocal interfund activity – interfund services provided and used
- Nonreciprocal interfund activity – interfund transfers
- Nonreciprocal interfund activity – interfund reimbursements

The appropriate interfund account or subaccounts should be used to identify and record these transactions for recording interfund transactions between governmental, proprietary, and fiduciary fund types.

Reciprocal interfund activities are exchange and exchange-like transactions, while nonreciprocal interfund activities are nonexchange transactions. When preparing consolidated financial statements and reports such as the *State Controller’s Special District Financial Transactions Report*, it may be necessary to eliminate interfund transactions to remove the doubling-up effects, as is done with the government-wide financial statements. Interfund transfers should net to zero on the government-wide financial statements (refer to the section on *Interfund Activities* in Chapter 4, Funds).

6.15 Sample Chart of Expenditure/Expense Objects (Accounts)

Accounts are numbered in sequence for example purposes only.

| Chart of Objects and Subobjects | | | |
|--|--|-------------|--|
| Code | Accounts | Code | Accounts |
| Salaries and Employee Benefits | | | |
| 1 | Salaries and Wages | 4 | Workers' Compensation Insurance |
| 2 | Retirement | 5 | FICA/Medicare/OASDI |
| 3 | Employee Group Insurance | 6 | Other Benefits |
| Services and Supplies | | | |
| 10 | Agricultural | 20 | Miscellaneous Expense |
| 11 | Clothing and Personal | 21 | Office Expense |
| 12 | Communications | 22 | Professional and Specialized Services |
| 13 | Food | 23 | Publications and Legal Notices |
| 14 | Household Expense | 24 | Rents and Leases – Equipment |
| 15 | Insurance | 25 | Rents and Leases – Buildings and Improvements |
| 16 | Jury and Witness Expense | 26 | Minor Equipment |
| 17 | Maintenance – Equipment | 27 | Special Departmental Expense |
| 18 | Maintenance – Buildings and Improvements | 28 | Transportation and Travel |
| 19 | Medical, Dental, and Laboratory Supplies | 29 | Utilities |
| Other Expenditures | | | |
| 30 | Bond Redemption | 36 | Rights of Way |
| 31 | Retirement of Other Long-Term Debt | 37 | Taxes and Assessments |
| 32 | Interest on Bonds | 38 | Depreciation |
| 33 | Interest on Other Long-Term Debt | 39 | Bad Debt |
| 34 | Interest on Notes and Warrants | 40 | Income Allocation |
| 35 | Judgments and Damages | 41 | Contributions to Non- District Governmental Agency |
| Other Financing Uses | | | |
| 60 | Special Items | 64 | Reciprocal interfund activity—Interfund loans |
| 61 | Extraordinary Items | 65 | Reciprocal interfund activity—interfund services provided and used |
| 62 | Appropriation for Contingencies | 66 | Nonreciprocal interfund activity—interfund transfers |
| 63 | Transfers In/Out | 67 | Nonreciprocal interfund activity—interfund reimbursements |

6.16 Explanation of Objects and Subobjects

Following are the account titles and the suggested usage of each account. As noted earlier, special districts should take into consideration their purpose and statutory requirements when designing their chart of accounts. The examples discussed in this section include some common expense/expenditure type accounts.

Accounts are numbered in sequence for exemplary purposes only.

| Explanation of Objects and Subobjects | |
|---------------------------------------|---|
| Code | Accounts |
| Salaries and Employee Benefits | |
| 1 | <p>Salaries and Wages</p> <p>The list below, not all-inclusive, includes types of expenses/expenditures usually posted under this category:</p> <ul style="list-style-type: none"> • Elected officials • Permanent employees • Extra help • Suggestion awards • Overtime • Premium pay • Compensation to prisoners and inmates for services rendered • Vacation and sick leave pay <p>Following is a list of expenses/expenditures not posted under this category:</p> <ul style="list-style-type: none"> • Uniform allowances—post these type of transactions to accounts such as "SERVICES AND SUPPLIES, Clothing and Personal supplies." • Allowances for incidentals to prisoners and court wards—post these type of transaction to accounts such as "OTHER CHARGES, Support and Care of Persons." |
| 2 | <p>Retirement</p> <p>Includes the special districts share of the expense of employee retirement programs. For example, employer retirement contributions would be reported under this category.</p> |
| 3 | <p>Employee Group Insurance</p> <p>Includes the special districts share of employee group insurance programs.</p> <p>The list below, not all-inclusive, includes types of expenses/expenditures usually posted under this category:</p> <ul style="list-style-type: none"> • Employer's share of health, dental, life and accident insurance • Employee share of state disability insurance • Employer's share of unemployment insurance |
| 4 | <p>Workers' Compensation Insurance</p> <p>Includes the Workers' Compensation premiums paid by the special district.</p> |
| 5 | <p>FICA/Medicare/OASDI</p> <p>Employers share of O.A.S.D.I and FICA/Medicare.</p> |
| 6 | <p>Other Benefits</p> <p>Includes employee benefits not covered in the other subobjects.</p> |

| Explanation of Objects and Subobjects | |
|--|---|
| Code | Accounts |
| Services and Supplies | |
| 10 | <p>Agricultural</p> <p>The list below, not all-inclusive, includes types of expenses/expenditures posted under this category for Agricultural related special districts.</p> <ul style="list-style-type: none"> • Agricultural disinfecting and exterminating services • Animal medicines and serums • Custom farming services • Ear tags • Fertilizer • Forage • Insecticides • Livestock registration • Nursery stock • Peat moss • Pest abatement supplies • Seed • Topsoil • Weed killer |
| | <p>Do not include any of these expenses/expenditures if used in building and grounds maintenance—special districts should post these types of transactions to accounts such as "SERVICES AND SUPPLIES, Maintenance—Buildings and Improvements."</p> |

Example

| Explanation of Objects and Subobjects | |
|--|---|
| Code | Accounts |
| Services and Supplies (Continued) | |
| 11 | Clothing and Personal |
| | Includes items for personal use, including safety appliances. |
| | The list below, is not all-inclusive, includes types of expenses/expenditures usually posted under this category: |
| | <ul style="list-style-type: none"> • Badges, chevrons • Belts • Buttons • Combs • Facial tissue • Gloves • Goggles, masks • Gowns • Helmets • Raincoats • Rubber boots • Safety clothing • Sewing supplies • Shoes • Slippers • Tobacco • Toilet articles • Uniforms, Uniform allowances • Yardage |
| 12 | Communications |
| | The list below, not all-inclusive, includes types of expenses/expenditures usually posted under this category: |
| | <ul style="list-style-type: none"> • Telephone, telegraph, and teletype services • Radio and microwave services • Messenger services • Fax machines, pagers, and cell phones |
| | Following is a list of expenses/expenditures that are usually not posted under this category: |
| | <ul style="list-style-type: none"> • Radio repair services and supplies. Special districts should post to these type of transactions to accounts such as "SERVICES AND SUPPLIES, Maintenance-Equipment." • Rental of communication equipment. Special districts should post these type of transactions to accounts such as "SERVICES AND SUPPLIES, Rents and Leases-Equipment." |

| Explanation of Objects and Subobjects | |
|--|--|
| Code | Accounts |
| Services and Supplies (Continued) | |
| 13 | <p>Food</p> <p>Includes nutriments and beverages for human consumption, either (a) presently suitable for consumption or kitchen processing, or (b) not presently suitable, such as livestock and poultry, but intended for ultimate conversion and use as food by the purchasing budget unit.</p> <p>The list below, not all-inclusive, includes types of expenses/expenditures usually posted under this category:</p> <ul style="list-style-type: none"> • Candy, confectionery • Cereals, cereal products • Cocoa, cocoa products • Coffee substitute • Eggs, egg products • Live animals, poultry, fish, meat, and related by-products • Feed for live animals, poultry and fish • Milk, milk products • Oleomargarine • Soft drinks • Spices, salt • Sugar, sugar products • Tea • Vegetables, vegetable products |
| | <p>Following is a list of expenses/expenditures that are usually not posted under this category:</p> <ul style="list-style-type: none"> • Draft, breeding, and dairy animals. Special districts should post these type of transactions to accounts such as “CAPITAL ASSETS, Equipment.” • Dietary supplements. Special districts should post these type of transactions to accounts such as “SERVICES AND SUPPLIES, Medical, Dental and Laboratory Supplies.” • Spirituous, malt, or vinous liquors. Special districts should post these type of transactions to accounts such as “SERVICES AND SUPPLIES, Medical, Dental and Laboratory Supplies”. • Meals furnished to jurors. Special districts should post these type of transactions to accounts such as “SERVICES AND SUPPLIES, Jury and Witness Expense.” <p>Meals furnished to indigents. Special districts should post these type of transactions to accounts such as “OTHER CHARGES, Support and Care of Persons.”</p> |

| Explanation of Objects and Subobjects | |
|--|--|
| Code | Accounts |
| Services and Supplies (Continued) | |
| 14 | Household Expense/Expenditures |
| | <div style="display: flex; justify-content: space-between;"> <div style="width: 48%;"> <p>The list below, not all-inclusive, includes types of expenses/expenditures usually posted under the this category:</p> <ul style="list-style-type: none"> • Kitchen and dining service: <ul style="list-style-type: none"> ○ Chinaware, cooking supplies, ○ Baking, meat cutting utensils and supplies ○ Glassware, napkins, tablecloths • Bedding: <ul style="list-style-type: none"> ○ Bedspreads, blankets, mattresses ○ Pillows, pillowcases , sheets • Laundry: <ul style="list-style-type: none"> ○ Clothes pins ○ Detergents, soaps, and washing compounds ○ Laundry bags, marking ink ○ Outside laundry, dry cleaning • Other: <ul style="list-style-type: none"> ○ Brooms, mops, wax and cleaners ○ Clothes lockers ○ Contractual maid and custodial services ○ Curtains, drapes, rugs (when not capitalized) ○ disinfectants, drinking water ○ Garbage cans, hot plates, small heaters ○ Refuse disposal, soap ○ Toilet tissue, towels, towel service </div> <div style="width: 48%;"> <p>Do not include supplies issued to individuals for personal use— special districts usually post these types of expenses/expenditures to accounts such as “SERVICES AND SUPPLIES, Clothing and Personal.”</p> </div> </div> |

| Explanation of Objects and Subobjects | |
|--|---|
| Code | Accounts |
| Services and Supplies (Continued) | |
| 15 | <p>Insurance Expense/Expenditures</p> <p>The list below, not all-inclusive, includes types of expenses/expenditures usually posted under this category:</p> <ul style="list-style-type: none"> • Fire • Burglary • Collision • Public liability • Property damage • False arrest • Malpractice • Individual and blanket bonds • Forgery • Money and securities |
| | <p>Do not include share of employee group insurance type expenses/expenditures. Special districts usually post these type of transactions to accounts such as "SALARIES AND EMPLOYEE BENEFITS, Employee Group Insurance."</p> |
| 16 | <p>Jury and Witness Expense/Expenditures</p> <p>The list below, not all-inclusive, includes types of expenses/expenditures usually posted under this category:</p> <ul style="list-style-type: none"> • Fees and expenses of jurors, witnesses, and interpreters (criminal cases only). • Meals, transportation, and hotel accommodations for jurors. • Fees and expenses of coroners' juries |
| | <p>Do not include psychiatric expenses/expenditures. Special districts should post these types of transactions to accounts such as "SERVICES AND SUPPLIES, Professional" and "Specialized Services."</p> |
| 17 | <p>Maintenance – Equipment</p> <p>Includes expenses/expenditures for keeping equipment, whether capitalized or not, in efficient operating condition.</p> <p>The list below, not all-inclusive, includes types of expenses/expenditures posted under this category:</p> <ul style="list-style-type: none"> • Contractual repairs, overhauls • Automotive supplies such as lubricating oil, light bulbs, spark plugs, antifreeze, grease, polish, brake fluids, seat covers, skid chains, batteries, tires and tubes, fan belts, filters • Gasoline, fuel for central garage vehicles • Communication and radio repair services and supplies • Repair parts • Service contracts for maintenance |

| Explanation of Objects and Subobjects | |
|--|--|
| Code | Accounts |
| Services and Supplies (Continued) | |
| 18 | <p>Maintenance – Buildings and Improvements</p> <p>Includes expenses/expenditures incurred in the process of maintaining buildings and improvements.</p> <p>The list below, not all-inclusive, includes types of expenses/expenditures usually posted under this category:</p> <ul style="list-style-type: none"> • Awnings • Boiler compounds • Electrical and plumbing supplies and services • Fire extinguisher refills • Gardening expense • Heating and cooling system repairs • Light globes, fuses • Minor alterations • Nursery stock • Painting supplies and services • Replacement parts that do not result in a betterment • Gardening expense, including weed and pest control supplies for buildings and grounds |
| | <p>Following is a list of expenses/expenditures that are usually not posted under this category:</p> <ul style="list-style-type: none"> • Lawnmowers, hedgers, shears, ladders, etc. Special districts should post these type of transactions to accounts such as “SERVICES AND SUPPLIES, Minor Equipment.” • Water, electricity, gas, etc. Special districts should post these type of transactions to accounts such as “SERVICES AND SUPPLIES, Utilities.” • Road contractual services. Special districts should post these type of transactions to accounts such as “SERVICES AND SUPPLIES, Professional and Specialized Services.” • Road supplies. Special districts should post to these type of transactions to accounts such as “SERVICES AND SUPPLIES, Special Department Expense.” |

| Explanation of Objects and Subobjects | |
|--|--|
| Code | Accounts |
| Services and Supplies (Continued) | |
| 19 | <p>Medical, Dental, and Laboratory Supplies</p> <p>Includes expenses/expenditures related to laboratory supplies.</p> <p>The list below, not all-inclusive, includes types of expenses/expenditures usually posted under this category:</p> <ul style="list-style-type: none"> • Alcohol • Animals, fish, insects for laboratory tests • Laboratory enamelware and glassware • Antiseptics • Antitoxins • Artificial limbs • Blood plasma • Crime laboratory supplies • Dentures • Dietary supplements • Drugs • Embalming supplies • Eyeglasses |
| 20 | <p>Miscellaneous Expense/Expenditures</p> <p>Includes infrequent or minor expense/expenditures, not limited in incidence to any particular department, which are not classified in any other subobject. Exercise care that this account is not used for expense/expenditures that may be properly posted to one of the other subjects. Examples include cash shortages and unidentifiable inventory overages and shortages.</p> |

| Explanation of Objects and Subobjects | |
|--|--|
| Code | Accounts |
| Services and Supplies (Continued) | |
| 21 | <p>Office Expense/Expenditures</p> <p>Includes expenses/expenditures for office-type supplies and services.</p> <p>The list below, not all-inclusive, includes types of expenses/expenditures usually posted under this category:</p> <ul style="list-style-type: none"> • Accounting and report forms • Binders, docket books • Book binding and repair • Books, manuals • Bottled drinking water • Dictaphone supplies • Paper (including drafting paper) • Envelopes, stamped envelopes, • Filing supplies • Letterheads • Letter scales • Metered postage, stamps, parcel post • Microfilm • Office machine ribbons • Paper Clips • Subscriptions (magazines, periodicals, etc.) • Pens, Pencils • Pencil sharpeners • P.O. box rental • Post cards • Photography supplies • Printing and binding • Punch cards, tabulating forms • Receipts, receipt books • Registered mail and special delivery • Reproductions and blueprints • Rubber stamps • Scissors & Scotch tape • Small staplers, dating and numbering machines |
| | <p>Following is a list of expenses/expenditures usually not posted under this category:</p> <ul style="list-style-type: none"> • Towel services. Special districts should post these types of transactions to accounts such as “SERVICES AND SUPPLIES, Household Expense.” • Film development supplies and expenses. Special districts should post these type of transactions to accounts such as “SERVICES AND SUPPLIES, Special Departmental Expense.” • Books and periodicals for circulating library use, their repair and bindings. Special districts should post these type of transactions to accounts such as “SERVICES AND SUPPLIES, Special Departmental Expense.” |

| Explanation of Objects and Subobjects | | | |
|---|--|---|---|
| Code | Accounts | | |
| Services and Supplies (Continued) | | | |
| 22 | <p>Professional and Specialized Services</p> <p>Includes most professional and skilled services. In a few cases, services of this type are excluded, being more properly included under subobject titles indicating the purpose of the expense/expenditure. Any of the following incurred in connection with the acquisition of capital assets, e.g., appraisals, architectural services, etc., are capitalized.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; vertical-align: top;"> <p>The list below, not all-inclusive, includes types of expenses/expenditures usually posted under this category:</p> <ul style="list-style-type: none"> • Actuarial studies • Advertising and marketing • Aerial surveys • Ambulance service • Appraisals • Architectural services • Armored car service • Artists' fees • Auditing and accounting • Bounties • Burial services • Chemical analyses • Clerical services • Consultations • Data processing services • Engineering services • Fees paid to the humane society • Fiscal agents' fees • Lecture and musical services • Management, salary surveys • Materials testing • Medical and sobriety examinations • Medical, dental, and laboratory services • Microfilm services • Outside animal boarding expense • Outside defense counsel, legal services • Psychiatric services • Reporting and transcribing • Road construction/maintenance • Technical identification services • Weighing and measuring services </td> <td style="width: 50%; vertical-align: top;"> <p>Following is a list of expenses/expenditures usually not posted under this category:</p> <ul style="list-style-type: none"> • Messenger services. Special districts should post these type of transactions to accounts such as "SERVICES AND SUPPLIES, Communications." • Radio technical services. Special districts should post these type of transactions to accounts such as "SERVICES AND SUPPLIES, Communications." • Custodial services. Special districts should post to accounts such as "SERVICES AND SUPPLIES, Household Expense." • Service contracts for equipment maintenance. Special districts should post these type of transactions to accounts such as "SERVICES AND SUPPLIES, Maintenance Equipment." • Service contracts for maintenance of buildings and improvements. Special districts should post these type of transactions to accounts such as "SERVICES AND SUPPLIES, Maintenance." Special districts should post these type of transactions to accounts such as "Building and Improvements." </td> </tr> </table> | <p>The list below, not all-inclusive, includes types of expenses/expenditures usually posted under this category:</p> <ul style="list-style-type: none"> • Actuarial studies • Advertising and marketing • Aerial surveys • Ambulance service • Appraisals • Architectural services • Armored car service • Artists' fees • Auditing and accounting • Bounties • Burial services • Chemical analyses • Clerical services • Consultations • Data processing services • Engineering services • Fees paid to the humane society • Fiscal agents' fees • Lecture and musical services • Management, salary surveys • Materials testing • Medical and sobriety examinations • Medical, dental, and laboratory services • Microfilm services • Outside animal boarding expense • Outside defense counsel, legal services • Psychiatric services • Reporting and transcribing • Road construction/maintenance • Technical identification services • Weighing and measuring services | <p>Following is a list of expenses/expenditures usually not posted under this category:</p> <ul style="list-style-type: none"> • Messenger services. Special districts should post these type of transactions to accounts such as "SERVICES AND SUPPLIES, Communications." • Radio technical services. Special districts should post these type of transactions to accounts such as "SERVICES AND SUPPLIES, Communications." • Custodial services. Special districts should post to accounts such as "SERVICES AND SUPPLIES, Household Expense." • Service contracts for equipment maintenance. Special districts should post these type of transactions to accounts such as "SERVICES AND SUPPLIES, Maintenance Equipment." • Service contracts for maintenance of buildings and improvements. Special districts should post these type of transactions to accounts such as "SERVICES AND SUPPLIES, Maintenance." Special districts should post these type of transactions to accounts such as "Building and Improvements." |
| <p>The list below, not all-inclusive, includes types of expenses/expenditures usually posted under this category:</p> <ul style="list-style-type: none"> • Actuarial studies • Advertising and marketing • Aerial surveys • Ambulance service • Appraisals • Architectural services • Armored car service • Artists' fees • Auditing and accounting • Bounties • Burial services • Chemical analyses • Clerical services • Consultations • Data processing services • Engineering services • Fees paid to the humane society • Fiscal agents' fees • Lecture and musical services • Management, salary surveys • Materials testing • Medical and sobriety examinations • Medical, dental, and laboratory services • Microfilm services • Outside animal boarding expense • Outside defense counsel, legal services • Psychiatric services • Reporting and transcribing • Road construction/maintenance • Technical identification services • Weighing and measuring services | <p>Following is a list of expenses/expenditures usually not posted under this category:</p> <ul style="list-style-type: none"> • Messenger services. Special districts should post these type of transactions to accounts such as "SERVICES AND SUPPLIES, Communications." • Radio technical services. Special districts should post these type of transactions to accounts such as "SERVICES AND SUPPLIES, Communications." • Custodial services. Special districts should post to accounts such as "SERVICES AND SUPPLIES, Household Expense." • Service contracts for equipment maintenance. Special districts should post these type of transactions to accounts such as "SERVICES AND SUPPLIES, Maintenance Equipment." • Service contracts for maintenance of buildings and improvements. Special districts should post these type of transactions to accounts such as "SERVICES AND SUPPLIES, Maintenance." Special districts should post these type of transactions to accounts such as "Building and Improvements." | | |

| Explanation of Objects and Subobjects | |
|--|--|
| Code | Accounts |
| Services and Supplies (Continued) | |
| 23 | Publications and Legal Notices |
| | Includes expenses/expenditures for the publication of legally required notices and reports. |
| | <p>The list below, not all-inclusive, includes types of expenses/expenditures usually posted under this category:</p> <ul style="list-style-type: none"> • Tax-sale notices • Delinquent tax lists • Employment opportunities • Planning commission hearings • Public administrator’s semi-annual report • Transfer of unclaimed refundable taxes • Proceedings of board of supervisors • Budgets • Crop reports • Financial reports • Ordinances • Bond sale notices • Bids for purchases • Advertising impounded animals |
| | Do not include printing and binding lists of registered voters, printing ballots type’s expenses/expenditures. Special districts should post these type of transactions to accounts such as “SERVICES AND SUPPLIES, Special Departmental Expense/Expenditure.” |
| 24 | Rents and Leases — Equipment |
| | Includes rents and leases paid for the use of equipment and other articles. |
| | <p>The list below, not all-inclusive, includes types of expenses/expenditures usually posted under this category:</p> <ul style="list-style-type: none"> • Amounts paid under operating lease agreements • Alarm system (tied to police, fire, or alarm service company) • Rent of communication equipment • Rent of films, exhibits, models • Cable T.V. rental |
| | <p>Following is a list of expenses/expenditures usually not posted under this category:</p> <ul style="list-style-type: none"> • Rent or lease of cars and trucks. Special districts should post these types of transactions to accounts such as “SERVICES AND SUPPLIES, Transportation and Travel.” • Telephone service. Special districts should post these types of transactions to accounts such as “SERVICES AND SUPPLIES, Communications.” |

| Explanation of Objects and Subobjects | |
|--|--|
| Code | Accounts |
| Services and Supplies (Continued) | |
| 25 | <p>Rents and Leases – Buildings and Improvements</p> <p>Includes rents and leases paid for the use of land, structures and improvements.</p> <p>The list below, not all-inclusive, includes types of expenses/expenditures usually posted under this category:</p> <ul style="list-style-type: none"> • Amounts paid under operating lease agreements • Rent of polling places • Storage charges |
| | <p>Following is a list of expenses/expenditures usually not posted under this category:</p> <ul style="list-style-type: none"> • Amounts to be paid under capital lease agreements. Special districts should post these types of transactions to accounts such as “OTHER CHARGES, Retirement of Other Long-Term Debt.” • Non-removal leasehold improvements. Special districts should post these types of transactions to accounts such as “CAPITAL ASSETS, Buildings and Improvements.” |

| Explanation of Objects and Subobjects | |
|--|--|
| Code | Accounts |
| Services and Supplies (Continued) | |
| 26 | <p>Minor Equipment</p> <p>Include minor equipment of insufficient life or value to require classification as a capital asset, and replacement parts of such tools and instruments.</p> <p>The list below, not all-inclusive, includes types of expenses/expenditures usually posted under this category:</p> <ul style="list-style-type: none"> • Carpentry, machine and general purpose tools: <ul style="list-style-type: none"> ○ Bits, calipers, chisels, cutters ○ Drills, files, flashlights, gauges ○ Hammers, handsaws ○ Ladders, lanterns, levels ○ Oil cans, paint brushes, picks ○ Reamers, screwdrivers, shovels ○ Tool-boxes, wheelbarrows, wrenches • Drafting, engineering, and surveying tools: <ul style="list-style-type: none"> ○ Curve sets, drawing instruments ○ Hand compasses, measuring tapes ○ Plumb bobs, sextants, slide rules • Gardening tools: <ul style="list-style-type: none"> ○ Garden hoses, lawnmowers ○ Pruning shears, rakes, sprayers |
| | <p>Following is a list of expenses/expenditures usually not posted under this category:</p> <ul style="list-style-type: none"> • Safety devices, such as belts, goggles, and helmets. Special districts should post these type of transactions to accounts such as "SERVICES AND SUPPLIES, Clothing and Personal." • Supplies, for example, nails, bolts, oxygen, and welding rods. Special districts should post these type of transactions to accounts such as "SERVICES AND SUPPLIES, Maintenance-Equipment"; if used in construction of capital assets by force account, special districts should post these type of transactions to accounts such as "CAPITAL ASSETS, Equipment." • Medical, dental and laboratory instruments. Special districts should post these types of transactions under "SERVICES AND SUPPLIES, Medical, Dental and Laboratory Supplies." |

| Explanation of Objects and Subobjects | |
|--|---|
| Code | Accounts |
| Services and Supplies (Continued) | |
| 27 | <p>Special Departmental Expense/Expenditures</p> <p>Includes comparatively specialized supplies and services, generally peculiar to one of a few departments, for which an account has not otherwise been provided.</p> <p>The list below, not all-inclusive, includes types of expenses/expenditures usually posted under this category:</p> <ul style="list-style-type: none"> • Athletic supplies • Books for circulating library use • Demonstration materials • Election officers • Election expenses • Fingerprinting supplies • Games and puzzles • Printing ballots • Shopping Supplies |

Example

| Explanation of Objects and Subobjects | |
|--|---|
| Code | Accounts |
| Services and Supplies (Continued) | |
| 28 | <p>Transportation and Travel</p> <p>Includes the transportation of persons and things, except where other services furnished in conjunction with transportation comprise the major portion of the charge, or where the transportation is more appropriately included under subobject titles indicating purposes.</p> <p>The list below, not all-inclusive, includes types of expenses/expenditures usually posted under this category:</p> <ul style="list-style-type: none"> • Central garage services • Delivery services • Freight, express, and other transportation charges not chargeable to a commodity purchased • Gasoline, diesel fuel, except when purchased for central garage • Leased or hired vehicles • Reimbursement for Private car use • Reimbursement for: meals, lodging, conference expenses, bridge tolls, train fares, bus fares, air fares, any other authorized travel expense • Transportation of prisoners and court wards |
| | <p>Following is a list of expenses/expenditures usually not posted under this category:</p> <ul style="list-style-type: none"> • Ambulance and armored car service. Special districts should post these type of transactions to accounts such as “SERVICES AND SUPPLIES, Professional and Specialized Services.” • Packing supplies. Special districts should post these type of transactions to accounts such as “SERVICES AND SUPPLIES, Office Expense. • Transportation of indigents. Special districts should post these type of transactions to accounts such as “OTHER CHARGES, Support and Care of Persons.” • Purchases for central garage vehicles. Special districts should post these type of transactions to accounts such as “SERVICES AND SUPPLIES, Maintenance–Equipment.” • Gasoline, diesel fuel, etc., used for off-highway purposes by road department or central garage. Special districts should post these type of transactions to accounts such as “SERVICES AND SUPPLIES, Maintenance–Equipment.” • Natural gas, butane, fuel oil, etc. used for heating/cooling purposes. Special districts should post these type of transactions to accounts such as “SERVICES AND SUPPLIES, Utilities.” |

| Explanation of Objects and Subobjects | |
|--|--|
| Code | Accounts |
| Services and Supplies (Continued) | |
| 29 | Utilities |
| | <p>The list below, not all-inclusive, includes types of expenses/expenditures usually posted under this category:</p> <ul style="list-style-type: none"> • Coal, wood • Electricity • Heating and cooling supplies for county buildings • Natural gas, butane, fuel oil • Sewage disposal • Street lighting on county grounds • Water |
| | <p>Below is a list of expenses/expenditures usually not posted under this category:</p> <ul style="list-style-type: none"> • Refuse disposal. Special districts should post these type of transactions to accounts such as "SERVICES AND SUPPLIES, Household Expense." • Telephone service. Special districts should post these types of transactions to accounts such as "SERVICES AND SUPPLIES, Communications." • Gasoline, fuel for central garage vehicles. Special districts should post these types of transactions to accounts such as "SERVICES AND SUPPLIES, Maintenance–Equipment". • Fuel for department vehicles. Special districts should post these types of transactions to accounts such as "SERVICES AND SUPPLIES, Transportation and Travel." |
| Other Expenditures | |
| 30 | Bond Redemption |
| | Includes redemption of matured and called bonds. |
| 31 | Retirement of Other Long-Term Debt |
| | Includes liquidation of long-term debt principal, other than bonds, including capitalized lease payments. |
| 32 | Interest on Bonds |
| | Includes interest and call premium payments on bonded debt. |
| 33 | Interest on Other Long-Term Debt |
| | Includes interest on long-term debt, other than bonds. |
| 34 | Interest on Notes and Warrants |
| | Includes interest payments on short-term debt, such as tax anticipation notes and registered warrants. |

| Explanation of Objects and Subobjects | |
|---------------------------------------|---|
| Code | Accounts |
| Other Expenditures (Continued) | |
| 35 | Judgments and Damages |
| | Includes expenses/expenditures in settlement of claims against the special district for injury to persons and property. |
| | Following is a list of expenses/expenditures usually not posted under this category: |
| | <ul style="list-style-type: none"> • Damages paid in connection with rights of way acquisition. Special districts should post these types of transactions to accounts such as "OTHER CHARGES, Rights of Way" (See No.37 for more information on "Rights of Way"). • Damages paid in connection with land acquisition. Special districts should post these types of transactions to accounts such as "CAPITAL ASSETS, Land." |
| 36 | Rights of Way |
| | Includes amounts paid for the acquisition of easements where title is not acquired by the special district, and for land acquired in fee title for road purposes. |
| 37 | Taxes and Assessments |
| | Includes taxes and assessments levied against the special district by another governmental agency. |
| 38 | Depreciation |
| | Includes the recording of expiration in the service life of capital assets, other than wasting assets attributable to wear and tear, deterioration, action of the physical elements, inadequacy, and obsolescence. |
| 39 | Bad Debt |
| | Includes amounts incurred in the current year because of the failure to collect receivables. Expenses/Expenditures such as <i>hospital contractual</i> allowances are usually posted to a contra revenue account. |
| 40 | Income Allocation |
| | Includes allocation of net earnings to Deferred Compensation Liability account (Deferred Compensation Fund only). |
| 41 | Contributions to Non-Special District Governmental Agency |
| | Includes contributions, grants, subventions, etc., to non-special district governmental agencies. |
| Other Financing Uses | |
| 60 | Special Items |
| | Includes significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. |
| 61 | Extraordinary Items |
| | Includes transactions or other events that are both unusual in nature and infrequent in occurrence. |

| Explanation of Objects and Subobjects | |
|--|--|
| Code | Accounts |
| Other Financing Uses (Continued) | |
| 62 | Appropriation for Contingencies A budgetary provision representing that portion of the financing requirements set aside to meet unforeseen expenditure requirements. |
| 63 | Transfers In/Out These are transfers that occur between funds within a government agency. For example, bond money received in the general fund is transferred to the debt service fund where used to pay debt service obligations. |
| 64 | Reciprocal interfund activity—interfund loans These are loans that occur between funds within a government agency. For example, the general fund loans money to the capital projects fund to purchase a building with the expectation that the loan will be paid back within a reasonable time. If the repayment of the loan is <u>not</u> paid within a reasonable time—it should be treated as a transfer. |
| 65 | Reciprocal interfund activity—interfund services provided These are exchanges of services where one fund provides services to another fund within the same government agency for an equal benefit in return. For example, the internal services fund charges a fee to all other funds within the governmental agency for providing risk management services. |
| 66 | Nonreciprocal interfund activity—interfund transfers These are nonexchange type transfers that occur between funds of a government agency. For example, the enterprise fund transfers a building to a governmental fund without receiving anything in return. |
| 67 | Nonreciprocal interfund activity—interfund reimbursements These are nonexchange transactions where one fund incurs expenditures/expense which will be subsequently reimbursed by another fund within the same governmental agency. For example, the general fund pays a utility bill for an enterprise fund; the enterprise fund then reimburses the general fund at a later date. |

Chapter 7: Balance Sheet Accounts

Chapter Contents

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Chapter 7: Balance Sheet Accounts

Principles of Accounts

7.01 Chart of Accounts Terminology

Common terminology and classifications should be used throughout the budgeting, accounting, and financial reporting activities for special districts, which align with the State Controller's Office Annual Financial Transactions Report.

The list of account titles in this chapter is not all-inclusive. Where appropriate, special districts may supplement these classifications with additional ones in light of local circumstances. For example, the chart of accounts in this chapter does not include detailed outflows and inflows for varied operations of affordable housing. In addition to the accounts listed, other accounts may be required in the preparation of financial statements.

Some special districts will not need all of the accounts included in this list. Only those accounts needed should be used. Similar classifications enhance the comparability of governmental financial statements and enhance their usefulness for completing the State Controller's Office Annual Financial Transaction Report.

The accounts in the Illustrative Chart of Accounts (refer to Section 7.09, *Chart of Accounts*) are numbered consecutively. The 100 series is for assets, the 200 series is for deferred outflows of resources, the 300 series is for liabilities, the 400 series is for deferred inflow of resources, and the 500 series is for fund balance and net position.

The numbering systems displayed in this manual are intended for reference purposes only. Each special district should devise an account coding system consistent with its accounting needs.

All modern financial accounting software require a unique alphanumeric code for each specific account.

7.02 Balance Sheet vs. Statement of Net Position

The statement of net position for fiduciary and proprietary funds use economic resources measurement focus or accrual accounting, and the balance sheet for governmental funds are presented using current resources measurement focus. Special districts should follow these general reporting formats:

1. Statement of net position format for fiduciary and proprietary fund statements:
 $(Assets + Deferred Outflows) - (Liabilities + Deferred Inflows) = Net Position$
2. Balance sheet format for governmental fund statements:
 $Assets + Deferred Outflows = Liabilities + Deferred Inflows + Fund Balance$

The information for the Balance Sheet or Statement of Net Position should be taken from the special district's general ledger. The governmental fund balance should be identified as nonspendable, restricted, committed, assigned or unassigned amounts with the provisions outlined in GASB Statement

No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as amended. Notes to the financial statements may be referenced by number or letter.

The statement should have a proper heading, date, and must contain a note directing the reader to the accompanying notes to the financial statements. The notes to financial statements would include “non-recognized” events (material) that did not exist at the financial statement date but arose subsequent to that date.

7.03 Assets

Assets, as defined in GASB Concepts Statement 4, *Elements of Financial Statements*, are resources with a present service capacity that the entity presently controls. The present service capacity of a resource (for example, use of recreational parks) relates to the asset’s existing capability to enable a special district to provide services. Generally, the special district controlling the asset has the ability to determine whether:

- To directly use the present service capacity to provide service to its constituents;
- The present capacity of an asset can be exchanged for another asset such as cash; and
- To employ the asset on any of the other ways it may provide benefit.

Restricted assets include money or other items of value received by or promised to an organization, the use of which is legally or contractually restricted. The restrictions generally arise from the following situations:

- Externally imposed by creditors, grantors, contributors, or laws and regulations of other government entities; and/or
- Imposed by law through constitutional provisions or enabling legislation.

Current Assets

Current assets are those that are expected or required to be converted to cash or consumed within a year. Current assets include cash, cash equivalents, marketable investments, inventories, various receivables, and amounts due from other funds.

Noncurrent Assets

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

General capital assets, such as land, buildings, infrastructures and equipment purchased and used by governmental funds should be recorded as a capital outlay expenditure in the governmental funds and not represented as a fund asset. However, the capital asset is removed from expenditures and shown in the balance sheet when reported in the special districts government-wide financial statements.

Inexhaustible capital assets should be presented in the proprietary and fiduciary funds and government-wide financial statements of net position (refer to Chapter 12, *Capital Assets*).

7.04 Liabilities

GASB Concepts Statement No. 4 defines liabilities as present obligations to sacrifice resources that the entity has little or no discretion to avoid (refer to Chapter 10, *Liabilities*).

7.05 Deferred Outflows/Inflows of Resources

Inflows of resources (such as accounts receivable from revenues) are an acquisition of net assets applicable to a particular reporting period. Outflows of resources are a consumption of net assets applicable to a specific current reporting period, for example, salaries and wages paid for work performed.

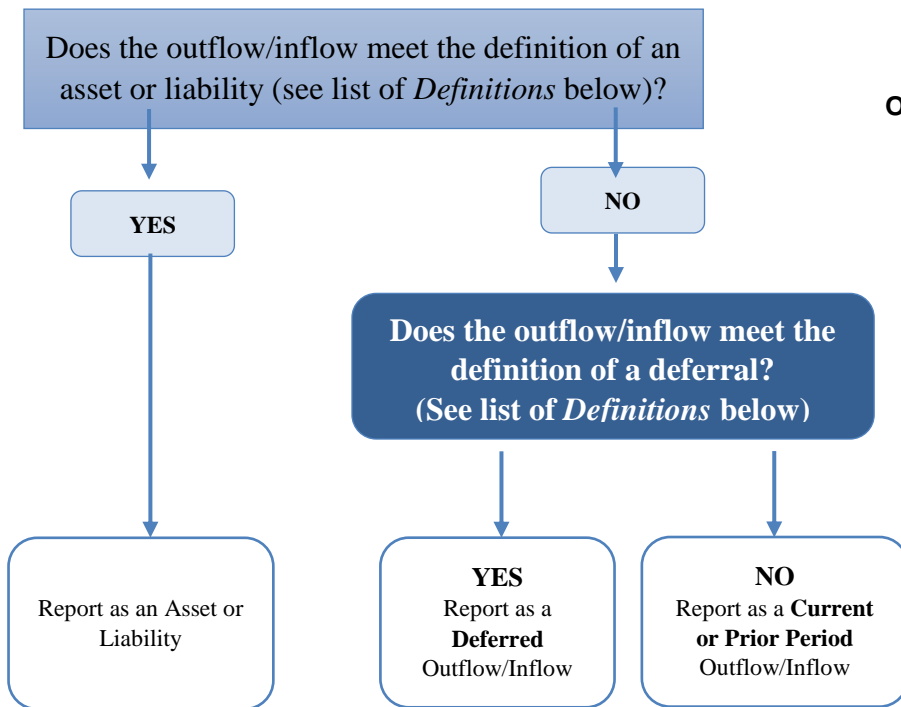
When outflows or inflows of resources are applicable to future periods, they are deferred for reporting and shown in the financial statements separately as Deferred Outflows of Resources or Deferred Inflows of Resources. In governmental funds, deferred outflows of resources and deferred inflows of resources represent certain defined transactions related to future periods that do not qualify for treatment as either assets or liabilities, for example, property taxes levied in the current year to finance the subsequent year's budget.

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

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

The primary differences between current outflows/inflows of resources and deferred outflows/inflows of resources is the timing of when expenses and revenues are recognized, and the financial statements on which they are reported. Current outflows/inflows of resources (expenses/revenues) are recognized when incurred/received and are reported on the income statements. Deferred Outflows/Deferred Inflows of Resources (deferred expenses/revenues), on the other hand, are "deferred" (delayed) until a future period and are reported on the Statement of Net Position following Assets/Liabilities.

Outflow/Inflow Flowchart



Outflow/Inflow Flowchart Instructions

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

Definitions

An **asset** is a resource with present service capacity that the government presently controls.

A **liability** is a present obligation to sacrifice resources that the government has little or no discretion to avoid.

A **deferred outflow of resources** is a consumption of net position by the government that is applicable to a future reporting period.

A **deferred inflow of resources** is an acquisition of net position by the government that is applicable to a future reporting period.

An **outflow of resources** is a consumption of net assets by the government that is applicable to the current reporting period.

An **inflow of resources** is an acquisition of net assets by the government that is applicable to the current reporting period. An **inflow of resources** is an acquisition of net assets by the government that is applicable to the current reporting period.

Items That May Be Classified As Outflows/Inflows

Items listed below should be filtered through the Outflow/Inflow Flowchart above to determine if the item is an asset/liability, current outflow/inflow, or a deferred outflow/inflow. The list below is not all-inclusive.

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

| Term | Definition |
|--|--|
| Intergovernmental Revenues | Revenues collected from one government on behalf of another. Examples include operating grants, entitlements, shared revenues, or payments in lieu of taxes. |
| Issuance Cost (specify debt) | Costs associated with underwriting and bond issuance. Generally these costs include legal fees, and other costs associated with bond issuance. |
| Official/Administrative Fees | Services in support of the government's various policy-making and managerial activities. Includes management consulting activities directed toward general governance or business and financial management of the government, election, and tax assessing and collecting services. |
| Other Financing Uses | Includes financial outflows classified separately from expenditures. |
| Penalties and Interest on Delinquent Taxes | Amount assessed as penalties for the payment of taxes after their due date, and the interest charge on delinquent taxes from their due date to the date of actual payment. Separate accounts should be used for penalties and interest on each type of tax (e.g., general property tax, general and selective sales, and use taxes). |
| Printing and Binding Fees | Expenditures for job printing and binding, usually according to specifications of the government. Includes designing and printing forms and posters, as well as printing and binding government publications. |
| Proceeds of General Capital Asset Dispositions | Financial inflows provided from the disposition of general capital assets (e.g., sales of buildings, compensation for loss of general capital assets). |
| Purchased Property Services | Services purchased to operate, repair, maintain, and rent property owned or used by the government. These services are performed by persons other than government employees. |
| Regulated Operations | <p>Rate actions of a regulator can result in a deferred inflow of resources being imposed on a regulated business-type activity.</p> <p>For example, a regulator can establish current rates intended to recover costs that are expected to be incurred in the future with the understanding that if those costs are not incurred, future rates will be reduced by corresponding amounts. The regulated business-type activity should not recognize the amounts charged pursuant to such rates as revenue. Those amounts should be reported as a deferred inflow of resources and recognized as revenue when the associated costs are incurred.</p> <p>A regulator can require that a gain or other reduction of net allowable costs be given to customers over future periods. If a gain or other</p> |

| Term | Definition |
|---|---|
| Regulated Operations <i>(Continued)</i> | reduction of net allowable costs is to be allocated over future periods for rate-making purposes, the regulated business-type activity should not recognize that gain or other reduction of net allowable costs in the current period. It should be reported as a deferred inflow of resources for future reductions of charges to customers that are expected to result. |
| Rentals | Costs for renting or leasing land, buildings, equipment, and vehicles. |
| Rents and Royalties | Financial resources derived from the use by others of the government's tangible and intangible assets. |
| Special Assessments | Amounts levied against certain properties to defray all or part of the cost of a specific capital improvement or service deemed to benefit those properties primarily. |
| Special Assessment Financing | Resources provided by the issuance of bond debt for which the government is obligated to defray all or part of the cost of a specific capital improvement. |
| Special Items | Significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. |
| Travel | Expenditures for transportation, meals, hotel, and other expenses associated with staff travel for the government. Payments for per diem in lieu of reimbursements for subsistence (room and board) are also charged here. |

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

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

| Term | Definition |
|-------------------------|---|
| Due From Component Unit | Amounts owed by a discretely presented component unit to a primary government as a result of goods or services provided or loans made to the discretely presented component unit. |

Examples of Deferred Outflows/Inflows

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

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

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

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

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

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

7.06 Net Position

GASB Concept Statement No. 4 defines the term net position as the residual of all elements presented in a statement of financial position. GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, as amended, introduced the Statement of Net Position for all accrual basis financial statements.

Net position is comprised of three components:

1. Net Investment In Capital Assets;
2. Restricted Net Position; and
3. Unrestricted Net Position.

Net Investment in Capital Assets

Net investment in capital assets is a component in the financial statement which summarizes the capital assets represented in the assets and liabilities. It should be calculated as follows:

$$\mathbf{NI = CAB - AD - OB}$$

NI: Net Investment in Capital Assets

CAB: Capital Asset Balance (including restricted capital assets)

AD: Accumulated Depreciation (if capital assets are not reported net)

OB: Outstanding Balances (bonds, mortgages, notes, other capital, related to debt that is attributed to acquisitions, construction, or improvement of assets)

Deferred outflows and inflows of resources that are attributable to acquisitions, construction, improved assets, or related debt should also be included in the net investment in capital assets calculation. However, unspent amounts at the end of the reporting period, such as unspent related debt proceeds or unspent deferred inflows of resources, are not included in the calculation of net investment in capital assets. The unspent amounts should be reported in the other components, restricted or unrestricted, as applicable.

All capital assets must be considered in the computation of net investment in capital assets, regardless of any restrictions. If there is no capital-related debt, the account should be labeled “Investment in Capital Assets.” When debt is issued to refund existing capital-related debt, the new issued debt should be used in the computation of net investment in capital assets. If there are significant unspent related debt proceeds or deferred inflow of resources at the end of the reporting period, the unspent amount should not be used in calculating net investment in capital assets; instead the unspent proceeds should be included in the same net asset component (restricted or unrestricted) as the unspent amount.

If a government entity issues debt to finance the capital assets of another government entity, such as a special district, this debt is not capital-related and should not reduce the net investment in capital assets of the government entity issuing the debt. If capital assets are not reported, the debt issuance should be reported in the restricted or unrestricted component of the net position, as applicable. If the amount is significant, the special district should disclose details in the notes to the financial statements.

Restricted Net Position

The following assets are examples of assets required to be reported in the Restricted Net Position account:

- Assets that are restricted for use other than current operations;
- Assets that are restricted for the acquisition or construction of noncurrent assets; and
- Assets that are restricted for sinking funds or for the liquidation of long-term debts.

The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Net position should be reported as restricted when constraints placed on net position are either:

- Externally imposed by creditors, grantors, contributions, or regulations; and/or
- Imposed constitutional provisions or enabling legislation.

Enabling legislation refers to a law that gives a special district the ability to levy taxes or otherwise raise revenues and may require the special district to use these resources for particular purposes. The special district has to distinguish such external constraints between major categories of restrictions. Details about internal commitments, however, are unrestricted components of net position and should not be displayed on the face of the statements. These restrictions are separately maintained in the management's plan for the use of resources and are not equivalent to enabling legislation.

Restricted component(s) of net position should be reduced by liabilities and deferred outflows of resources related to those assets that have already been posted. These components must be reported as restricted when constraints are placed on their use. Examples include categories such as Restricted for Capital Projects and Restricted for Debt Service, etc. No category of restricted component of net position can be negative; if related liabilities exceed those amounts, no balance should be reported. The negative amount should be reported as a reduction of the unrestricted component of the net position.

The types of situations requiring restricted assets or liabilities can vary. Examples of accounts that are restricted assets and liabilities are as follows:

- Restricted Cash for Street Improvements, which represents state gas tax apportionments/revenues for street and road improvements pursuant to California Streets and Highways Code;
- Restricted Cash for Debt Service, which represents cash from property taxes legally restricted for debt service payments on capital related general obligation bond;

- Restricted Cash for Bond Issue Capital Replacement, which represents cash set aside for capital asset replacement restricted by local ordinance);
- Accounts Payable from Restricted Assets—Bond Issue Capital Projects, which represents the balance to be paid from the unspent proceeds of the general obligation bond (Restricted Cash for Debt Service); or
- Accounts Payable from Restricted Assets—Capital Assets, which represents the balance to be paid from cash restricted for capital replacement (Accounts Payable from Restricted Assets—Bond Issue Capital Projects).

Below is an example of how restricted net position should be calculated:

| | Account | Subtotals/Totals |
|---|------------|------------------|
| Restricted Assets: | | |
| Restricted Cash for Streets Improvements | \$ 500,000 | |
| Restricted Cash for Debt Service | 800,000 | |
| Restricted Cash for Bond Issue Capital Projects | 1,200,000 | |
| Restricted Investments for Museum | 1,000,000 | |
| Subtotal – Restricted Assets | | \$ 3,500,000 |
| Less Restricted Liabilities | | |
| Accounts Payable from Restricted Assets—Streets | \$ 200,000 | |
| Accrued Interest Payable on Bonds | 300,000 | |
| General Obligation bonds Payable | 1,200,000 | |
| Subtotal – Restricted Liabilities | | \$ 1,700,000 |
| Restricted Net Position | | |
| | | \$ 1,800,000 |

The \$1,800,000 of restricted net position should be displayed on the face of the statement of net position in the following manner by category of restriction:

| Restricted Net Position | |
|---|------------|
| Restricted for street improvements | \$ 300,000 |
| Restricted Debt Service | 500,000 |
| Restricted for permanent endowment—museum | 1,000,000 |

Unrestricted Net Position

There are no specific criteria for determining when a component of the net position is unrestricted. It is a default category. If the component does not meet criteria of Net Investment in Capital Assets or Restricted, it should be reported as unrestricted. Assignments and commitments that fall under the unrestricted component of net position should not be reported on the face of the statement, but the details can be disclosed in the notes to the financial statements.

7.07 Statement of Net Position Format

| Example—Special District Statement of Net Position December 31, 2Y01 | |
|---|-----------|
| ASSETS | |
| Current Assets: | |
| Cash and Cash Equivalents | \$ |
| Investments | |
| Reserves | |
| Offset to Reserves Subtotal Cash and Investments | |
| Restricted Assets: | |
| Cash and Cash Equivalents | |
| Investments | |
| Interest Receivable | |
| Taxes Receivable | |
| Accounts Receivable | |
| Interest Receivable | |
| Notes Receivable | |
| Contracts Receivable | |
| Due from Other Governments | |
| Inventory | |
| Prepaid | |
| Other Current Assets | |
| TOTAL CURRENT ASSETS | \$ |
| Noncurrent Assets: | |
| Cash and Cash Equivalents | \$ |
| Investments | |
| Interest Receivable | |
| Capital Assets not being Depreciated: | |
| Land | |
| Construction in Progress | |
| Capital Assets being Depreciated: | |
| Equipment | |
| Intangible Assets | |
| Less: Accumulated Depreciation | |
| Other Noncurrent Assets | |
| TOTAL NONCURRENT ASSETS | \$ |
| TOTAL ASSETS | \$ |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Accumulated Decrease in Fair Value of Hedging Derivatives | \$ |
| Loss on Refunding | |
| Grants Paid in Advance | |
| TOTAL DEFERRED OUTFLOW OF RESOURCES | \$ |

| Example—Special District Statement of Net Position December 31, 2Y01 | |
|---|-----------|
| LIABILITIES | |
| Current Liabilities: | |
| Accounts/Warrants payable | \$ |
| Accrued Expenses | |
| Accrued Interest Payable | |
| Notes Payable | |
| Payable from Restricted Assets: | |
| Debt Principal/Interest | |
| Deposits and Other Payable | |
| Current Portion of Long-Term Obligations | |
| Other Current Liabilities | |
| TOTAL CURRENT LIABILITIES | \$ |
| Noncurrent Liabilities: | |
| General Obligation Bonds | \$ |
| Revenue Bonds | |
| Capital Leases | |
| Notes Payable | |
| Contracts Payable | |
| Payable from Assets: | |
| Debt Principal/Interest | |
| Deposits and Other Payables | |
| Employee Leave Benefits | |
| Net Pension Liability | |
| TOTAL NONCURRENT LIABILITIES | \$ |
| TOTAL LIABILITIES | \$ |
| DEFERRED INFLOWS OF RESOURCES | |
| Accumulated Increase in Fair Value of Hedging Derivatives | \$ |
| Service Concession Arrangement Receipts | |
| Property Taxes | |
| Advance Payments of Property Taxes | |
| Advance Payments of Special Assessments | |
| Gain on Refunding | |
| Pension Related | |
| Grants Received in Advance | |
| TOTAL DEFERRED INFLOWS OF RESOURCES | \$ |
| NET POSITION | |
| Net Investment in Capital Assets | \$ |
| Restricted for _____ | |
| Unrestricted | |
| TOTAL NET POSITION | \$ |

7.08 Balance Sheet Format

| Example—Special District Balance Sheet – Governmental Funds | |
|--|-----------|
| June 30, 2Y01 | |
| ASSETS | |
| Cash and Investments | \$ |
| Reserves | |
| Offset to Reserves | |
| Restricted Cash and Investments with Fiscal Agent | |
| Receivables: | |
| Accounts, Net | |
| Interest | |
| Other | |
| Due from Other Governmental Agencies | |
| Loans | |
| Due from Other Funds | |
| Advances to Other Funds | |
| Prepaid | |
| Other Assets | |
| Deferred Outflows | |
| TOTAL ASSETS AND DEFERRED OUTFLOWS | \$ |
| LIABILITIES | |
| Accounts Payable | \$ |
| Accrued Liabilities | |
| Refundable Deposits | |
| Due to Other Funds | |
| Advances from Other Funds | |
| Net Pension Liability | |
| Other Liabilities | |
| Deferred Inflows | |
| TOTAL LIABILITIES AND DEFERRED INFLOWS | \$ |
| NET POSITION | |
| Net Investment in Capital | \$ |
| Restricted | |
| Unrestricted | |
| TOTAL NET POSITION | \$ |
| TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION | \$ |

7.09 Chart of Accounts

Common terminology and classifications should be used throughout the budgeting, accounting, and financial reporting activities for special districts.

The list of accounts identified in the charts below is not all-inclusive. The definitions provided act as a guide for how the accounts may be used. Special districts should work with a professional accountant or an auditor when setting up their respective chart of accounts. Where they deem it appropriate, special districts should supplement these classifications with additional ones in light of local circumstances. Other accounts may be required in the preparation of financial statements.

The accounts in the charts below are numbered consecutively. The 100 series is for assets, the 200 series is for deferred outflows of resources, the 300 series is for liabilities, the 400 series is for deferred inflow of resources, the 500 series is for fund balance and net position. A special district can develop their own numbering system as long as it allows them to comply with statutory reporting requirements.

| | | Assets | |
|------------|--|--|--|
| Code | Accounts | General Definition | |
| 100 | Cash (<i>including cash equivalents</i>) | Currency, coin, checks, checking accounts, savings accounts, money orders, and bankers' drafts on hand or on deposit with the County Treasurer. May also include deposits in other types of accounts or cash management pools that have general characteristic of demand deposit accounts. | |
| 101 | Petty Cash | A sum of money set aside for making a change or paying small obligations for which the issuance of a voucher or warrant would be too expensive and time-consuming. | |
| 102 | Certificate of Deposit | A savings certificate given by a bank for the deposit of funds for a specific time. Certificates of deposit are usually negotiable and bear an interest rate greater than that for ordinary bank savings accounts. | |
| 103 | Cash with Fiscal Agent | Deposits with fiscal agents, such as commercial banks, for the payment of matured bonds and interest. | |
| 104 | Deposits with Others | Amounts placed with others as a condition precedent to a contractual offer, legal processing, or performance by a second party. An example would be a paying a security deposit for a short-term equipment lease. | |
| 105 | Accounts Receivables | The uncollected portion of earned revenues and reimbursable projects for which a receivable account has not otherwise been provided. | |

| Assets | | |
|--------|--|--|
| Code | Accounts | General Definition |
| 106 | Short-Term Notes Receivables | Notes Receivable represents claims for which format instruments of credit are issued as evidence of debt. The portion of the notes receivable which is to be received within one year. |
| 107 | Taxes Receivables | The uncollected portion of taxes that a government has levied. Typically these taxes would be collected within one financial period. |
| 108 | Other Receivables | The current portion of other receivables not otherwise accounted for. Examples include trade/non-trade receivables, interest receivable, insurance claim receivable, etc. |
| 109 | Inventory of Materials and Supplies | Materials and supplies on hand for future consumption. |
| 110 | Short-Term Investments | Securities and real estate held for the production of income in the form of interest, dividends, rentals, or lease payments. This account does not include, however, real estate used in governmental operations. This account contains any investments that a special district has made that will expire within one year. |
| 111 | Allowance for Uncollectible Accounts Receivables | That portion of accounts receivable that is estimated to be uncollectable. The balance in this account is reported as a deduction from Accounts Receivable to indicate net accounts receivable. Acts as a contra account to Accounts Receivable. |
| 112 | Prepaid Expenses | Charges entered in the accounts for benefits not yet received. Examples of prepaid items are prepaid rent, prepaid interest, and unexpired insurance premiums. |
| 113 | Restricted Asset—Current | Current assets, whose use is subject to constraints that are generally externally imposed by creditors (debt covenants), grantors, contributors, or laws through constitutional provisions or enabling legislation. |
| 114 | Other Current Assets | The current portion of other current assets not otherwise accounted for within the current asset category. |

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

| Capital Assets | | |
|----------------|---|--|
| Code | Accounts | General Definition |
| 115 | Land | The cost of land purchased or, if acquired by gift, the appraised value at the date received. Land which is part of the county road system or flood control districts is not included. |
| 116 | Buildings and Improvements | The cost or, if acquired by gift, the appraised value of all permanent buildings, structures, monuments, fences, retaining walls, pavement, sidewalks, bridges (not part of the county road system), grading and landscaping, docks and waterfront improvements, tunnels, viaducts, canals, and anything else that adds value to property. This includes the cost of fixtures attached to and forming a permanent part of buildings and improvements. It also includes the cost of improvements made by the county to leased property. |
| 117 | Accumulated Depreciation—Buildings and Improvements | The accumulation of periodic credits made to record the expiration of the estimated service life of buildings or improvements. A contra account to Buildings and Improvements. |
| 118 | Leasehold Improvements | Alterations made to rental premises in order to customize it for the specific needs of a tenant. Leasehold improvements include painting, installing partitions, changing the flooring, putting in customized light fixtures, etc. |
| 119 | Accumulated Depreciations—Leasehold Improvements | The accumulation of periodic credits made to record the expiration of the estimated service life of Leasehold Improvements. A contra account to leasehold improvements. |
| 120 | Furniture and Fixtures | Movable furniture, fixtures or other equipment that has no permanent connection to the structure of a building or utilities. |
| 121 | Accumulated Depreciation—Furniture and Fixtures | The accumulation of periodic credits made to record the expiration of the estimated service life of furniture and fixtures. Contra account to leasehold improvements. |

| Capital Assets | | |
|----------------|---|--|
| Code | Accounts | General Definition |
| 122 | Equipment | The cost or, if acquired by gift, the appraised value at the date received, of all tangible property of a permanent nature, other than land, buildings, and improvements and furniture. An example would be tractors purchased by a special district for excavation purposes. |
| 123 | Accumulated Depreciation—Equipment | The accumulation of periodic credits made to record the expiration of the estimated service life of the equipment. A contra account to equipment. |
| 124 | Infrastructure | The cost or estimated historical costs of roads, bridges, tunnels, drainage systems, water and sewer systems, dams, lighting systems, sidewalks, etc. |
| 125 | Accumulated Depreciation—Infrastructure | The accumulation of periodic credits that record the expiration of the estimated useful life of the infrastructure. A contra account to Infrastructure. |
| 126 | Construction in Progress | The cost of construction work (typically capital assets) undertaken but not yet completed. |
| 127 | Intangible Assets | These assets have a useful life which extends beyond one accounting period, however, do not have any physical substance and are non-financial in nature. Examples include cost or historical cost of easements, land use rights (water rights, timber rights), computer software, patents, and trademarks. |
| 128 | Accumulated Amortization | The accumulation of periodic credits that record the expiration of the estimated useful life of intangible assets. Typically a contra account to Intangible Assets. Note: Intangible assets that are considered to have an indefinite life should not be amortized. |
| 129 | Restricted Assets—Noncurrent | Money or other items of value received by a promised to an organization, the use of which is legally or contractually restricted. |
| 130 | Other Capital Assets | The capital assets not otherwise accounted for in any other capital asset category. (Miscellaneous capital assets grouped under one account.) |

Refer to the “Outflows/Inflows Flowchart” and the “Transaction Types That May Be Classified as Outflows/Inflows of Resources” for additional Deferred Outflows of Resources account(s).

| Deferred Outflow of Resources | | |
|-------------------------------|---|--|
| Code | Accounts | General Definition |
| 200 | Matured Bonds Payable | Un-redeemed, unpaid bonds that have passed their maturity dates. |
| 201 | Refunding of Debt (Loss) | Deferred loss from the difference between reacquisition price and net carrying amount of old debt. |
| 202 | Sale Leaseback (Loss) | Loss on the sale of property that is accompanied by a leaseback of all or any part of the property for all or part of its remaining economic life. Note: a gain would recorded as a deferred inflow. |
| 203 | Hedging Derivative Instruments | Accumulated decrease in fair value of hedging derivative instruments. |
| 204 | Government Mandated Nonexchange Transactions (Provider) | Transactions in which one special district provides resources to another special district. The provider may require the resources to be used at a certain time. Resources received or recognized as receivable before time requirements are met but, after all other eligibility requirements are met, are reported as deferred outflows. |
| 205 | Intra-Entity Transfers of Future Revenues (Transferee) | Future revenues to be recognized over the duration of the sale/transfer agreement and recorded as a deferred outflow of resources. |
| 206 | Voluntary Nonexchange Transactions (Provider) | Resources provided (before time requirements are met, but after all other eligibility requirements are met) that result from legislative or contractual agreements, other than exchanges, entered into willingly by the parties to the agreement. These resources are recorded as deferred outflow of resources by the special district providing the resources. |

| | | Liabilities | |
|------|--------------------------------------|---|--|
| Code | Accounts | General Definition | |
| 300 | Warrants Payable | The amount of warrants issued that have not yet been paid. | |
| 301 | Vouchers Payable | Liabilities for goods and services evidenced by vouchers that have been pre-audited and approved for payment but have not been paid. | |
| 302 | Accounts Payable | Amounts owed on open accounts to private persons or organizations for goods and services furnished to the county (but not including amounts owed to other funds or to other governments). | |
| 303 | Salaries and Benefits Payable | Amounts owed because of accrued salaries and benefits. | |
| 304 | Compensated Absences Payable | Amounts owed to employees for unpaid vacation and sick leave liabilities. | |
| 305 | Interest Payable | Unpaid interest on bonds that have reached or passed their maturity date. | |
| 306 | Accrued Expenses | An accounting expense recognized in the books before it is paid for. | |
| 307 | Short-Term Loan | This account is comprised of any debt incurred by a company that is due within one year. | |
| 308 | Current Maturities of Long-Term Debt | The total amount of long-term debt that is due in the next 12 months. | |
| 309 | Capitalized Lease Obligations | Current portions of the discounted present value of total future stipulated principal payments on lease-purchase agreements. | |
| 310 | Unearned Revenue | A liability for resources obtained prior to revenue recognition (revenues received before goods and services are provided). | |
| 311 | Payables from Restricted Assets | The component that indicates the amount of restricted assets of a proprietary fund in excess of noncapital borrowings and other liabilities directly associated with those restricted assets. | |
| 312 | Other Current Liabilities | Current liabilities not otherwise accounted for under any other current liabilities category. | |

| Liabilities | | |
|-------------|-------------------------------|--|
| Code | Accounts | General Definition |
| 313 | Loans | Money (debt) owed to another organization. Loans recorded in this account are long-term in nature. |
| 314 | Notes Payables | Notes Payable (other than bank notes). Long Term principal portion. Typically includes the amount of promissory notes outstanding. |
| 315 | Bonds Outstanding | Long Term principal portion of the unmatured portion of bonds sold. |
| 316 | Capitalized Lease obligations | The noncurrent unpaid principal on capital leases. |
| 317 | Other Long-Term Liabilities | A number of other long-term liabilities should be recorded, if appropriate. Included are: <ul style="list-style-type: none"> • Pension liabilities; • Worker's Compensation liability; • Other self-insurance liabilities; and • Compensated absences. |

Long-Term Liabilities owned by proprietary or fiduciary funds are accounted for through those funds. Other governmental fund long-term liabilities should be maintained in a long-term liability accounting system and maintained in sufficient detail.

| Deferred Inflows of Resources | | |
|-------------------------------|--|---|
| Code | Accounts | General Definition |
| 400 | Deposits from Others | Amounts received from others as a condition precedent to a contractual offer, a legal proceeding, or performance by the county. |
| 401 | Unavailable Revenues | Resource inflows that do not qualify for recognition as revenue in a governmental fund because they are not yet considered to be available. |
| 402 | Hedging Derivative Instruments | Accumulated increase in fair value of hedging derivative instruments/contracts (that meet the criteria of derivatives). |
| 403 | Service Concession Arrangements (Transferor) | Difference between any up-front payments or the present value of installment payments (assets) received from an operator and any contractual obligations (liabilities). |
| 404 | Sale-Leaseback (Gain) | Gain on the sale of property that is accompanied by a leaseback of all or any part of the property for all or part of its remaining economic life (Deferred Inflow of Resources). |

| Deferred Inflows of Resources | | |
|-------------------------------|--|--|
| Code | Accounts | General Definition |
| 405 | Securities Sold Under Agreement to Repurchase | Proceeds from sales of future revenues related to a repurchase agreement. |
| 406 | Refunding of Debt (Gain) | Deferred gain from the difference between reacquisition price and net carrying amount of old debt. |
| 407 | Grants (Recipient) | Grants received in advance of meeting timing requirements |
| 408 | Imposed Nonexchange Revenue Transaction | Transactions (e.g., property taxes) that result from assessments by special district on non-governmental entities. The liability is recorded if timing requirements (outlined by GASB Statement No. 33, <i>Accounting and Financial Reporting for Nonexchange transactions</i> , as amended)) are not met. |
| 409 | Government Mandated Nonexchange Transactions (Recipient) | Transactions in which one special district provides resources to another special district. The provider may require the resources to be used at a certain time. Resources received or recognized as receivable before time requirements are met but, after all other eligibility requirements are met, are reported as a deferred inflows by the recipient special district. |
| 410 | Voluntary Nonexchange Transactions (Recipient) | Resources received (before time requirements are met, but after all other eligibility requirements are met) that result from legislative or contractual agreements, other than exchanges, entered into willingly by the parties to the agreement. These resources would be recorded as deferred inflow of resources by the recipient special district. |
| 411 | Intra-Entity Transfers of Future Revenues (Transferor) | Future revenues received that are reported in the government-wide and fund financial statements and recognized as deferred inflow of resources over duration of the sale/transfer agreement. |
| 412 | Sale of Future Revenues (Transferor) | Proceeds should be reported in both the government-wide and fund financial statements as deferred inflow of resources except for instances wherein recognition as revenue in the period of sale is appropriate. |
| 413 | Loan Origination Fee (Points) | Points received by a lender in relation to a loan origination should be reported as a deferred inflow of resources and recognized as revenue in a systematic and rational manner over the duration of the related loan. |

Refer to the Outflows/Inflows Flowchart and Transaction Types That May Be Classified as Outflows/Inflows of Resources for additional Deferred Inflows of Resources account(s).

| Fund Balance / Net Position | | |
|-----------------------------|---|--|
| Code | Accounts | General Definition |
| 500 | Non-Spendable Fund Balance | Fund balance amounts that are segregated and cannot be spent because they are (a) not in spendable form (not expected to be converted to cash) or (b) legally or contractually required to be maintained intact for specific purposes and not available for financing the budget requirements. |
| 501 | Restricted Fund Balance | The amount of fund balance that is segregated for specific purposes due to constraints placed by external creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation and is not available for financing the budget requirements. |
| 502 | Committed Fund Balance | The amount of fund balance that can be used only for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority and is not available for financing the budget requirements. |
| 503 | Assigned Fund Balance | Segregation of a portion of fund balance to indicate the government's tentative plans for financial resource utilization in a future period, such as for equipment replacement. The tentative managerial plans or intent should be clearly distinguished from non-spendable, restricted, or committed fund balances. |
| 504 | Unassigned Fund Balance | That portion of the fund balance that has not been restricted, committed, or assigned to specific purposes and is available to finance the budgetary requirements. |
| 505 | Net Position—Net Investment in Capital Assets | Component of net position consisting of capital assets (including restricted capital assets), net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows and inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt should be included in this component of net position. |

| Fund Balance / Net Position | | |
|---|---------------------------|--|
| Code | Accounts | General Definition |
| 506 | Net Position—Restricted | Component of the net position consisting of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Constraints on its use are generally either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or law or regulations of governments, or (b) imposed by law through constitutional provisions or enabling legislation. |
| 507 | Net Position—Unrestricted | Component of the net position consisting of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the Net Investment in Capital Assets or the Restricted components of the net position. |
| <p>For financial reporting purposes, the following account must be reclassified to restricted, committed, or assigned fund balance depending on the special district’s spending prioritization policy.</p> | | |
| 508 | Fund Balance | The difference between the total assets and total liabilities |

Chapter 8: Cash Flow Statements

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CHAPTER 8: Cash Flow Statements

Cash Flow Overview

The scope of this chapter is to review the standards for reporting cash flows of proprietary funds and special districts involved in business-type activities.

8.01 Purpose and Focus

GASB Cod. Sec. 2450.104 (Section 2450, paragraph .104) states:

“The primary purpose of a statement of cash flows is to provide relevant information about cash receipts and cash payments of an entity during a period. When used with related disclosures and information in the other financial statements, the information a statement of cash flows provides should help financial report users assess:

- (a) an entity’s ability to generate future net cash flows;
- (b) its ability to meet its obligations as they come due;
- (c) its needs for external financing;
- (d) reasons for differences between operating income and associated cash receipts and payments and;
- (e) the effects on the ability’s financial position of both its cash and noncash investing, capital and financing transactions during the reporting period.”

As stated in GASB Cod. Sec. 2450.105 (Section 2450, paragraph .105), the statement of cash flows should explain the change in cash and cash equivalents during the applicable period, regardless of any restrictions on their use. The cash flow statement should use descriptive terms such as cash or cash and cash equivalents rather than the term funds, which has several different meanings within governmental accounting.

As defined in GASB Cod. Sec. 2450.106 (Section 2450, paragraph .106), cash equivalents are short-term, liquid investments that meet the following criteria:

- They are readily convertible to known amounts of cash; and
- They are so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Governmental Accounting Standard Board (GASB) Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* as amended, states that only investments with original maturities of three months or less meet the definition of cash equivalents.

8.02 Cash Flow Reporting

According to GASB Cod. Sec. 2450.112 (Section 2450, paragraph .112), a statement of cash flows should report cash receipts and payments and classify them as cash flows from:

- operating activities;
- noncapital financing activities;
- capital and related financing activities; or
- investing activities.

The statement of cash flows for the applicable period should report the net amount of cash provided or used in each of these four categories. Additionally, the net effect of these cash flows on cash and cash equivalents during the period should be reported in a manner that reconciles the account balances for beginning and ending cash and cash equivalents.

Cash Flow Activities

8.03 Cash Flows from Operating Activities

Cash flows from operating activities generally result from providing services and producing and delivering goods. They include all transactions and other events not defined as capital and related financing, noncapital financing, or investing activities.

Special districts reporting cash flows from operating activities should report major classes of gross cash receipts and gross cash payments (including their arithmetic sum), which represents the net cash flow from operating activities (also known as the “Direct Method”).

As stated in GASB Cod. Sec. 2450.128 (Section 2450, paragraph .128), special districts should, at a minimum, report these classes of operating cash receipts and payments separately as follows:

- Cash receipts from customers;
- Cash receipts from interfund services provided;
- Other operating cash receipts, if any;
- Cash payments to employees for services;
- Cash payments to other suppliers of goods and services;
- Cash payments for interfund services used, including payments in lieu of taxes that are payments for, and reasonably equivalent in value to, services provided; *and*
- Other operating cash payments if any.

Special districts are encouraged to provide further details of their operating cash receipts and payments, if such details may be useful.

According to GASB Cod. Sec. 2450.114 (Section 2450, paragraph .114), cash inflows from operating activities include:

- Cash inflows from sales of goods or services, including receipts from collection of accounts receivable and both short- and long-term notes receivable from customers arising from those sales.
- Cash receipts from interfund services provided.
- Cash receipts from grants for specific activities considered to be operating activities of the grantor government (A grant arrangement of this type is essentially the same as a contract for services.)
- Cash receipts from interfund reimbursements.
- All other cash receipts that do not result from transactions defined as capital and related financing, noncapital financing, or investing activities.

According to GASB Cod. Sec. 2450.115 (Section 2450, paragraph .115), cash outflows from operating activities include:

- Cash payments made to acquire materials for providing services and manufacturing goods for resale, including principal payments on accounts payable and both short- and long-term notes payable to suppliers for those materials or goods.
- Cash payments to other suppliers for other goods or services.
- Cash payments to employees for services.
- Cash payments for grants to other governments or organizations for specific activities that are considered to be operating activities of the grantor government.
- Cash payments for taxes, duties, fines, and other fees or penalties.
- Cash payments for interfund services used, including payments in lieu of taxes that are payments for, and reasonably equivalent in value to, services provided.
- All other cash payments that do not result from transactions defined as capital and related financing, noncapital financing, or investing activities.

Although loan activities are usually classified as investing activities, certain loan programs are not intended to be investments, but instead are undertaken to fulfill a governmental responsibility. These “program loans” are made and collected as part of a governmental program. For example, student loans or low-income housing mortgages are the operating activities of the governmental enterprise and therefore should be classified as operating activities.

As discussed in GASB Cod. Sec. 2450.116 (Section 2450, paragraph .116), all loans made and collected—including interest—should be considered operating cash outflows and inflows, respectively. If bonds are issued to finance the loan program, any proceeds and the subsequent debt service payments (principal and interest) should be classified as noncapital financing activities.

8.04 Cash Flows from Noncapital Financing Activities

As stated in GASB Cod. Sec. 2450.117 (Section 2450, paragraph .117), noncapital financing activities includes the borrowing of money for purposes other than to acquire, construct, or improve capital assets and repaying those amounts borrowed, including interest. Noncapital financing activities include the proceeds from all borrowings (e.g., revenue anticipation notes) not clearly attributable to the acquisition, construction, or improvement of capital assets, regardless of the form of the borrowing. Also recorded in this category are certain other interfund and intergovernmental receipts and payments.

Proceeds from all borrowings that are traceable to the acquisition, construction, or improvement of capital assets should be recorded under “Cash Flows from Capital and Related Financing Activities”.

According to GASB Cod. Sec. 2450.118 (Section 2450, paragraph .118), cash inflows from noncapital financing activities include:

- Proceeds from issuing bonds, notes and other short- long-term borrowing not clearly attributable to the acquisition, *construction*, or improvement of capital assets.
- Cash receipts from grants or subsidies. The exceptions are:
 - Those specifically restricted for capital purposes; and
 - Those for specific activities that are considered to be operating activities of the grantor government.
- Cash received from other funds. The exceptions are:
 - Those amounts that are clearly attributable to acquisition, construction, or improvement of capital assets;
 - Interfund services provided; and
 - Interfund reimbursements.
- Cash received from property and other taxes collected for the governmental enterprise and not specifically restricted for capital purposes.

According to GASB Cod. Sec. 2450.119 (Section 2450, paragraph .119), cash outflows from noncapital financing activities include:

- Repayments of amounts borrowed for purposes other than acquiring, constructing, or improving capital assets.
- Interest payments to lenders and other creditors on amounts borrowed or credit extended for purposes other than acquiring, constructing, or improving capital assets.
- Cash paid as grants or subsidies to other governments or organizations, except those for specific activities that are considered to be operating activities of the grantor government.
- Cash paid to other funds, except for interfund services used.

8.05 Cash Flows from Capital and Related Financing Activities

As stated in GASB Cod. Sec. 2450.120 (Section 2450, paragraph .120), capital and related financing. Activities include:

- Acquiring and disposing of capital assets used in providing services or producing goods;
- Borrowing money for acquiring, constructing, or improving capital assets and repaying the amounts borrowed (including interest); and
- Paying for capital assets obtained from vendors on credit.

According to GASB Cod. Sec. 2450.121 (Section 2450, paragraph .121), cash inflows from capital and related financing activities include:

- Proceeds from issuing or refunding bonds, mortgages, notes, and other short- or long-term borrowing clearly attributable to the acquisition, construction, or improvement of capital assets.
- Receipts from capital grants awarded to the governmental enterprise.
- Receipts from contributions made by other funds, other governments, and other organizations or individuals for the specific purpose of defraying the cost of acquiring, constructing, or improving capital assets.
- Receipts from sales of capital assets; also, proceeds from insurance on capital assets that are stolen or destroyed.
- Receipts from special assessments or property and other taxes levied specifically to finance the construction, acquisition, or improvement of capital assets.

According to GASB Cod. Sec. 2450.122 (Section 2450, paragraph .122), cash outflows for capital and related financing activities include:

- Payments to acquire, construct, or improve capital assets.
- Repayments or refundings of amounts borrowed specifically to acquire, construct, or improve capital assets.
- Other principal payments to vendors who have extended credit to the governmental enterprise directly for purposes of acquiring, constructing, or improving capital assets.
- Cash payments to lenders and other creditors for interest directly related to acquiring, constructing or improving capital assets.

8.06 Cash Flows from Investing Activities

As stated in GASB Cod. Sec. 2450.123 (Section 2450, paragraph .123), investing activities include making and collecting loans (except for program loans) and acquiring and disposing of debt or equity instruments.

According to GASB Cod. Sec. 2450.124 (Section 2450, paragraph .124), cash inflows from investing activities include:

- Receipts from collections of loans (except program loans) made by the governmental enterprise and sales of other entities debt instruments (other than cash equivalents) that were purchased by the governmental enterprise.
- Receipts from sales of equity instruments and from returns of investment in those instruments.
- Interest and dividends received as returns on loans (except program loans), debt instruments of other entities, equity securities, and cash management or investment pools.
- Withdrawals from investment pools that the governmental enterprise is not using as demand accounts.

According to GASB Cod. Sec. 2450.125 (Section 2450, paragraph .125), cash outflows for investing activities include:

- Disbursements for loans (except program loans) made by the governmental enterprise and payments to acquire debt instruments of other entities (other than cash equivalents).
- Payments to acquire equity instruments.
- Deposits into investment pools that the governmental enterprise is not being used as demand accounts.

Cash Flow Statement Content

8.07 Indirect Method

The Indirect Method was an option under GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, as amended, for governments when preparing their cash flow statements. However, with the release of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended, authoritative accounting standards recommend that governments use the Direct Method of presenting cash flows from operating activities (including a reconciliation of operating cash flows to operating income) when preparing their cash flow statements.

8.08 Content and Form of a Statement of Cash Flows

A statement of cash flows for the period should report net cash provided or used in the four categories as discussed in sections 8.03, 8.04, 8.05 and 8.06 of this chapter. The statement of cash flows should also show the net effect of those flows on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents. (Refer to section 8.09 of this chapter.)

The following example of the statement of cash flows is for illustrative purposes only.

| Example - Special District Statement of Cash Flows for the year ended 20Y1 | | |
|--|------------|-------------------|
| Cash flows from operating activities | | |
| Cash receipts from customers | \$ 912,000 | |
| Cash paid to suppliers for goods and services | (450,000) | |
| Cash paid to employees for services | (300,575) | |
| Claims paid | (50,000) | |
| Other operating revenues | 25,075 | |
| Interest paid | (10,000) | |
| Net cash provided by from operating activities | | \$ 126,500 |
| Cash flows from noncapital financing activities | | |
| Net borrowings (repayments) under revolving loan arrangement | (20,000) | |
| Interest paid on revolving loan | (1,500) | |
| Operating grants received | 100,000 | |
| Operating transfers-out to other funds | (75,000) | |
| Net cash provided by noncapital financing activities | | 3,500 |
| Cash flows from capital and related financing activities | | |
| Proceeds from sale of revenue bonds | 250,000 | |
| Acquisition and construction of capital assets | (350,000) | |
| Principal paid on revenue bond maturities and equipment contracts | (75,000) | |
| Interest paid on revenue bonds and equipment contracts | (33,500) | |
| Proceeds from sale of equipment | 10,000 | |
| Capital contributed by subdividers | 60,000 | |
| Net cash used for capital and related financing activities | | (138,500) |
| Cash Flows from investing activities | | |
| Purchase of investment securities | (125,000) | |
| Proceeds from sale and maturities of investment securities | 75,000 | |
| Interest and dividends on investments | 9,000 | |
| Net cash used in investing activities | | (41,000) |
| Net increase (decrease) in cash and cash equivalents | | (49,500) |
| Cash and cash equivalents at beginning of year | | 175,600 |
| Cash and cash equivalents at end of year | | \$ 126,100 |

8.09 Reconciliation

The amount reported as cash flows from operating activities in the statement of cash flows will differ from the amounts reported as operating income in the statement of revenues, expenses, and changes in net position. Governmental enterprises should provide—in an accompanying schedule—a reconciliation of operating income to net cash flow from operating activities. Per GASB Cod. Sec. 2450.104 (Section 2450, paragraph .104), this reconciliation generally provides information about the net effects of operating transactions and other events that affect operating income and operating cash flows in different periods.

According to GASB Cod. Sec. 2450.129 (Section 2450, paragraph .129), “The reconciliation should determine and report the same amount for net cash flow from operating activities indirectly by adjusting operating income to remove the effects of depreciation, amortization, and other deferred outflows of resources and deferred inflows of resources of past operating cash receipts and payments, such as changes during the period in inventory, liabilities, and the like, and all accruals of expected future operating cash receipts and payments, such as changes during the period in receivables and payables.”

The reconciliation should separately report all major classes of reconciling items. At a minimum, changes during the period in receivables pertaining to operating activities, in inventory, and in payables pertaining to operating activities should be separately reported. Governmental enterprises are encouraged to provide further detail of those categories if the detail is considered useful.

The reconciliation schedule may be presented on the same page as the statement of cash flows, if space permits, or in an accompanying schedule as previously mentioned.

Example of Reconciliation of Net Income to Net Cash Provided by Operating Activities

| Reconciliation | | |
|--|------------|--------------|
| Operating Income | | \$ 2,665,000 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | \$ 125,000 | |
| Provision for uncollectible accounts | 15,000 | |
| Changes in assets and liabilities: | | |
| Increase in accounts receivable | (155,000) | |
| Increase in deferred outflows | (50,000) | |
| Decrease in inventories | 32,000 | |
| Decrease in prepaid expenses | 34,000 | |
| Increase in accounts payable | 90,000 | |
| Increase in Net Pension Liability | (16,000) | |
| Increase in deferred revenue | 10,000 | |
| Increase in Deferred Inflows | 40,000 | |
| Total adjustments | | 125,000 |
| <i>Net cash provided by operating activities</i> | | \$ 2,790,000 |

8.10 Information about Noncash Investing, Capital, and Financing Transactions

Information about all investing, capital, and financing activities of a special district during a period that affect recognized assets or liabilities but do not result in cash receipts or cash payments in the period should be reported in a separate schedule, as recommended in GASB Cod. Sec. 2450.132 (Section 2450, paragraph .132). This information should clearly describe the cash and noncash aspects of transactions involving similar items. An example of a noncash transaction would be a special district purchasing a building by incurring a mortgage to the seller. Some transactions are part cash and part noncash; only the cash portion should be reported in the statement of cash flows.

The schedule may be presented on the same page as the statement of cash flows, if space permits, or in a separate schedule.

8.11 Traceability to the Statement of Net Position – Illustrative Examples

For the purposes of the statement of cash flows, cash must include not only amounts reported in the account on the face of the statement of net position, but also any cash included in restricted accounts. As stated in GASB Cod. Sec. 2450.105 (Section 2450, paragraph .105), the total amounts of cash and cash equivalents at the beginning and end of the period shown in the statement of cash flows should be easily traceable to similarly titled line items or subtotals shown in the statements of financial position as of those dates.

Example:

Assume that the special district reports cash of \$150 and restricted assets of \$25, which includes \$6 of cash. The preparer of the financial statement could meet the requirement of traceability in one of four ways:

- Report the portion of restricted assets that represents cash and cash equivalents as a separate line item on the statement of net position:

| | |
|--------------------|--------|
| Cash | \$ 150 |
| Restricted Assets: | |
| Cash | 6 |
| Investments | 19 |

- Report the amount of cash and cash equivalents included as part of restricted assets parenthetically on the statement of net position:

| | |
|--|--------|
| Cash | \$ 150 |
| Restricted Assets (Including \$6 Cash) | 25 |

- Report the amount of cash and cash equivalents included as part of restricted assets parenthetically on the statement of cash flows

| | |
|---|--------|
| Ending Cash (Including \$6 Included in Restricted Assets) | \$ 156 |
|---|--------|

- Provide a reconciliation on the face of the statement of cash flows

| | |
|---|--------|
| Ending Cash – Statement of Cash Flows | \$ 156 |
| Less: Amounts Reported in Restricted Assets | |
| Ending Cash – Statement of Net Position | 6 |
| | \$ 150 |

8.12 Classification of Cash Flows

| Cash Inflows | | | |
|---|--|---|---|
| <ul style="list-style-type: none"> • Cash sales of goods and services • Collections of receivables related to sales of goods and services • Collection of principal and interest on program loans • Collection of customer deposits | <ul style="list-style-type: none"> • Debt proceeds other than from capital debt (including debt used to finance program loans) • Grants available for operating purposes • Transfers available for operating purposes • Taxes available for operating purposes | <ul style="list-style-type: none"> • Capital debt proceeds • Capital grant proceeds • Capital contributions • Transfers received for capital acquisition • Proceeds of the disposition of capital assets • Proceeds of capital type special assessments • Taxes restricted for capital purposes or capital related debt services | <ul style="list-style-type: none"> • Loan collections (except for program loans) • Sales of investments • Interest received (except on program loans) • Increases in fair value of investments subject to fair value reporting and classified as cash equivalents |
| v | v | v | v |
| Cash flows from operating activities | Cash flows from noncapital financing activities | Cash flows from capital and related activities | Cash flows from investing activities |

| ^ | ^ | ^ | ^ |
|--|--|---|--|
| ^ | ^ | ^ | ^ |
| Cash Outflows | | | |
| <ul style="list-style-type: none"> • Payment to vendors • Payments to employees • Payments of benefits on behalf of employees • Liquidation of liabilities related to the provision of goods and services • Payments of taxes, duties, fines, fees, and penalties • Return of customer deposits • Program loans | <ul style="list-style-type: none"> • Debt service on debt used for other than capital or related purposes • Grants to other (including capital grants) • Transfers to other funds (including transfers for capital or related purposes) | <ul style="list-style-type: none"> • Debt service on capital related debt • Payments related to the acquisition, construction, or improvement of capital assets | <ul style="list-style-type: none"> • Loans made to others (except for program loans) • Purchase of investments • Decrease in fair value of investments subject to fair value reporting and classified as cash equivalents |

8.13 Cash Flows from Operating Activities Vs Operating Income

| Transaction | Effect on Operating Income | Effect on Cash Flows from Operating Activities | Adjustments | Elements of Reconciliation Start: Operating Income |
|---|-----------------------------------|---|--------------------------------------|--|
| Sales on credit (i.e. creation of accounts receivables) | Increase | None | Subtract to arrive at net cash flows | Subtract net increases in receivables (or add net decrease in receivables) |
| Collection of receivables | None | Increase | Add to arrive at net cash flows | |
| Incurrence of payables and other operating liabilities | Decrease | None | Add to arrive at net cash flows | Subtract net decrease in liabilities (or add net increase in liabilities) |
| Liquidation of payables and other operating liabilities | None | Decrease | Subtract to arrive at net cash flows | |
| Purchase of inventories | None | Decrease | Subtract to arrive at net cash flows | Subtract net increase in inventories (or add net decrease in inventories) |
| Consumption of inventories | Decrease | None | Add to arrive at net cash flows | |
| Depreciation expense | Decrease | None | Add to arrive at net cash flows | Add back depreciation expense and amortization expense |
| Amortization expense | Decrease | None | Add to arrive at net cash flows | |
| | | | | Finish: Net Cash Flows from Operating Activities |

8.14 Deriving Cash Flows from Operating Activities

Authoritative sources of accounting standards require cash flows from operating activities be presented by major categories of receipts and payments.

Example:

Assume that the enterprise fund for a special district reports the following statement of revenues, expenses, and changes in net position:

| | | |
|--------------------------|--------|----------|
| Operating Revenues | | |
| Charges to Customers | \$ 740 | |
| Total Operating Revenues | | \$ 740 |
| Operating Expenses: | | |
| Salaries and Benefits | \$ 600 | |
| Supplies and Materials | 90 | |
| Repairs and Maintenance | 400 | |
| Utilities | 12 | |
| Depreciation Expense | 467 | |
| Other Operating Expenses | 140 | |
| Total Operating Expenses | | \$ 1,709 |
| Operating Income/Loss | | (\$ 969) |

Depreciation expense does not affect the cash account; therefore, it can be set aside for purposes of deriving cash flows, leaving three major categories of receipts and payments that need to be approximated:

- Cash received from customers
- Cash paid to employees
- Cash paid to suppliers

Deriving the approximate amount of cash flows from customers:

| | | |
|----------------------------------|--------|---------------|
| Customers | | |
| <i>Inflows</i> | | |
| Receivable (beginning of period) | \$ 155 | |
| Revenues of Period | 740 | |
| Subtotal Inflows | | \$ 894 |
| <i>Netted Against</i> | | |
| Receivables (end of period) | | (\$ 200) |
| Net Cash Inflow | | \$ 695 |

Deriving the approximate amount of cash flows from employees:

| Employees | | |
|-------------------------------|-------|---------------|
| <i>Outflows</i> | | |
| Payable (beginning of period) | \$ 25 | |
| Expenses of Period | 600 | |
| Subtotal Outflows | | \$ 625 |
| <i>Netted Against</i> | | |
| Payable (end of period) | | (\$ 28) |
| Net Cash Outflow | | \$ 597 |

Deriving the approximate amount of cash flows from suppliers:

| Suppliers | | |
|-------------------------------|-------|-----------------|
| <i>Outflows</i> | | |
| Payable (beginning of period) | \$ 93 | |
| Expenses of Period | 1,242 | |
| Subtotal Outflows | | \$ 1,335 |
| <i>Netted Against</i> | | |
| Payable (end of period) | | (\$ 109) |
| Net Cash Outflow | | \$ 1,226 |

Based on these approximations, cash flows from operating activities could be reported as follows:

| | |
|--|-------------------|
| Cash Received from Customers | \$ 695 |
| Cash Paid to Employees | (597) |
| Cash Paid to Suppliers | (1,226) |
| Net Cash Used in Operating Activities | (\$ 1,145) |

Chapter 9: Leases

CHAPTER IN DEVELOPMENT

The following chapter is scheduled for release in a future publication of the Special District Uniform Accounting and Reporting Procedures (SPD) manual.

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Chapter 10: Liabilities

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Chapter 10: Liabilities

General Liabilities

10.01 Overview of Liabilities

Liabilities are present obligations to sacrifice resources that the government has little or no discretion to avoid. An *obligation* is a social, legal, or moral requirement, such as a duty, contract, or promise that compels one to follow or avoid a particular course of action. A major compelling factor is that the obligation is legally enforceable. The event creating the liability must have taken place and be external to the government.

10.02 Current Liabilities

Current Liabilities describe obligations whose liquidation is reasonably expected to require the use of existing resources. The classification is intended for liabilities within the current operating cycle, such as payable accounts incurred to acquire materials or services directly related to the cycle, or other short-term debts required to be expended within one year. Governmental fund liabilities and expenditures for debt service on general long-term debt, including capital leases, generally should be recognized when due—that is, to the extent that portions of the debt mature during the reporting period. Current liabilities are also intended to include obligations that are due on demand or will be due on demand within one year from the date of the financial statements.

10.03 Long-Term Liabilities

Long-term liabilities describe obligations that are not expected to be liquidated with available resources. The accounting standards that are used to determine which long-term liabilities should be presented in a special district's financial statements and how they should be presented vary depending on whether a liability is presented in governmental funds, proprietary or fiduciary funds, or the government-wide financial statements. Types of obligations found in this category include but are not limited to:

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

10.04 Fund Long-Term Liabilities versus General Long-Term Liabilities

A clear distinction should be made between fund long-term liabilities and general long-term liabilities. Some long-term liabilities should be reported in fund financial statements, while some should be reported only in the governmental activities column in the government-wide statement of net position. Bonds, notes, and other long-term liabilities directly related to and expected to be paid from proprietary funds and fiduciary funds are specific fund liabilities which should be reported in the statement of net position for those funds, even though the full faith and credit of the governmental unit may be pledged as further assurance that the liabilities will be paid.

All other unmatured long-term indebtedness of the government, including certain special assessment debt, is general long-term debt and should not be reported as liabilities in governmental funds but should be reported only in the governmental activities column in the government-wide statement of net position. Governmental liabilities must be maintained in sufficient detail in the debt accounting records to provide sufficient information for financial reporting and disclosure requirements.

Special Liability Items

10.05 Conduit Debt Obligations

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

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

For additional information, refer to GASB Interpretations Statement No. 2, *Disclosure of Conduit Debt Obligations—an interpretation of NCGA Statement 1*, as amended.

10.06 General Obligation and Revenue Bonds

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

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

10.07 Anticipation Notes

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

10.08 Special Assessment Bonds

Special assessment bonds are payable from special assessments levied against the properties benefited. Typically, property owners are responsible for paying all or portion of a special assessment debt issued to finance capital improvements. For example, a water district may assess property owners in order to improve water lines. When a special district is primarily liable for the special assessment debt, or it is “obligated in some manner” to repay the debt, the district should report the debt.

GASB Statement No.6, *Accounting and Financial Reporting for Special Assessments*, as amended, states that a governmental unit is obligated in some manner to pay special assessment debt if one of the following two characteristics exist:

- The government unit is legally obligated to assume all or part of the special assessment debt if property owners default; or
- The government unit, although not required to do so, may assume secondary responsibility for all part of the special assessment debt, and the governmental unit has either taken such action in the past or indicated that it will take such action.

If a special district is obligated to pay a portion of the special assessment debt, the portion should be reported as general long-term debt only in the government-wide statement of net position, except for any portion that is a direct obligation of a proprietary fund. The debt should also be disclosed as applies to long-term liabilities in the Notes to Financial Statements and should describe the nature of the government’s obligation, including the identification and description of any guarantee, reserve, or sinking fund established to cover defaults by property owners. The notes should also disclose the amount of special assessment receivables that are delinquent if not separately displayed on the face of the financial statements. If a special district has no obligation to pay the special assessment debt, then the special assessment does not have to report it as an obligation and it is not reported in the financial statements.

10.09 Certificates of Participation (COPs)

A COP is a form of long-term asset transfer obligation that is securitized by future lease payments by the special district, rather than by the full faith or credit of the special district. The lease payments arise by virtue of a sale-leaseback arrangement, which is an integral part of the financing. GASB Interpretation No. 2 defines third party COPs as a form of conduit debt obligation requiring disclosure in the notes to the financial statements.

10.10 Demand Bonds

As addressed by GASB Interpretations Statement No. 1, *Demand Bonds Issued and Local Governmental Entities—an interpretation of NCGA Statement 1*, as amended, and NCGA Interpretation 9, as amended; demand bonds have demand provisions, exercisable at the balance sheet date or within one year of the balance sheet date, where the bond holder has the right to redeem the bond within a certain time period. In some instances, the demand provisions are exercisable immediately.

Refer to GASB Interpretations Statement No. 1, as amended, to review the (1) disclosure requirements on financial statements for demand bonds and (2) criteria that must be met before demand bonds are reported as general long-term liabilities.

General Accounting Considerations

10.11 Accounting for Debt Service Funds

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

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as amended, defines debt service funds as those funds that are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should be used to report resources if doing so is legally mandated, and when financial resources are being accumulated for principal and interest maturing in future years.

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

Because debt service funds are a type of governmental fund, they are accounted for on a current financial resources measurement focus and use the modified accrual basis of accounting in the fund financial statements. Debt service spending usually requires the approval of the operating budget and governing board approval of bond documents. Such spending is controlled primarily through bond indenture provisions. Debt service payments are usually accounted for as expenditures in year of payment.

Refer to section 10.15, *In-Substance Defeasance of Debt*, and GASB Statement No. 6, as amended, for more details on the expenditure recognition criteria for debt service payments. Revenues such as property taxes or sales taxes that are restricted to debt service on general long-term debt are generally reported in the debt service fund, but legal statutes may require tax revenues to be recorded in the general fund before being transferred to the debt service fund.

10.12 Accounting for Debt Proceeds, Issuance Costs, Premiums and Discounts

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

Since governmental funds use the modified accrual basis of accounting, the proceeds of debt issuance are recorded in governmental funds (e.g., capital project fund) as other financing sources and not as a liability. The face amount is recorded as long-term debt issued, the premium as premium on long-term debt. The debt issuance costs, other than prepaid insurance, is reported as an expenditure in the period incurred, while the unmatured bond premium or discount is amortized on the government-wide financial statements. Examples of accounting entries are presented in the exhibit at the end of this chapter. Long-term debt issuance proceeds of proprietary funds and trust funds should be accounted for as fund liabilities in the fund financial statements with the unmatured bond premium or discount is amortized over the life of the debt. When bond proceeds are invested prior to their use, the earnings are applied toward debt service, unless some other disposition was prescribed in the bond indenture or the proposition approved by the electorate.

10.13 Accounting for Debt Repayments in Governmental Funds

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

10.14 Refunding of Debt

Refundings involve the issuance of new debt whose proceeds are used to repay previously issued (i.e., old) debt. The new debt may be used to repay the old debt immediately (a *current refunding*), or they may be placed with an escrow agent to repay the debt at a future time (an *advance refunding*).

A *legal defeasance* occurs when the debt is legally satisfied based on provisions in the debt instrument even though it is not actually paid. An *in-substance defeasance* occurs when a legal defeasance has not occurred but is considered defeased for accounting and financial reporting purpose (refer to section 10.15).

Advance refunding of governmental fund debt reported in the debt accounting records are accounted for as follows:

- The receipt of proceeds of the new debt should be reported in the Other Financing Sources—Refunding Bonds account.
- Payments to the escrow agent from the new debt should be reported in the Other Financing Use—Payment to Refunded Bond Escrow Agent account. Payments to the escrow agent made from other resources of the entity should be reported as debt service expenditures.
- The debt accounting records should be adjusted for the increase or decrease in the amount of long-term debt; or
- Appropriate allocations should be made when one large refunding issue is used to refund debt of various fund classifications.

All governmental entities that defease debt through an advance refunding should also provide a general description of the transaction in the notes to the financial statements. Disclosures should include (a) the difference between the cash flows required to service the old debt and the cash flows required to service the new debt and complete the refunding, and (b) the economic gain or loss that arises from the transaction, as defined by GASB Cod. Sec. D20.114 (Section D20, paragraph .114).

GASB Statement No. 23, *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities*, as amended, provides guidance for debt refunding in proprietary funds. For current refundings and advance refundings resulting from a defeasance of debt reported by proprietary funds, the difference between the reacquisition price and net carrying amount of old debt should be reported as a deferred outflow of resource or a deferred inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of new the debt, whichever is shorter.

10.15 In-Substance Defeasance of Debt

GASB Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt*, as amended, defines debt to be defeased in substance, for accounting and financial reporting purposes, if the debtor irrevocably places cash or other assets in an essentially risk-free trust to be used solely for satisfying payments of both interest and principal of the defeased debt, and the possibility that the debtor will be required to make future payments on that debt is remote. To be considered risk-free, the monetary assets are generally limited to obligations guaranteed by the U.S government. This deposit must provide sufficient cash flows in order to guarantee timely payment of the defeasance of debt's principal and interest as scheduled.

When debt is defeased in substance, it is no longer reported as a liability on the face of the financial statements when using the economic resources measurement focus. The amount of the debt outstanding at period-end should still be disclosed by fund type and account group in the notes to the financial statements. For financial statements using the current financial resources measurement focus, payments to the escrow agent from existing resources should be reported as debt service expenditures, as defined in GASB Codification D20.121 through D20.128 (Section D20, paragraphs 121–128).

The outflow of assets to a trustee or fiscal agent to defease the debt should be presented in the Cash Flows Statements in the same category as the debt service payments on the old debt to the extent that the amount does not exceed the existing debt.

Exhibits

E10.01 Debt Accounting

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

| |
|-----------------|
| <i>No Entry</i> |
|-----------------|

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

| <i>Governmental Fund</i> | | |
|---|--------------|--------------|
| Account | Debit | Credit |
| Cash | \$ 2,027,500 | |
| Debt Issuance Expenditure | 22,500 | |
| Other Financing Sources - Bonds Issued | | \$ 2,000,000 |
| Other Financing Sources - Premium on Bonds Issued | | 50,000 |

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

- c) On December 15, the first installment of 2Y01–2Y02 secured taxes is apportioned (note that the tax revenues may be required to pass through the general fund prior to transfer to the debt service fund):

| <i>Debt Service Fund</i> | | |
|-----------------------------|------------|------------|
| Account | Debit | Credit |
| Cash – Debt Service Reserve | \$ 125,000 | |
| Tax Revenues | | \$ 125,000 |

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

| <i>Debt Service Fund</i> | | |
|-------------------------------|------------|------------|
| Account | Debit | Credit |
| Expenditures — Interest | \$ 100,000 | |
| Expenditures — Bond Principal | 100,000 | |
| Cash – Debt Service Reserve | | \$ 200,000 |

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

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

| <i>Debt Service Fund</i> | | |
|--------------------------|------------|------------|
| Account | Debit | Credit |
| Cash | \$ 130,000 | |
| Tax Revenue | | \$ 130,000 |

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Chapter 11: Special Assessment Accounting

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Chapter 11: Special Assessment Accounting

Introduction

According to GASB Cod. Sec. S40.102 (Section S40, paragraph .102), special districts provide some capital improvements or services primarily to benefit a particular property owner or group of property owners rather than the general citizenry. The property owners will typically initiative these capital improvements or services—that is to say, the project is authorized by a special assessment petition signed by a majority of the property owners who will benefit from the proposed project. The local government then acts on behalf of those property owners by organizing a special assessment district to perform the project—that includes:

- provide or arrange *project* financing;
- *approval of projects*;
- *overseeing the progress and completion of a project*; and
- collecting assessments to pay any debt incurred to finance the project.

As discussed in GASB Cod. Sec. S40.103 (Section S40, paragraph .103), the costs of providing the capital improvement or services described in the paragraph above will be either partially or totally charged to the property owners who receive the benefit. Sometimes the local government assumes a portion of the cost of an improvement, either by incurring debt or by using other available resources, in recognition of a “public benefit” that also results from the project.

All special districts should consult with their respective legal counsel for further clarification on statutory provisions relating to special assessments.

California Constitution Article XIID, section two, defines an assessment as “any levy or charge upon real property by an agency for a special benefit conferred upon the real property. Assessment includes, but is not limited to, special assessment, benefit assessment, maintenance assessment, and special assessment tax.” Typically, special districts can use special assessments to pay for public works like sewers, parks, water systems and some services. Proposition 218 (1996) requires all local governments, including special districts, to get weighted ballot approval from property owners before levying any assessments.

According to Government Code section 56036, the terms *District* or *Special District* are synonymous and include county service areas, but excludes assessment districts and special assessment districts (refer to Gov. Code, §56306(b) for a complete list of excluded district types).

Types of Special Assessments

11.01 Service Assessments

As stated in GASB Cod. Sec. S40.104 (Section S40, paragraph .104), “service-type special assessment projects are for operating activities and do not result in the purchase or construction of capital assets. Usually the assessments are for services that are normally provided to the public as general governmental functions and would otherwise be financed by the general fund or a special revenue fund.”

Examples of such services include street lighting, street cleaning and snow plowing. The financing for these routine services usually comes from general revenues. However, if the special district provided these routine services to property owners outside the normal service area of the district, or are provided at a higher level or at more frequent intervals than for the general public, then special assessments are sometimes levied. Only the owners of the affected properties would be charged for the additional services.

11.02 Capital Improvement Assessments

As discussed in GASB Cod. Sec. S40.105 (Section S40, paragraph .105), “special assessment projects are usually capital in nature and enhance the utility, accessibility, or aesthetic value of the affected properties. Examples of typical special assessment capital improvements include construction or improvement of streets, sidewalks, parking facilities, and curbs and gutters.”

According to GASB Cod. Sec. S40.106 (Section S40, paragraph .106), capital improvement special assessment projects have two distinct and functionally different phases. The initial phase is comprised of the financing and construction of the project, which in most cases is relatively short in duration—a few months to a year or two. The second phase, which is usually substantially longer, consists of collecting the assessment principal and interest levied against the benefited properties and the repayment of the cost of financing the construction.

Special districts typically issue long-term debt (e.g., bonds) to finance capital improvement projects and secure these debts by placing a lien on the assessed properties of the beneficiaries as discussed in GASB Cod. Sec. S40.107-108 (Section S40, paragraph .107-.108). The primary source of repayment of these debts is usually the assessments collected by the special district. However, a special district may sometimes choose to finance the debt by partially using its own funds (e.g. capital grants, or, tax revenues) and partially from assessments collected.

Accounting and Reporting For Special Assessments

Special districts are encouraged to modify their accounting systems so that they can account for the revenues and expenditures/expenses related to special assessment projects; this would also include the recording of bond proceeds and payments. For example, if a special district issues bonds to finance a capital project under the Municipal Improvement of 1913 (SHC. Code, §10602), the bond proceeds are required to be deposited into a special fund established for the purposes of the capital improvement project.

11.03 Special Assessment Debt

As previously noted in this chapter, special assessment debt can be repaid by more than one method. According to GASB Cod. Sec. S40.110 (Section S40, paragraph .110), “the primary source for repayment of special assessment debt is assessments against benefiting property owners. However, because the government is often directly responsible for paying a portion of the project cost, either as a public benefit or as a property owner benefiting from the improvement, general governmental resources repay the portion of the debt related to the government’s share of the project cost.” In short, the type and structure of debt associated with special assessment-related capital improvements can vary considerably from one jurisdiction to another.

As stated in GASB Cod. Sec. S40.112 (Section S40, paragraph .112), “capital improvements involving special assessments may be financed by debt that is:

- A. General obligation debt that is not secured by liens on assessed properties but nevertheless will be repaid in part by special assessment collections.
- B. Special assessment debt that is secured by liens on assessed properties and is also backed by the full faith and credit of the government as additional security.
- C. Special assessment debt that is secured by liens on assessed properties and is not backed by the full faith and credit of the government but is, however, fully or partially backed by some other type of general governmental commitment.
- D. Special assessment debt that is secured by liens on assessed properties, is not backed by the full faith and credit of the government, and is not backed by any other type of general governmental commitment; the government is not liable under any circumstance for the repayment of this category of debt, should the property owner default.”

11.04 Funding Reporting Requirements

As discussed in GASB Cod. Sec. S40.113 (Section S40, paragraph .113), the special assessment *fund type*, as identified in NCGA Statement 1, Governmental Accounting and Financial Reporting Principles, should not be used in basic financial statements to report the construction of public improvements or the provision of services financed by special assessments, unless there is a legal requirement. To satisfy any such legal requirements, a special district can maintain special revenue, capital projects, and debt service funds for individual special assessment projects or separately identify special assessment transactions and accounts within the other funds.

If these accounting and reporting methods do not satisfy the legal requirement, additional schedules and narrative explanations may be presented in the notes to the basic financial statements, in the comprehensive annual financial report (CAFR), or in separate special purpose reports. This would be in accordance with the guidance presented in GASB Cod. Sec. 1200.113 (Section 1200, paragraph .113).

11.05 Reporting Service-type Special Assessments

In the fund financial statements, the transactions of a service-type special assessment should be reported in the fund type that best reflects the nature of the transactions, usually the general fund, a special revenue fund, or an enterprise fund, according to GASB Cod. Sec. S40.114 (Section S40, paragraph .114).

Only the minimum number of funds consistent with legal and administrative requirements should be established by the special district [refer to GASB Cod. Sec. 1100.104 (Section 1100, paragraph .104)].

GASB Cod. Sec. S40.114 (Section S40, paragraph .114) further states “that service-type special assessments transactions (exchange or exchange-like) including related expenditures (expenses) should be recognized on the same basis of accounting as that normally used for that fund type. Both the assessment revenues and the expenditures (expenses) for which the assessments were levied should be recognized on the same basis of accounting as that normally used for that fund type. In the government-wide financial statements, exchange or exchange-like service type special assessments should be reported as either governmental or business-type activities using the accrual basis of accounting.”

As discussed in GASB Cod. Sec. S40.114 (Section S40, paragraph .114), “revenues from service-type special assessment transactions that are nonexchange transactions, as defined in GASB Cod. Sec. N50, (Section N50) should be reported in accordance with the provisions of that section.”

11.06 Reporting Capital Improvement Special Assessments

According to GASB Cod. Sec. S40.115 (Section S40, paragraph .115), “the extent of a government’s liability for a debt related to a special assessment capital improvement can vary significantly. For example, a government may be primarily liable for the debt, it may have no liability whatsoever, or it may be obligated in some manner to provide a secondary source of funds for repayment of the debt in the event of default by the assessed property owners.

A government is obligated in some manner for special assessment debt if (a) it is legally obligated to assume all or part of the debt in the event of default or (b) the government may take certain actions to assume secondary liability for all or part of the debt—and the government takes, or gives indications that it will take, those actions.

As discussed in GASB Cod. Sec. S40.115 (Section S40, paragraph .115), the conditions that indicate that a government is obligated in some manner include:

- a. The government is obligated to honor deficiencies to the extent that lien foreclosure proceeds are insufficient.
- b. The government is required to establish a reserve, guarantee, or sinking fund with other resources. If a fund is established, GASB Cod. Sec. 1300.107 (Section 1300, paragraph .107) requires those transactions and balances to be reported in a debt service fund.

- c. The government is required to cover delinquencies with other resources until foreclosure proceeds are received.
- d. The government must purchase all properties ("sold" for delinquent assessments) that were not sold at public auction.
- e. The government is authorized to establish a reserve, guarantee, or sinking fund, and it establishes such a fund. If a fund is not established, the considerations in subparagraphs "g" and "h" may nevertheless provide evidence that the government is obligated in some manner. If a fund is established, GASB Cod. Sec. 1300.107 (Section 1300, paragraph .107) requires those transactions and balances to be reported in a debt service fund.
- f. The special district may establish a separate fund with other resources for the purpose of purchasing or redeeming special assessment debt, and it establishes such a fund. If a fund is not established, the considerations in subparagraphs "g" and "h" may nevertheless provide evidence that the government is obligated in some manner.
- g. The government explicitly indicates by contract, such as the bond agreement or offering statement, that in the event of default it may cover delinquencies, although it has no legal obligation to do so.
- h. Legal decisions within the state or previous actions by the government related to defaults on other special assessment projects make it probable that the government will assume responsibility for the debt in the event of default.

Simply put, the phrase "*obligated in some manner*" as used in this section is intended to include all situations other than those in which:

- a. The government is prohibited (by constitution, charter, statute, ordinance, or contract) from assuming the debt in the event of default by the property owner; or
- b. The government is not legally liable for assuming the debt and makes no statement, or gives no indication, that it will, or may, honor the debt in the event of default".

As stated in GASB Cod. Sec. S40.116 (Section S40, paragraph .116), “debt issued to finance capital projects that will be paid wholly or partly from special assessments against benefited property owners should be reported as follows:

- a. General obligation debt that will be repaid, in part from special assessments should be reported as general long-term liabilities only in the governmental activities column in the government-wide statement of net position.
- b. Special assessment debt for which the government is obligated in some manner as described in GASB Cod. Sec. S40.115 (Section S40, paragraph .115) should be reported as general long-term liabilities in the government-wide statement of net position, except for the portion, if any, that is a direct obligation of a proprietary fund, or that is expected to be repaid from operating revenues of a proprietary fund.
 - (1) The portion of the special assessment debt that will be repaid from property owner assessments should be reported as "special assessment debt with governmental commitment."
 - (2) The portion of special assessment debt that will be repaid from general resources of the government (the public benefit portion or the amount assessed against government-owned property) should be reported like other general long-term liabilities.
 - (3) The portion of special assessment debt that is (a) a direct obligation of a proprietary fund or (b) not a direct obligation but is expected to be repaid from proprietary fund revenues should be reported as liabilities of those funds in the proprietary fund statement of net position as well as in the government-wide statement of net position.
- c. Special assessment debt for which the government is not obligated in any manner should not be displayed in the government’s financial statements. However, if the government is liable for a portion of that debt (the public benefit portion, or as a property owner), that portion should be reported as above.
- d. If a governmental entity is obligated in some manner for capital improvement special assessment debt, as discussed in GASB Cod. Sec. S40.115 (Section S40, paragraph .115), capital assets constructed or acquired with capital improvement special assessment debt should be reported in the government-wide financial statements as capital assets of either governmental or business-type activities in the statement of net position.”

11.07 Capital Improvements Financing—Governmental Funds

According to GASB Cod. Sec. S40.118 (Section S40, paragraph .118), if the government is not obligated in some manner to assume the payment of related debt service in the event of default by the property owners, as described in GASB Cod. Sec. S40.115 (Section S40, paragraph .115), then:

- “All expenditure should be reported in the same manner as any other capital improvement and financing transaction. Revenue from special assessment capital improvement transactions that are exchange or exchange-like transactions and related expenditures should be recognized on the accrual basis of accounting.
- Transactions of the construction phase of the project should be reported in a capital projects fund or other appropriate fund. Transactions of the debt service phase should be reported in a debt service fund, if the use of a debt service fund is required by the guidance in GASB Cod. Sec. 1300.107 (Section 1300, paragraph .107). At the time of levy, receivables related to special assessments should be recognized and should be offset by a deferred inflow of resources. As the assessments become measurable and available, the deferred inflow of resources should be adjusted accordingly.
- The capital assets constructed or acquired (other than those related to proprietary funds—refer to section 11.09 of this chapter) should be reported as general capital assets only in the governmental activities column in the government-wide statement of net position, as stated in GASB Cod. Sec. 1400.101 (Section 1400, paragraph .101).
- The outstanding long-term debt should be reported as general long-term liabilities only in the governmental activities column in the government-wide statement of net position in according to the provisions outlined in section 11.07 of this chapter.”

According to GASB Cod. Sec. S40.119 (Section S40, paragraph .119), if the government is not obligated in any manner for a special assessment issue then:

- The debt service transactions should be reported in an agency fund in the statement of fiduciary net position rather than a debt service fund. In this instance the government’s duties are limited to acting as an agent for the assessed property owners and the bondholders.
- Transactions of the construction phase should be reported in a capital projects fund, or other appropriate fund. The source of funds in the capital projects fund should be identified by a description other than “bond proceeds,” such as "contribution from property owners."
- The capital assets constructed or acquired should be reported only as general capital assets in the governmental activities column in the government-wide statement of net position. Displaying the transactions in this manner recognizes that the construction or acquisition is a governmental activity and results in the addition of a general capital asset, but is not financed by governmental debt.

As stated in GASB Cod. Sec. S40.120 (Section S40, paragraph .120), “if an improvement is initially financed with existing governmental fund resources rather than with debt, either a direct capital expenditure or a transfer to a capital projects fund should be reported. At the time of the levy, special assessments receivable in the amount of the levy—and a deferred inflow of resources equal to the amount that is not measureable and available—should be recognized in the fund that provides the resources.”

11.08 Capital Improvements Financing—Proprietary Funds

According to GASB Cod. Sec. S40.121 (Section S40, paragraph .121), “if a governmental entity is obligated in some manner for capital improvement special assessment debt and that debt is directly related to and expected to be paid from proprietary funds, all transactions related to capital improvements financed by special assessments should be reported in the same manner, and on the same basis of accounting, as any other capital improvement and financing transaction reported in proprietary funds. Special assessment revenue and receivables should be recognized on the accrual basis of accounting.”

Generally, the provisions of GASB Cod. Sec. S40.115 (Section S40, paragraph .115)—refer to section 11.07 of this chapter—should be followed even when the capital improvements financed by special assessments provide capital assets to a government’s enterprise fund, as discussed in GASB Cod. Sec. S40.122 (Section S40, paragraph .122). However, the cost of the improvements should be capitalized on the enterprise fund’s statement of financial position and an equal amount should be reported as capital contributions after nonoperating revenues and expenses in the statement of revenues, expenses and changes in fund net position.

As stated in GASB Cod. Sec. S40.123 (Section S40, paragraph .123), “only that portion, if any, of special assessment debt that is a direct obligation of the proprietary fund, or is not a direct obligation but is expected to be repaid from proprietary fund revenues, should be reported as a liability on the proprietary fund’s statement of net position. However, this does not prohibit a governmental entity from reporting all of the transactions and balances of a special assessment project within a proprietary fund to properly reflect the actual administration of a project.”

11.09 Capital Improvements Financing—Government-wide Financial Statements

As discussed in GASB Cod. Sec. S40.124 (Section S40, paragraph .124), if a governmental entity is obligated in some manner for capital improvement special assessment debt—as outlined in section 11.07 of this chapter, and the provisions of GASB Cod. Sec. S40.115 (Section S40, paragraph .115) “capital assets constructed or acquired with capital improvement special assessment debt should be reported as capital assets of either governmental or business-type activities in the government-wide statement of net position. Special assessment revenues and receivables should be recognized using the accrual basis of accounting.”

According to GASB Cod. Sec. S40.125 (Section S40, paragraph .125), “if a governmental entity is not obligated in any manner for special assessment debt, program revenue equal to the amount capitalized—along with other grants or contributions restricted for capital purposes—should be reported in the statement of activities using the accrual basis of accounting.”

11.10 Required Disclosures (Including Special Assessment Districts as Components Units)

According to GASB Cod. Sec. S40.126 (Section S40, paragraph .126), if the government is obligated in some manner for special assessment debt, the notes to financial statements should disclose the information required in the provisions of GASB Cod. Sec. 2300 (Section 2300), as it applies to long-term debt. The notes should describe the nature of the government's obligation, including the identification and description of any guarantee, reserve, or sinking fund established to cover defaults by property owners. Additionally, the notes should also disclose the amount of special assessment receivables that are delinquent if not separately displayed on the face of the financial statements.

Following are some examples of disclosures that should be included in the notes:

- Nature of the special districts obligation for the special assessment debt.
- Descriptions of special assessment debt issues faced by the special district.
- Summary of debt service requirements to maturity.
- Special assessment debt authorized but unissued.
- Changes in general long-term debt (the portion for which the governmental entity is responsible.

As discussed in GASB Cod. Sec. S40.127 (Section S40, paragraph .127), if the government is not obligated in any manner for special assessment debt, then the notes to the financial statements should disclose the amount of the debt. Furthermore, the notes should also include the fact that the government is not liable in any way for repayment but is only acting as an agent for the property owners in collecting the assessments, forwarding the collections to bondholders, and—if appropriate—initiating foreclosure proceedings.

Some special assessment districts constitute component units, as stated in GASB Cod. Sec.S40.128 (Section S40, paragraph .128), “The accounts of those units, including the special assessment debt for which the component unit is obligated in some manner, should be included in the reporting entity in accordance with the provisions of GASB Cod. Sec. 2600 (Section 2600), even though the primary government may have no obligation for the debt.”

Special Assessments Related Laws

California has a variety of assessment laws. Following is a (not all-inclusive list) of some of the more commonly used assessment laws. As previously stated, special districts should refer to their respective legal counsel when interpreting the requirements of these statutory provisions.

Benefit Assessment Act of 1982 (Government Code section 54703 et seq.). Allows local governments to finance property related services through the imposition of an assessment upon those properties which benefit from those services.

Fire Suppression Assessments (Government Code section 50078 et seq.). Allows local agencies which provide fire suppression services directly or by contract with the state or a local agency to—by ordinance or by resolution adopted after notice and hearing—determine and levy an assessment for fire suppression services pursuant to this article. The assessment may be made for the purpose of obtaining, furnishing, operating, and maintaining fire suppression equipment or for the purpose of paying the salaries and benefits of firefighting personnel.

Improvement Act of 1911 (Streets and Highway Code 5000 et seq.). Allows local governments to fund various types of projects such as transportation systems, street paving, parks, recreation areas and sewers, drainage systems, etc.

Improvement Bond Act of 1915 (Streets and Highway Code 8500 et seq.). This act is not an assessment act. It allows local governments to issue assessment bonds or anticipation notes when using other assessment acts such as the Improvement Act of 1911.

Landscaping and Lighting Act of 1972 (Streets and Highway Code section 22500 et seq.). Allows local agencies to levy assessments for improvements and maintenance for parks, recreational areas and public lighting facilities.

Municipal Improvement Act of 1913 (Streets and Highway Code section 10000 et seq.). Allows local governments to levy assessments for a variety of improvements, which include improvements related to water, electric power, gas services, necessary works and appliances for lighting purposes.

Chapter 12: Capital Assets

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Chapter 12: Capital Assets

Capital Asset Accounting

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

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

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

The term capital assets includes land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and have useful lives beyond a single reporting period.

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

Capital assets of proprietary funds should be reported in both the government-wide and fund financial statements. Capital assets of fiduciary funds and similar component units should be reported in the statement of fiduciary net position. All other capital assets of the governmental unit are general capital assets and should not be reported as assets in governmental funds, but instead should be reported in the governmental activities column in the government-wide statement of net position.

12.01 General Capital Assets

General capital assets represent past expenditures, not financial resources available to finance current governmental activities. General capital assets are associated with, and generally arise from, governmental activities. Purchases of general capital assets are typically charged as expenditures, commonly known as capital outlays, in the fund from which purchased and are capitalized at cost in the capital assets accounting system.

In addition to outright purchases, the capital assets accounting system may include general assets acquired by the following methods:

Leases—Acquired through non-cancellable leases.

Construction—Recorded at the related governmental fund expenditures.

Eminent Domain—Recorded the amount awarded to property owners.

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

General capital assets acquired by tax or special assessment foreclosure, which are to be resold in the near future, are accounted for in the governmental fund to which the taxes or assessments are owed.

Reporting infrastructure as individual capital assets is optional (e.g., roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, lighting systems and similar assets that are immovable and of value only to the governmental unit).

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

12.02 Land

Land includes the investment in real estate other than:

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

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

12.03 Buildings and Improvements

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

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

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

12.04 Equipment

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

Relatively permanent is generally defined as a useful life of one year and longer.

Significant value is generally defined as a minimum value of \$100 to \$5,000 as established by the fiscal officer or governing body of the special district and/or a special districts capitalization policy.

The cost test may be applied in some instances to aggregates of units of similar type or purpose, such as blocks of folding chairs, shelving, and filing drawers, rather than to the unit itself.

12.05 Intangible Assets

As defined in GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, as amended, intangible assets are assets that lack physical substance, are nonfinancial in nature (not in a monetary form), and have a useful life extending beyond a single reporting period. Examples include easements, water rights, computer software, copyrights, patents, intellectual property, goodwill, privileges and other intangible property necessary or valuable in the conduct of operations.

Easements are land or any interest in land acquired for the purpose of public or private rights-of-use and passage (including persons, vehicles, and heavy equipment). Easement rights also include erecting, laying, placing, and maintaining drains, ditches, pipes, and transmission lines or wires for the conveyance, transmission, or transportation of water and electric power or for any other purpose necessary for the construction, operation, and maintenance of the project or undertaking.

Internally Generated Intangibles

According to GASB Statement No. 51, as amended, specified conditions must be present in order to recognize internally generated intangibles (i.e., computer software). Capitalization of costs begins after all of the following criteria are met:

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

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

12.06 Treatment of Costs Subsequent to Acquisition

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

- *Maintenance*—generally regarded as expenditures that neither materially add to the value of the property nor appreciably prolong its life, but merely keep it in an ordinarily efficient operating condition. Maintenance costs typically not be capitalized; or
- *Capitalized Expenditures*—generally regarded as expenditures that materially add to the value of the asset or appreciably extend its life. The cost of capitalized expenditures should be added to the book value of the asset where the original cost of a component being improved can be specifically identified. The remaining book value should be written off and the new cost capitalized. Capitalized expenditures are on occasion referred to as betterments.

The decision as to whether expenditures should be capitalized should be made by an evaluation of engineering, physical, or other relevant factors apart from cost.

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

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

12.07 Capitalization Policy

A special district may establish a capitalization policy to determine which assets are to be treated as capital assets (including general capital assets). The general rule is that if an asset has a cost of at least \$5,000, the asset should be capitalized. When it comes to a group of assets (such as 100 computers), the general rule of materiality should apply. Expensing assets is acceptable provided the financial statements are not materially misstated.

Valuation

12.08 Valuation Basis

As a general rule, capital assets should be accounted for at cost or at an estimated cost at the time the capital asset is acquired, if cost is not practically determinable. Donated capital assets should be recorded at their estimated fair market value at the time received.

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

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

Standard Costing—The cost that other governments may have paid for a similar asset; or

Normal Costing—The cost to acquire the normal asset today and then using a price index to adjust the cost of the asset to the amount the asset would have cost in the year the asset was actually acquired.

12.09 Land Cost

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

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

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

12.10 Structure and Improvement Costs

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

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

The cost should be reduced for:

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

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

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

12.11 Equipment Cost

The cost of equipment includes:

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

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

12.12 Construction by Force Account

Capital assets constructed by special districts are recorded in the same manner as those acquired by purchase or construction contract.

Costs are initially charged to the accounts of the cost center performing the construction and are then transferred to the project. These costs include direct labor, materials, equipment usage, and overhead. Overhead is limited to those items—such as worker’s compensation and employee group insurance premiums, retirement, sick leave, and vacation allowances—that can be distributed on the basis of direct labor. Administrative overhead outside of the cost center may be capitalized when clearly related to the construction.

12.13 Donated Assets

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

12.14 Assets Acquired Under Lease Purchase Agreements

Lease contracts convey the property to another for a specific period of time for a specified rent. Lease contracts are accounted for either by the operating method, under which periodic payments are charged as expenditures, or by the financing method, under which the payments are treated as debt service.

12.15 Transfers to Proprietary Funds

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

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

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

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

12.16 Capital Assets Accounting System

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

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

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

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

12.17 Construction in Progress

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

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

12.18 Disposition of Capital Assets

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

12.19 Identification of Equipment

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

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

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

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

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

Judgment must be exercised as to which equipment is best left unnumbered. It is possible that no single method of numbering will prove adequate, and several methods may be necessary depending on the surface, composition, and usage of the item. Standardization regarding the location for affixing tags to capital assets is desirable.

Some of the commonly used devices are (list is not all-inclusive):

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

12.20 Individual Records

An individual record of each unit of accountability should be maintained. Optional data might include a value for insurance purposes, estimated life, and equipment class code.

Information recorded should include:

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

Descriptive information regarding capital asset additions is best taken from purchase invoices and contracts, even though there is sometimes an undue lag between physical possession of the property and the receipt of these documents.

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

12.21 Subsidiary Records

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

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

12.22 Physical Inventories

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

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

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

12.23 Shortages and Overages

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

12.24 Depreciation (Depletion)

Capital assets should be depreciated over their estimate useful lives unless they are inexhaustible, are intangible with indefinite useful lives, or are infrastructure assets that are part of a network reported using the modified approach which meets the criteria set forth in paragraph 19 of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended. Special districts may use any established depreciation method. Depreciation may be based on the estimated useful life of a class of assets, a network of assets, a subsystem of a network, or individual assets.

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

The American Institute of Certified Public Accounts (AICPA), *Industry Audit Guide* states four reasons for computing depreciation for governmental units:

1. Revenue measurement for proprietary funds;
2. Cost accounting for services and programs;
3. A cost to be included in the basis for reimbursements or grants; and
4. Systematic amortization of cost to recognize use or obsolescence.

The AICPA *Industry Audit Guide* recognizes that acceptance of good reasons for computing depreciation is an entirely separate issue from maintaining such information and including it in financial statements.

12.25 Useful Life of Assets

As rule of thumb, the best way for a special district to determine the useful life of any capital asset is through its own experiences with similar assets. If that information is not available, then the special district may refer to the following for general guidance: (a) guidelines obtained from professional or industry organizations (such as the AICPA), (b) information for comparable assets of other special districts/governments, or (c) IRS publications.

When looking to other special districts or governments for guidance, a special district should consider the following factors:

Quality: differences in materials, workmanship, etc.;

Application: how the assets is currently being used, frequency of use, etc.; or

Environment: physical climate, regulatory requirements, etc.

Exhibits

E12.01 Capital Assets Note Disclosure

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

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

Disclosure of Information about Capital Assets

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

| | ⁽²⁾ Primary Government | | | |
|---|-----------------------------------|--------------------------|--|----------------|
| | Beginning Balance | ⁽³⁾ Additions | ⁽⁴⁾ Retirements/ Reclassifications | Ending Balance |
| Governmental Activities: | | | | |
| Capital Assets that are <i>not</i> Depreciated: | | | | |
| | \$ | | | |
| Land | 29,484 | \$ 2,020 | \$ (4,358) | \$ 27,146 |
| Infrastructure (roads) | 48,016 | 12,848 | ----- | 60,864 |
| Construction in Progress | 2,881 | 768 | (2,326) | 1,323 |
| Total | 80,381 | 15,636 | (6,684) | 89,333 |
| Capital Assets that <i>are</i> Depreciated: | | | | |
| Buildings and Improvements | 39,961 | 734 | ----- | 40,695 |
| Equipment | 32,110 | 1,544 | (1,514) | 32,140 |
| Infrastructure | 44,578 | 1,530 | ----- | 46,108 |
| Total | 116,649 | 3,808 | (1,514) | 118,943 |
| Less Accumulated Depreciation: | | | | |
| Buildings and Improvements | (10,358) | (691) | ----- | (11,049) |
| Equipment | (9,247) | (2,676) | 1,040 | (10,883) |
| Infrastructure | (15,301) | (1,020) | ----- | (16,321) |
| Total | (34,906) | (4,387) | 1,040 | (38,253) |
| Total Depreciable Capital Assets, Net | 81,743 | (579) | (474) | 80,690 |
| Governmental Activities Capital Assets, Net | \$ 162,124 | \$ 15,057 | \$ (7,158) | \$ 170,023 |

| | (2) Primary Government | | | |
|--|------------------------|---------------|---------------------------------------|----------------|
| | Beginning Balance | (3) Additions | (4) Retirements/ Reclassifications | Ending Balance |
| Business-Type Activities: | | | | |
| | | \$ | | |
| Land | \$ 3,691 | 145 | \$ ----- | \$ 3,836 |
| Distribution and Collection Systems | 35,522 | 3,838 | ----- | 36,360 |
| Buildings and Equipment | 122,870 | 3,847 | (32) | 126,685 |
| Construction in Progress | 4,955 | 980 | (3,311) | 2,624 |
| Total | 167,038 | 8,810 | (3,343) | 172,505 |
| Less Accumulated Depreciation for: | | | | |
| Distribution and Collection Syst | (7,654) | (897) | ----- | (8,551) |
| Buildings and Equipment | (11,789) | (808) | 32 | (12,565) |
| Business-Type Activities Capital Assets, Net | \$ 147,595 | 7,105 | \$ (3,311) | \$ 151,389 |

*Depreciation Expense was charged to Governmental Functions as follows:

| | |
|---|----------|
| General Government | \$ 275 |
| Public Safety | 330 |
| Public Works, which includes Depreciation of General Infrastructure | 1,315 |
| Health and Sanitation | 625 |
| Cemetery | 29 |
| Culture and Recreation | 65 |
| Community Development | 40 |
| In addition, Depreciation on Capital Assets held by the Special Districts Internal Service Funds is charged to various function based on their usage of the assets | 1,708 |
| Total Depreciation Expense | \$ 4,387 |

*NOTES

(1) These amounts have been rounded off to thousands of dollars

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

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

(4) Retirements are the removal of historical cost and accumulated depreciation related to assets sold, destroyed, or that otherwise became unusable to the government during the year (and adjustments to reflect completion of construction in progress)

E12.02 Examples of Classification and Posting

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

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

Distinction between Capital Asset and Maintenance Expenditures. Refer to the 10 illustrative examples below. For the purposes of this example, it is assumed that the special district has a capitalization policy of capitalizing general capital assets costing \$5000 or more.

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

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

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

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

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

| Capital Asset vs. Maintenance Expenditure Example 6 | \$1,750 is expended on the installation of new partitions in the hospital lobby to provide additional office space. | | | | | | | | |
|--|---|--------|--|-------|--------|----------------------------------|-------|--------|--|
| | Application of Policy: The addition is less than \$5,000 and is accordingly charged to maintenance. | | | | | | | | |
| General Ledger | | | Subsidiary Ledger (Expenditure Ledger) | | | Capital Assets Accounting System | | | |
| Accounts | Debit | Credit | Accounts | Debit | Credit | Accounts | Debit | Credit | |
| Expenditures | 1,750 | | Hospital—Maintenance of Buildings and Improvements | 1,750 | | No Entry | | | |
| Cash | | 1,750 | | | | | | | |

| Capital Asset vs. Maintenance Expenditure Example 7 | A new building is painted at a cost of \$11,000 | | | | | | | | |
|--|--|--------|---|--------|--------|---|--------|--------|--|
| | Application of policy: Painting as part of the initial construction cost is regarded as capital outlay. Subsequent repair is maintenance per the special district's capitalization policy. | | | | | | | | |
| General Ledger | | | Subsidiary Ledger (Expenditure Ledger) | | | Capital Assets Accounting System | | | |
| Accounts | Debit | Credit | Accounts | Debit | Credit | Accounts | Debit | Credit | |
| Expenditures | 11,000 | | Buildings and Improvements of Equipment | 11,000 | | Buildings and Improvements | 11,000 | | |
| Cash | | 11,000 | | | | Investment in Capital Assets—General Fund | | 11,000 | |

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

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

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

The illustrative examples below (not all inclusive) demonstrate common types of expenditure transactions related to general capital assets. For the purposes of the examples below, it is assumed that the special district has a capitalization policy of capitalizing general capital assets costing \$2,000 or more. All entries are recorded in the general fund, unless otherwise stated.

| Purchase of a capital asset with a trade-in for a governmental fund type Method A | A laptop is purchased for the assessor for \$2,675. The vendor allows \$125 for an old laptop, which originally cost \$1,250. | | | | | | | |
|--|--|--------|---|-------|--------|---|-------|--------|
| | Application of Policy: The new asset is recorded at cost. The old asset is removed at its recorded value. The trade-in value is recognized as revenue. | | | | | | | |
| General Ledger | | | Subsidiary Ledger (Expenditure Ledger) | | | Capital Assets Accounting System | | |
| Accounts | Debit | Credit | Accounts | Debit | Credit | Accounts | Debit | Credit |
| Expenditures | 2,675 | | Assessor— | 2,675 | | Equipment | 2,675 | |
| Cash | | 2,550 | Equipment | | | Investment in Capital Assets— General Fund | | 2,675 |
| Other Financing Sources— Proceeds from General Capital Asset Trade-In | | 125 | | | | Investment in Capital Assets— General Fund | 1,250 | |
| | | | | | | Equipment | | 1,250 |

| Purchase of a capital asset with a trade-in for a governmental fund type Method B | A laptop is purchased for the assessor for \$2,675. The vendor allows \$125 for an old laptop, which originally cost \$1,250. | | | | | | | |
|--|--|--------|---|-------|--------|---|-------|--------|
| | Application of Policy: Record purchase of the laptop net of the trade-in allowance. Note that the trade-in value is recognized only in the capital assets accounting system. | | | | | | | |
| General Ledger | | | Subsidiary Ledger (Expenditure Ledger) | | | Capital Assets Accounting System | | |
| Accounts | Debit | Credit | Accounts | Debit | Credit | Accounts | Debit | Credit |
| Expenditures | 2,550 | | Assessor— | 2,675 | | Equipment | 2,675 | |
| Cash | | 2,550 | Equipment | | | Investment in Capital Assets— General Fund | | 2,675 |
| | | | | | | Investment in Capital Assets— General Fund | 1,250 | |
| | | | | | | Equipment | | 1,250 |

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

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

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

| Development in progress: Internally generated intangible asset-Public Works software | At June 30, \$125,000 has been expended in a special revenue fund toward development of software being internally generated for Public Works. | | | | | | | | |
|---|---|--------|--|-------|--------|---|---------|---------|--|
| | Application of Policy: The amount of the expenditure at the close of the fiscal year is recorded in the Capital Assets Accounting System. | | | | | | | | |
| General Ledger | | | Subsidiary Ledger (Expenditure Ledger) | | | Capital Assets Accounting System | | | |
| Accounts | Debit | Credit | Accounts | Debit | Credit | Accounts | Debit | Credit | |
| No Entry | | | No Entry | | | Development in Progress | 125,000 | | |
| | | | | | | Investment in Capital Assets from Special Revenue Fund – General Obligation Bonds | | 125,000 | |

| Capitalizing net interest cost during construction | Construction of a new health building is financed with a \$75,000 tax-exempt issue at 10%. Proceeds have been invested at 9% until needed for payment of construction. Interest expenditures for the year (debt service fund) amounted to \$3,750. Interest income (Capital Projects Fund) amounted to \$3,600. | | | | | | | | |
|---|---|--------|--|-------|--------|----------------------------------|-------|--------|--|
| | | | | | | | | | |
| General Ledger | | | Subsidiary Ledger (Expenditure Ledger) | | | Capital Assets Accounting System | | | |
| Accounts | Debit | Credit | Accounts | Debit | Credit | Accounts | Debit | Credit | |
| Expenditures | 3,750 | | Interest | 3,750 | | | | | |
| Cash | | 3,750 | Interest on Bonds | | 3,750 | | | | |
| Cash | 3,600 | | | | | | | | |
| Revenue | | 3,600 | | | | | | | |

| A lease contract requiring operating method of accounting | The Library leased a van for two months at \$400 per month while its bookmobile was being overhauled. | | | | | | | | |
|--|---|--------|--|-------|--------|----------------------------------|-------|--------|--|
| | Application of Policy: The lease agreement contains no provision for acquiring title. | | | | | | | | |
| General Ledger | | | Subsidiary Ledger (Expenditure Ledger) | | | Capital Assets Accounting System | | | |
| Accounts | Debit | Credit | Accounts | Debit | Credit | Accounts | Debit | Credit | |
| Expenditures | 800 | | Library | | 800 | No Entry | | | |
| Cash | | 800 | Operations | | | | | | |

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Chapter 13: Taxation

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CHAPTER 13: Taxation

Accounting for Taxes

Special districts generate revenue from several sources including property taxes, special assessments, and fees. Enterprise districts run much like businesses and provide specific benefits to their customers. These districts receive their revenues primarily from fees or rates that customers pay for services. Nonenterprise districts deliver services that provide general benefits to entire communities. Examples include services such as fire protection, flood control, cemeteries, and road maintenance. Nonenterprise districts typically fund services through taxes, especially property taxes, but sometimes charge fees for these services.

The legal authority for local taxation is highly complex. This chapter will cover some common tax legislation that allows special districts to levy taxes to fund projects or services. It is not all-inclusive.

Special districts should refer to the legislation that created them to verify whether they have any statutory power to levy taxes or collect service charges to fund their operations.

13.01 Accounting for Tax Receipts

Special districts should follow the rules for exchange and nonexchange transactions when recording tax revenues. The entry to record a recognized tax revenue would be:

| | | |
|---------------------------------|-----------|-----------|
| Accounts Receivable—Tax Revenue | \$XX, XXX | |
| Tax Revenue | | \$XX, XXX |

The subsequent receipt of this tax revenue would be recorded as:

| | | |
|---------------------------------|-----------|-----------|
| Cash | \$XX, XXX | |
| Accounts Receivable—Tax Revenue | | \$XX, XXX |

Tax revenues can come from either an exchange (e.g. derived tax revenue) or nonexchange transaction (e.g. imposed nonexchange revenue). Exchange transactions involve both the recipient and provider transferring an equal value of benefits, goods, or services. Legislation or contractual requirement or both typically give rise to nonexchange transactions. Refer to Chapter 6 – *Revenue and Expense/Expenditure Accounts* for more details on nonexchange transactions and related recognition rules.

13.02 Special Taxes

Proposition 13 (1978), *People’s Initiative to Limit Property Taxes*, Proposition 62 (1986), *Voter Approval of Taxes Act*, and Proposition 218 (1996), *Right to Vote on Taxes Act*, require voter approval for new and increased local taxes. All local taxes are either general taxes, which need majority-vote approval, or special taxes, which must receive two-thirds voter approval by the taxpayers.

Section 2(a) of Article XIII C, of the California Constitution prohibits special districts from levying general taxes, thus special districts have the power to levy only special taxes. Government Code section 50075, et seq., allows special districts to impose special taxes pursuant to the provisions of Article XIII A, *Tax Limitations*, of the California Constitution. Voters of a special district (two-third majority) may impose special taxes pursuant to Government Code section 53722. Parcel taxes are also considered special taxes according to Proposition 218 (1996), and are non-ad valorem in nature, as they are not based on the assessed value of a property. Some important things to note about special taxes:

- Special taxes can be used for specific purposes only. For example a special district may use special taxes to finance a bond issue related to capital acquisitions. Governments cannot use these taxes for the general purpose activities.
- Special taxes are not benefit assessments, fees or charges.

13.03 Ad Valorem Taxes, Non-Ad Valorem Taxes, and Service Charges

The terms taxes, assessments, and fees (service charges) are often used interchangeably; however, there are important differences between them. Distinguishing local taxes from assessments, fees, or other local charges determines the approval requirements that a special district must fulfill before imposing a particular tax, assessment, fee, or charge.

Revenue and Taxation Code section 2202 defines “ad valorem property taxation” as a source of revenue derived from applying a property tax rate to the assessed value of the property. For nonenterprise special districts, ad valorem taxes are a major source of revenue.

Non-ad valorem tax/assessments are derived from the need for special districts to pay for specific services. It is a special tax used for specific governmental purposes, such as fire protection, ambulance services, etc. These taxes are not based on the assessed value of a property. Instead the non-ad valorem tax is based on a flat fee or a cost that must be approved by an electoral vote.

A service charge is typically a fee charged to an individual or business for service provided directly to the individual or business. Fees are typically the primary revenue source for enterprise special districts. For example, a water district may charge fees for delivering water to citizens within its boundaries.

13.04 Community Facilities District

Pursuant to Government Code section 53311 et seq. (known as the Mello-Roos Community Facilities Act of 1982), local governments, including special districts, may create a community facilities district (CFD) as a financing mechanism to fund capital facilities and services. Pursuant to Government Code section 53330, et seq., a CFD may levy a special tax to pay for new or existing facilities and services. See Section 15.06 below for more details on the authority given to special districts.

For example, a cemetery district may use the Mello-Roos Act to fund additional cemetery-related projects, but not to finance police services. CFD’s are formed by special districts to fund facilities or services that they are authorized to provide.

13.05 Transactions and Use Tax

Generally speaking, not all special districts can levy transactions and use taxes. Special districts should refer to the statutes that created them to determine whether they can levy transactions and uses taxes, pursuant to Revenue and Taxation Code section 7251 et seq. Revenue and Taxation Code 7251.1 caps the combined rate for transactions and use tax at two percent.

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13.06 Special District Tax Authority

Note: given the incremental nature of legislating, the table below is not all-inclusive.

| Code Abbreviations | | | |
|---|--------------------|--|----------------|
| GC = Government Code HNC = Harbors and Navigation Code HSC = Health and Safety Code MVC = Military and Veterans Code | | | |
| PRC = Public Resources Code PUC = Public Utilities Code WC = Water Code | | | |
| Purpose/Program | Authority | Agency | Notes |
| Airports | PUC §22901 et seq. | Any airport district | Special tax |
| Ambulance/Paramedic Services | GC §53311 et seq. | Any special district that formed a Community Facilities District | Mello-Roos Act |
| Cemeteries | HSC §9080 et seq. | Any public cemetery district | Special tax |
| Child Care Facilities | GC §53311 et seq. | Any special district that formed a Community Facilities District | Mello-Roos Act |
| Child Care Facilities Insurance | GC §53311 et seq. | Any special district that formed a Community Facilities District | Mello-Roos Act |
| Community Service or Facilities | GC §61120 et seq. | Any community services district | Special Tax |
| Facilities | GC §53311 et seq. | Any special district that formed a Community Facilities District | Mello-Roos Act |
| Fire Protection and Suppression Services | GC §53311 et seq. | Any special district that formed a Community Facilities District | Mello-Roos Act |
| Fire Protection or Prevention Services | GC §53970 et seq. | Any special district which provides fire protection or prevention services | Special tax |
| Fire Protection Services | HSC §13910 et seq. | Any fire protection district | Special tax |
| Flood and Storm Water Services | GC §53311 et seq. | Any special district that formed a Community Facilities District | Mello-Roos Act |
| Harbor Improvement or Development | HNC §6090 et seq. | Any harbor district | Special tax |
| Hazardous Substance Cleanup Services | GC §53311 et seq. | Any special district that formed a Community Facilities District | Mello-Roos Act |

| Code Abbreviations | | | |
|---|------------------------------------|--|---|
| GC = Government Code HNC = Harbors and Navigation Code HSC = Health and Safety Code MVC = Military and Veterans Code | | | |
| PRC = Public Resources Code PUC = Public Utilities Code WC = Water Code | | | |
| Purpose/Program | Authority | Agency | Notes |
| Health Care | GC §53730.01 et seq. | Any local health care district | Special Tax |
| Interest Payments on Voter Approved indebtedness | CA Constitution Art. XIII A, §1(b) | Any special district | Ad valorem property taxes exceeding the statewide maximum rate of 1% may be levied to pay interest on indebtedness approved by the voters before July 1, 1978 or indebtedness for the acquisition or improvement of real property approved by two-thirds vote after July 1, 1978. |
| Library Facilities | GC §53311 et seq. | Any special district that formed a Community Facilities District | Mello-Roos Act |
| Library Facilities and Services | GC §53717 et seq. | Library district | Special tax |
| Library Services | GC §53311 et seq. | Any special district that formed a Community Facilities District | Mello-Roos Act |
| Lighting of Parks, Parkways, Streets, Roads, and Open Space | GC §53311 et seq. | Any special district that formed a Community Facilities District | Mello-Roos Act |
| Memorial Halls, Buildings, or Meeting Places | MVC §1190 et seq. | Any memorial district | Special tax |
| Mosquito Abatement and Vector Control | HSC §2080 et seq. | Any mosquito abatement and vector control district | Special tax and Mello-Roos Act |
| Museum and Cultural Facilities, Operations and Maintenance | GC §53311 et seq. | Any special district that formed a Community Facilities District | Mello-Roos Act |
| Open Space Acquisition Preservation or Maintenance | PRC §35170 et seq. | Santa Clara Open Space Authority | Special tax |
| Park, Recreation, Parkway, and Open Space Facilities | GC §53311 et seq. | Any special district that formed a Community Facilities District | Mello-Roos Act |

| Code Abbreviations | | | |
|---|--------------------|---|--|
| GC = Government Code HNC = Harbors and Navigation Code HSC = Health and Safety Code MVC = Military and Veterans Code | | | |
| PRC = Public Resources Code PUC = Public Utilities Code WC = Water Code | | | |
| Purpose/Program | Authority | Agency | Notes |
| Park, Recreation, and Open Space Facilities and Recreation Services | PRC §5789 et seq. | Any recreation and park district | Special tax and Mello-Roos Act |
| Parks, Parkways, and Open Space, Maintenance Services | GC §53311 et seq. | Any special district that formed a Community Facilities District | Mello-Roos Act |
| Pest Abatement | HSC §2870 et seq. | Any pest abatement special district | Special tax |
| Pleasure Riding | GC §53940 et seq. | Any regional park district | Special tax on horses, mules, and other trail riding animals. Not to exceed \$10 per animal. |
| Police Protection Services | GC §53970 et seq. | Any special district authorized to provide police protection services | Special tax |
| Police Protection Services | HSC §20101 et seq. | Any police protection district | Special tax |
| Police Protection and Criminal Justice Services | GC §53311 et seq. | Any special district that formed a Community Facilities District | Mello-Roos Act |
| Port Operation and Development | HNC §6360 et seq. | Any port district | Special tax |
| Recreation Program Services | GC §53311 et seq. | Any special district that formed a Community Facilities District | Mello-Roos Act |
| Resource Conservation | PRC §9501 et seq. | Any resource conservation district | Special tax |
| School Facilities Maintenance Services for Elementary and Secondary School Sites | GC §53311 et seq. | Any special district that formed a Community Facilities District | Mello-Roos Act |
| Seismic Safety Work on Buildings and Real Property | GC §53311 et seq. | Any special district that formed a Community Facilities District | Mello-Roos Act |
| Soil Deterioration Repair and Abatement | GC §53311 et seq. | Any special district that formed a Community Facilities District | Mello-Roos Act |

| Code Abbreviations | | | |
|---|--------------------|--|---|
| GC = Government Code HNC = Harbors and Navigation Code HSC = Health and Safety Code MVC = Military and Veterans Code | | | |
| PRC = Public Resources Code PUC = Public Utilities Code WC = Water Code | | | |
| Purpose/Program | Authority | Agency | Notes |
| Street and Road Maintenance | GC §53311 et seq. | Any special district that formed a Community Facilities District | Mello-Roos Act |
| Transportation | PUC §25891 et seq. | Transit Districts that are also special districts | Special tax and Transactions and Use Tax. Note: Special districts should refer to the legislation that created them to determine whether they are eligible to levy special taxes and transactions and use tax. |
| Transit Capital Projects and purchase of transit vehicles | PUC §99500 et seq. | Any special district that is also a local transit district. | Motor vehicle fuel tax. Note: Special districts should refer to the legislation that created them to determine whether they are eligible to levy motor vehicle fuel tax. |
| Municipal Utilities | PUC §12891 et seq. | Any municipal utility district that is also a special district. | Special tax |
| Public Utilities | PUC §16641 et seq. | Any public utility district that is also a special district. | Special tax |
| Construction or Undergrounding for utility projects or services | GC §53311 et seq. | Any special district that formed a Community Facilities District | Mello-Roos Act |
| Water | WC §22075 et seq. | Any irrigation district | Special tax |
| Water | WC §31650 et seq. | Any county water district | Special tax |
| Water | WC §72090 et seq. | Any municipal water district | Special tax |

Chapter 14: Retirement Systems and Other Post-Employment Benefits

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Chapter 14: Retirement Systems and Other Post-Employment Benefits

Introduction

14.01 Objectives of this Chapter

Although legislation specifies the organization, administration, and operating guidelines for pension plans; standards concerning the accounting and financial reporting of governmental pension plans are established by the Government Accounting Standards Board (GASB). The purpose of this chapter is to clarify GASB pension accounting and financial reporting pronouncements and explain the applicability of these standards to special districts retirement systems.

14.02 Pension Trust/Plans

Pursuant to Government Code section 53215 et seq., a legislative body of a special district may establish a pension trust for their officers and employees. Special districts may also refer to the County Employers Retirement Law of 1937 when setting up their retirement systems.

The County Employees Retirement Law of 1937 (Title 3, Division 4, Part 3, Chapters 3 and 3.9, Section 31450 et seq. of the California Government Code) governs the establishment and administration of county employee retirement systems for counties that establish retirement plans, and for cities or special districts within a county's boundaries that choose to participate in that county's employee retirement system.

Special districts should also refer to the legislation that created them to determine their statutory requirements relating to pension trusts or any other retirement plan.

Valuation of Investments — Pension Plans

14.03 Valuation Basis

According to GASB Statement No. 67, *Financial Reporting for Pensions — an amendment of GASB Statement No. 25*, as amended, whether pension plan investments are equity or debt securities, real estate, investment derivative instruments, or other investments, they should be reported at their fair value at the end of the pension plan's reporting period.

Purchases and sales of investments should be recorded on a trade-date basis and allotted insurance contracts should be excluded from pension plan assets if:

- (a) the insurer is responsible for providing the benefits;
- (b) all payments required to acquire the contracts have been made; and
- (c) less likely (remote) that the employer or pension plan will be required to make any payments to satisfy benefit payments covered by the insurance contract.

14.04 Net Appreciation (Depreciation) in the Fair Value of Investments

The net appreciation (depreciation) in the fair value of investments should include realized and unrealized gains and losses on investments that were both bought and sold during the year (realized gains and losses on investments held more than one year are reported as a change in the fair value in the prior year). Realized and unrealized gains and losses should not be separately displayed in the financial statements.

Financial Statements—Pension Plans and Employers

14.05 Chart of Accounts and Explanations of Accounts

Special districts should design their chart of accounts to be consistent with their accounting needs. The list of charts of accounts presented below is not all-inclusive; special districts should supplement these classifications with additional account titles as needed.

| Sample Accounts for Statement of Fiduciary Net Position | Explanation of Account |
|---|---|
| ASSETS | Pension plan assets should be subdivided into (a) the major categories of assets held (for example, cash and cash equivalents, receivables, investments, and assets used in pension plan operations) and (b) the principal components of the receivables and investments categories. |
| Cash & Cash Equivalents | Currency on hand, short-term, or highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) near enough to maturity that they present insignificant risk of changes in value. |
| Receivables | Pension plan receivables are generally short term and consist of contributions due as of the end of the reporting period from employers, non-employer contributing entities and plan members, and interest and dividends on investments. |
| Contributions | Amounts recognized as receivables for contributions should include only those due pursuant to legal requirements. Contributions that are payable to the pension plan more than one year after the end of the reporting period (for example, pursuant to installment contracts) should be recognized in full in the period the receivable arises. If a receivable is recognized at its discounted present value, interest should be accrued using the effective interest method, unless use of the straight-line method would not produce significantly different results. |
| Member Contributions | The amount charged each year to a member (including personal and stakeholder pensions) to cover the cost to the provider of investing and administering the member's plan. |

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

| Sample Accounts for Statement of Fiduciary Net Position | Explanation of Account |
|---|---|
| Municipal Bonds | A debt security issued by a state, municipality, or county to finance its capital expenditures. |
| International Bonds | Debt securities issued by foreign companies or governments and sold domestically. |
| Global Equity Securities | |
| Domestic Stocks | The stocks of American companies traded on the various stock exchanges. |
| International Stocks | The stocks of companies based outside of the U.S. |
| Securities Lending Collateral | |
| Private Equity | Equity securities and debt in operating companies that are not publicly traded on a stock exchange. |
| Real Estate Equity | The difference between the current market value of the property and the amount the owner still owes on the mortgage of real estate property such as land and buildings. |
| Other Investments | |
| Capital Assets (Net of Accumulated Depreciation) | |
| Equipment And Furniture | Tangible property of a more or less permanent nature, other than land or buildings and improvements thereon. |
| Accumulated Depreciation — Equipment and Furniture | A valuation account to record the accumulation of periodic credits made to record the expiration of the estimated service life of capital assets. |
| Buildings and Improvements | A capital asset account reflecting the acquisition cost of permanent structures owned or held and improvements thereon. |
| Accumulated Depreciation — Buildings and Improvements | A valuation account to record the accumulation of periodic credits made to record the expiration of the estimated service life of capital assets. |
| Land | A capital asset account that reflects the cost of land owned or held. |
| Other Assets | Those assets that cannot be reasonably categorized under the asset classification discussed above (e.g., long-term receivables). |
| DEFERRED OUTFLOWS OF RESOURCES | Certain defined transactions that do not qualify for treatment as either assets or liabilities related to future periods. |

| Sample Accounts for Statement of Fiduciary Net Position | Explanation of Account |
|---|---|
| LIABILITIES | Pension plan liabilities generally consist of benefits due to plan members (including refunds of plan member contributions), and accrued investment and administrative expenses. Pension plan liabilities for benefits should be recognized when the benefits are currently due-and-payable in accordance with the benefit terms. |
| Other Liabilities | Those liabilities that cannot be reasonably categorized under liability classifications discussed above. |
| Refunds Payable | |
| Actuarial Services Fee | Fee for actuarial services including the analysis of rates of disability, morbidity, mortality, retirement, survivorship and other contingencies. |
| Custodian Services Fee | Fees to a financial institution that holds customers' securities for safekeeping so as to minimize the risk of their theft or loss. |
| Investment Counselor Fee | As defined by the Investment Advisors Act of 1940, any person or group that makes investment recommendations or conducts securities analysis in return for a fee, whether through direct management of client assets or via written publications. |
| Administrative Fee Expenses | A fee charged by an insurer or other authorized agency to cover expenses related to record keeping and/or other administrative costs. |
| DEFERRED INFLOWS OF RESOURCES | Certain transactions related to future periods that do not qualify for treatment as either assets or liabilities. |

| Sample Accounts for Statement of Changes in Fiduciary Net Position | Explanation of Account |
|--|--|
| ADDITIONS | <p>The additions section of the Statement of Changes in Fiduciary Net Position should include separate display of the following, if applicable:</p> <ul style="list-style-type: none"> (a) Contributions from employers; (b) Contributions from non-employer contributing entities (for example, state government contributions to a local government pension plan); (c) Contributions from plan members, including those transmitted by the employers; and (d) Net investment income, including separate display of <ul style="list-style-type: none"> (1) investment income, and (2) investment expense, including investment management and custodial fees and all other significant investment-related costs. |
| Contributions | |
| Employer Contributions | |
| Safety | Employer contributions paid into the system to fund basic, cost-of-living, and other retirement benefits related to “safety” type employees. |
| Miscellaneous | Employer contributions paid into the system to fund basic, cost-of-living, and other retirement benefits that are not qualified as safety. |
| Combined | Employer contributions paid into the system to fund basic, cost-of-living, and other retirement benefits that cannot be properly divided into safety and miscellaneous members. |
| Member Contributions | |
| Safety | Member contributions paid into the system to fund basic, cost-of-living, and other retirement benefits (detail by safety members). |
| Miscellaneous | Member contributions paid into the system to fund basic, cost-of-living, and other retirement benefits that are not qualified as safety. |
| Combined | Member contributions paid into the system to fund basic, cost-of-living, and other retirement benefits that cannot be properly divided into and safety and miscellaneous members. |
| Other Contributions | |
| Safety | Contributions paid into the system to fund basic, cost-of-living, and other retirement benefits made by other contributors not including employer(s) or members. |

| Sample Accounts for Statement of Changes in Fiduciary Net Position | Explanation of Account |
|--|--|
| Miscellaneous | Contributions paid into the system to fund basic, cost-of-living, and other retirement benefits made by other contributors not including employer(s) or members that are not qualified as safety. |
| Combined | Contributions paid into the system to fund basic, cost-of-living, and other retirement benefits made by other contributors not including employer(s) or members that cannot be properly divided into safety and miscellaneous members. |
| Investments Income (Loss) | <p>Contributions include (a) the net increase (decrease) in the fair value of pension plan investments, and (b) interest income, dividend income, and other income not included in (a).</p> <p>Components (a) and (b) of investment income may be separately displayed or combined and reported as one amount.</p> |
| Securities Lending Income | |
| Interest Income | Monies earned on cash deposits, bonds, and other investments. Includes amortization of premiums and discounts on debt securities and interest income on leases. |
| Bonds | A debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate. |
| Short-Term Investments | Investments that a company has made that will expire within one year. |
| Dividends Income | Earnings and distributions from stock. |
| Net Appreciation (Depreciation) in Fair Value of Investments | <p>The sum of:</p> <ol style="list-style-type: none"> 1. Realized gains and losses on investments both bought and sold during the year, measured as the difference between the proceeds of sale and the original cost; 2. Realized gains and losses on investments bought in prior years and sold during this year, measured as the difference between the proceeds of sale and the fair value of the investment at the beginning of the year; and 3. Unrealized gains and losses for the year on investments held at year-end, measured as the difference between fair value of the investment at year-end, and either the original cost (if purchased during the year) or the fair value of the investment at the beginning of the year (if purchased in a prior year). |

| Sample Accounts for Statement of Changes in Fiduciary Net Position | Explanation of Account |
|--|---|
| Other Investment Income | Investment income that cannot be reasonably categorized under the investment income classification discussed above. |
| (Investment Expenses) | Investment-related costs should be reported as investment expense if they are separable from (a) investment income, and (b) the administrative expense of the pension plan. |
| (Cost of Lending Securities) | |
| Other Income | Those revenues that cannot be reasonably categorized under classifications discussed above. |
| DEDUCTIONS | The deductions section of the Statement of Changes in Fiduciary Net Position should separately display, at a minimum, (a) benefit payments to plan members (including refunds of plan member contributions) and (b) total administrative expense. |
| Benefit Payments | |
| Service Retirement | Pension, annuity, cost-of-living, and lump sum payments due to service retirement. |
| Safety | Pension and annuity payments due to service retirement. Includes survivor continuance benefits (detail by safety members). |
| Miscellaneous | Pension and annuity payments due to service retirement. Includes survivor continuance benefits that are not qualified as safety. |
| Combined | Pension and annuity payments due to service retirement. Includes survivor continuance benefits that cannot be properly divided into safety and miscellaneous members. |
| Disability | Payments including cost-of-living allowances to members retired due to total and permanent disability, or payments due to partial and temporary disability. |
| Safety | Payments to members retired due to total and permanent disability, or payments due to partial and temporary disability (detail by safety members). |
| Miscellaneous | Payments including cost-of-living allowances to members retired due to total and permanent disability, or payments due to partial and temporary disability that are not qualified as safety. |
| Combined | Payments including cost-of-living allowances to members retired due to total and permanent disability, or payments due to partial and temporary disability that cannot be properly divided into safety and miscellaneous members. |

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

Financial Reporting for Pension Plans — GASB 67

14.06 Financial Reporting Framework

The financial reporting framework for a local government defined benefit pension plan is extensively discussed in GASB Statement No. 67, *Financial Reporting Plans—an amendment of GASB Statement No. 25*, as amended, and the GASB implementation guides. GASB Statement No. 67 applies to state and local government pension plans that provide retirement income and other postemployment benefits paid through a pension plan, such as death benefits, life insurance, and disability benefits. Pensions, as used in this statement, do not include postemployment healthcare or termination benefits.

NOTE: OPEB, as defined in this statement, are postemployment benefits provided separately from a pension plan.

14.07 Financial Statements

GASB Statement No. 67, as amended, requires defined benefit pension plans to present two financial statements:

- a statement of fiduciary net position; and
- a statement of changes in fiduciary net position.

The Statement of Fiduciary Net Position presents the following items as of the end of the pension plan's reporting period:

- Assets such as cash, cash equivalents, receivables from employers and employees, investments and assets used in the plan's operations.
- Deferred outflows of resources.
- Liabilities such as benefit payments due to members.
- Deferred inflows of resources.
- Fiduciary net position, defined as assets, plus deferred outflow of resources, minus liabilities, minus deferred inflows of resources.

The Statement of Changes in Fiduciary Net Position presents the following items for the plan's reporting period:

- Additions such as contributions from employers, nonemployer contributing entities, and plan members and net investment income.
- Deductions section should show at minimum benefit payments to plan members and administrative expenses, including amounts paid towards an allocated insurance contract that is excluded from pension plan assets.
- Net increase or decrease in fiduciary net position, which equals the difference between additions and deductions.”

14.08 Notes to Financial Statements

Special districts should present the items listed below in the notes section of their financial statements. Note that not all pension plans are the same; therefore some plans may have more to report depending on the pension plan's complexity.

GASB Statement No. 67, as amended, requires the following to be reported by special districts:

Plan Description

- Name of the pension plan
- Authority under which benefit terms are established
- Membership (active, inactive, and retiree)
- Benefits provided
- Brief description of contribution requirements

Summary of Significant Accounting Policies

- Reporting entity
- Basis of accounting
- Investments
- Capital Assets
- Management estimates
- Implementation of new accounting pronouncements

Receivables—any long term contracts for contributions to the pension plan

Pension Plan Cash and Investments

- Investment policies including:
 - Procedures and authority for amending and establishing investment policy decisions
 - Policies relating to asset allocation
 - Description of significant investment policy decisions
 - Money Weighted Rate of Return on pension investments
 - Identification of investments that represent 5 percent or more of the pension plan's fiduciary net position
- Brief description of how fair value of investments are determined
 - Credit risk
 - Custodial credit risk
 - Foreign currency risk
 - Commitments to alternative investments

Contributions

- Description identifying the authority under which contribution requirements of employers, non-employer contributing entities, and plan members are established
- Brief description of rates (in dollars or as a percentage of payroll)

Reserves

- Description of the reserve policy
- Authority under which the policy was established
- Purpose for and conditions under which the reserve is required or permitted to be used
- Balances of the reserves

Deferred Retirement Option Program (DROP)

- Description of the terms
- Balance of amounts held

Allocated insurance contracts excluded from pension plan assets

Disclosures specific to Single-Employer and Cost Sharing Pension Plans:

- Net pension liability
- Significant assumptions and other inputs used to measure to pension liability
- Date of actuarial valuation

Required Supplementary Information (RSI)

14.09 Single-Employer and Cost Sharing Pension Plans

GASB Statement No. 67, as amended, requires the following to be reported in the Required Supplementary Information (RSI) for single-employer and cost-sharing plans:

- 1) “A 10-year schedule of changes in net pension liability that separately presents for each year:
 - a) The beginning and ending balances of the total pension liability, the pension plan’s fiduciary net position, and the net pension liability.
 - b) The effects of the following on items in (a) during the year, as applicable:
 - service cost;
 - interest on the total pension liability;
 - changes of benefit terms;
 - differences between expected and actual experience in the measurement of the total pension liability;
 - changes of assumptions or other inputs;
 - contributions from the employer;
 - contributions from non-employer contributing entities;
 - contributions from employees;
 - pension plan net investment income;
 - benefit payments, including refunds of employee contributions;
 - pension plan administrative expense; and
 - other changes, separately identified if individually significant.

- 2) A 10-year schedule presenting the following for each year:
 - total pension liability;
 - pension plan’s fiduciary net position;
 - net pension liability;
 - pension plan’s fiduciary net position as a percentage of the total pension liability;
 - covered payroll; and
 - net pension liability as a percentage of covered payroll.

- 3) A 10-year schedule presenting the information indicated below for each year, if an actuarially-determined contribution is calculated. The schedule must identify whether the information relates to the employers, non-employer contributing entities, or both.
 - Actuarially-determined contributions of employers or non-employer contributing entities, excluding those associated with payables that arose in a prior year or those associated with separately financed specific liabilities of the individual employer to the pension plan.
 - For cost-sharing pension plans, the contractually required contribution of employers or non-employer contributing entities, if different from the above.
 - Amount of contributions recognized during the fiscal year by the pension plan in relation to the actuarially determined contribution in part 1 (above).
 - Difference between the actuarially determined contribution in part 1 and the amount of contributions recognized by the pension plan in relation to the actuarially determined contribution in part 3.
 - Covered payroll.
 - Amounts of contributions recognized by the pension plan in relation to the actuarially determined contribution (part 3) as a percentage of covered payroll (part 5).

- 4) A 10-year schedule presenting for each fiscal year the annual money-weighted rate of return on pension plan investments.”

14.10 Agent Pension Plans

GASB Statement No. 67, as amended, requires a 10-year schedule for agent pension plans. The schedule should present for each year the annual money-weighted rate of return on pension plan investments.

14.11 Notes to Required Schedules

The following are required to be presented in notes to the Required Supplementary Information (RSI):

- Key methods and assumptions used in calculating the actuarially-determined contributions reported according to RSI as previously described in Section 14.09.

- Factors that significantly affect trends in the RSI amounts reported according to Section 14.09, such as:
 - changes of assumptions;
 - changes of benefit terms and
 - changes in size or composition of the population covered by the benefit terms.

14.12 Measurement of the Net Pension Liability

GASB Statement No. 67, as amended, states, in part, “*Net Pension Liability* (NPL) is the amount owed by employers and nonemployer entities to a defined benefit pension plan. *Total Pension Liability* (TPL) is the actuarial present value of projected benefit payments that is owed to an employee based on his or her years of service.”

NPL is calculated as follows:

$$NPL = TPL \text{ less Plan Fiduciary Net Position}$$

Timing and Frequency of Actuarial Valuations

GASB Statement No.67, as amended, requires the following should be taken into account when calculating TPL:

“The TPL should be determined by (a) an actuarial valuation as of the pension plan’s most recent fiscal year-end, or (b) the use of update procedures to roll forward to the pension plan’s most recent fiscal year-end amounts from an actuarial valuation as of a date no more than 24 months earlier than the pension’s fiscal year-end.

If updated procedures are used and significant changes occur between the actuarial valuation date and the pension plan’s most recent fiscal year-end, then professional judgment should be used to determine the extent of procedures needed to roll forward the measurement from actuarial valuation to the pension plan’s fiscal year-end, and consideration should be given to whether a new actuarial valuation is needed”.

Selection of Assumptions

The selection of all assumptions used in determining the total pension liability should be made in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board. Assumptions integral to the measurement of an employer’s pension liability include the long-term expected rate of return on pension plan investments, which plays a potentially significant role in the determination of the discount rate. Significant assumptions used to measure the Total Pension Liability include inflation, salary increases, ad hoc postemployment benefit changes, and mortality rates.

Projection of Benefit Payments

Projected benefit payments should include all benefits to be provided to current active and inactive plan members through the pension plan, in accordance with the benefit terms and any additional legal agreements to provide benefits that are in force at the pension plan’s fiscal year-end.

Projected benefit payments should include the effect of automatic postemployment benefit changes including:

- automatic cost-of-living adjustments (COLAs);
- projected ad hoc postemployment benefit changes, including ad hoc COLAs, to the extent that they are considered to be substantively automatic;
- projected salary changes; and
- projected service credits.

Benefit payments to be provided by means of an allocated insurance contract that is excluded from pension plan assets should be excluded from projected benefit payments.

Discount Rate

The discount rate should be the single rate that reflects the following:

- 1) The long-term expected rate of return on pension plan investments that are expected to be used to finance the payment of benefits, to the extent that:
 - a) The pension plan's fiduciary net position is projected to be sufficient to make projected benefit payments.
 - b) Pension plan assets are expected to be invested using a strategy to achieve that return.
- 2) A yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating AA/Aa or higher, to the extent that the conditions in (1) above are not met.

The long-term expected real rates of return by asset class should be net of inflation and investment expenses, but without reduction for pension plan administrative expense, calculated by arithmetic or geometric method. Depending on the plan's actuarial policies, testing may be necessary to determine whether a blended discount rate must be used.

Attribution of the Actuarial Present Value of Projected Benefit Payments to Periods

The entry age actuarial cost method should be used to attribute the actuarial present value of projected benefit payments of each plan member to periods in conformity with the following:

- Attribution should be made on an individual plan-member-by member basis.
- Each plan member's service costs should be level as a percentage of that member's projected pay. For purposes of this calculation, if a member does not have projected pay, the projected inflation rate should be used in place of the projected rate of change in salary.
- The beginning of the attribution period should be the first period in which the member's service accrues pensions under the benefit terms, notwithstanding vesting or other similar terms.
- The service costs of all pensions should be attributed through all assumed exit ages, through retirement.

- In pension plans for which the benefit terms include a Deferred Retirement Option Program (DROP), for purpose of this GASB 67 Statement, the date of entry into the DROP should be considered to be the plan member's retirement date.
- Each plan member's service costs should be determined based on the same benefit terms reflected in that member's actuarial present value of projected benefit payments.

Examples of events that might result in a plan member's exit from active service are the termination of employment, disability, retirement, or death.

Assumptions about events that result in exit from active employment are expressed as the probability of the occurrence of the triggering event based on, for example, the plan member's age or number of years of service. These probabilities are applied to all projected ages/years of service for a plan member, resulting in multiple exit ages for each plan member.

Financial Reporting For Pension Plans by Employers—GASB 68

14.13 Financial Reporting Framework

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, as amended, provides information at the employer level regarding the nature of the pension obligation and the ability of the state or local government employer to satisfy that obligation; specifically, the individual employer's share of the plan's assets, liabilities, including net pension liability, deferred inflows and outflows, and fiduciary net position.

The financial reporting framework for a local government's pension obligation is discussed extensively in GASB Statement No. 68, as amended, and GASB implementation guides. GASB Statement No. 68 as amended, also applies to the financial statements of all state and local government employers whose employees are provided with pensions through plans that are not administered through certain trusts, defined in GASB Statement No. 68, as amended, and for state and local governmental nonemployer contributors that have a legal obligation for direct contributions to these plans.

14.14 Types of Defined Benefit Pension Plans and Employers

Within the reporting scope, Governmental employers must define what type of defined benefit plan to which they belong. Generally, defined benefit plans are classified according to the number of employers within the plan and whether plan assets are shared across employers (if applicable).

The following are types of defined benefit plans and the characteristics that define them:

- Single Employer Defined Benefit Plan — A plan that provides pensions to the employees of only one employer.
- Multiple Employer Defined Benefit Plan — A plan that provides pensions to the employees of more than one employer. Additionally, there are two subtypes of multiple employer plans which are defined by how assets are reported and shared:
 - i) Agent Multiple Employer Defined Benefit Plan — A plan in which the assets are pooled for investment purposes but separate accounts are maintained for each individual employer so only assets of a particular employer are available to pay benefits to employees of only that employer.
 - ii) Cost Sharing Multiple Employer Defined Benefit Plan — A plan in which the assets are pooled for investment purposes, but are available to pay benefits to employees of any employer within the plan.

14.15 Measurement of the Net Pension Liability

GASB Statement No. 68, as amended, states, in part, “A liability should be recognized for the net pension liability. The net pension liability should be measured as the portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service in conformity with the requirements of total pension liability, net of the pension plan’s fiduciary net position. The pension plan’s fiduciary net position should be determined using the same valuation methods used by the pension plan for purposes of preparing its financial statements. The net pension liability should be measured as of a date (measurement date) no earlier than the end of the employer’s prior fiscal year end, consistently applied from period to period.

Whether pensions are provided through single-employer, agent, or cost-sharing pension plans, both liabilities for net pension liabilities associated with different pension plans, and assets for net pension assets associated with different pension plans, may be displayed in the aggregate in the financial statements. Aggregated pension liabilities should be displayed separately from aggregated pension assets.

When calculating total pension liability the following should be taken into account:

- timing and frequency of actuarial valuations;
- selection of assumptions;
- projection of benefit payments;
- discount rate; and
- attribution of the actuarial present value of projected benefit payments to periods.”

14.16 Single and Agent Employers; Economic Resources and Accrual Basis

Changes in Net Pension Liability

GASB Statement No. 68, as amended, states, in part, “Changes in the net pension liability should be recognized in pension expense in the current reporting period except as indicated below:

- a) Each of the following should be recognized in pension expense, beginning in the current reporting period, using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees) determined as of the beginning of the measurement period.
 - (1) Differences between expected and actual experience with regard to economic or demographic factors (differences between expected and actual experience) in the measurement of the total pension liability.
 - (2) Changes of assumptions about future economic or demographic factors or of other inputs (changes of assumptions or other inputs). The portion of (1) and (2) not recognized in pension expense should be reported as deferred outflows of resources or deferred inflows of resources related to pensions.
- b) The difference between projected and actual earnings on pension plan investments should be recognized in pension expense using a systematic and rational method over a closed five-year period, beginning in the current reporting period. The amount not recognized in pension expense should be reported as deferred outflows of resources or deferred inflows of resources related to pensions. Deferred outflows of resources and deferred inflows of resources arising from differences between projected and actual pension plan investment earnings in different measurement periods should be aggregated and reported as a net deferred outflow of resources related to pensions or a net deferred inflow of resources related to pensions.
- c) Contributions to the pension plan from the employer should not be recognized in pension expense.
- d) Contributions to the pension plan from non-employer contributing entities that are not in a special funding situation should be recognized as revenue.

Contributions to the pension plan from the employer subsequent to the measurement date of the net pension liability and before the end of the reporting period should be reported as a deferred outflow of resources related to pensions.”

14.17 Single and Agent Employers; Financial Resources / Modified Accrual Basis

GASB Statement No. 68, as amended, states, in part, “The financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, a net pension liability should be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources.

Pension expenditures should be recognized equal to the total of:

- amounts paid by the employer to the pension plan and;
- the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. Net pension liabilities are normally expected to be liquidated with expendable available financial resources to the extent that benefit payments have matured — that is, benefit payments are due and payable, and the pension plan’s fiduciary net position is sufficient for payment of those benefits.”

14.18 Cost-Sharing Employers: Economic Resources and Accrual Basis

Proportionate Share of the Collective Net Pension Liability

GASB Statement No. 68, as amended, states, in part, “A liability should be recognized for the employer’s proportionate share of the collective net pension liability, measured as of a date (measurement date) no earlier than the end of the employer’s prior fiscal year, consistently applied from period to period. The employer’s proportionate share of the collective net pension liability should be measured by:

- a. Determining the employer’s portion — a measure of the proportionate relationship of (1) the employer (and, to the extent associated with the employer, non-employer contributing entities, if any, that provide support for the employer but that are not in a special funding situation) to (2) all employers and all non-employer contributing entities. The basis for the employer’s proportion should be consistent with the manner in which contributions to the pension plan, excluding those to separately finance specific liabilities of an individual employer to the pension plan, are determined. The use of the employer’s projected long-term contribution effort to the pension plan (including that of non-employer contributing entities that provide support for the employer but that are not in a special funding situation) as compared to the total projected long-term contribution effort of all employers and all non-employer contributing entities to determine the employer’s proportion is encouraged.
- b. Multiplying the collective net pension liability by the employer’s proportion calculated in (a).

To the extent that different contribution rates are assessed based on separate relationships that constitute the collective net pension liability (for example, separate rates are calculated based on an internal allocation of liabilities and assets for different classes or groups of employees), the determination of the employer's proportionate share of the collective net pension liability should be made in a manner that reflects those separate relationships.

The employer's proportion should be established as of the measurement date, unless the employer's proportion is actuarially determined, in which case a proportion established at the date of the actuarial valuation used to determine the collective net pension liability may be used.

Whether pensions are provided through cost-sharing, single-employer, or agent pension plans, liabilities for net pension liabilities associated with different pension plans may be displayed in the aggregate, and assets for net pension assets associated with different pension plans may be displayed in the aggregate in the financial statements. Aggregated pension liabilities should be displayed separately from aggregated pension assets”.

Proportionate Share of Deferred Outflows/Inflows of Resources Related to Pensions

GASB Statement No. 68, as amended, states, in part, “*Pension expense, as well as deferred outflows of resources and deferred inflows of resources* related to pensions, should be recognized for the employer's proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions. The employer's proportionate shares should be determined using the employer's proportion of the collective net pension liability.”

Change in Proportion

GASB Statement No. 68, as amended, states, in part, “If there is a change in the employer's proportion of the collective net pension liability since the prior measurement date, the net effect of that change on the employer's proportionate shares of the collective net pension liability and collective deferred outflows of resources and deferred inflows of resources related to pensions, determined as of the beginning of the measurement period, should be recognized in the employer's pension expense, beginning in the current reporting period, using a systematic and rational method over a closed period. For this purpose, the length of the expense recognition period should be equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees) determined as of the beginning of the measurement period. The amount not recognized in the employer's pension expense should be reported as a deferred outflow of resources or deferred inflow of resources related to pensions.”

Contributions during the Measurement Period

GASB Statement 68, as amended, states, in part, “For contributions to the pension plan, other than those to separately finance specific liabilities of an individual employer or non-employer contributing entity to the pension plan, the difference during the measurement period between (a) the total amount of such contributions from the employer (and amounts associated with the employer from non-employer contributing entities that are not in a special funding situation) and (b) the amount of the employer’s proportionate share of the total of such contributions from all employers and all non-employer contributing entities should be recognized in the employer’s pension expense, beginning in the current reporting period, using a systematic and rational method over a closed period. For this purpose, the length of the expense recognition period should be equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees) determined as of the beginning of the measurement period. The amount not recognized in the employer’s pension expense should be reported as a deferred outflow of resources or deferred inflow of resources related to pensions. For contributions to the pension plan to separately finance specific liabilities of the individual employer to the pension plan, the difference during the measurement period between (a) the amount of such contributions from the employer (and amounts associated with the employer from non-employer contributing entities that are not in a special funding situation) and (b) the amount of the employer’s proportionate share of the total of the contributions in (a), determined using the employer’s proportion of the collective net pension liability, should be recognized in the employer’s pension expense.”

GASB Statement No. 73, *Accounting and Financial Reporting for Pension Related Assets Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, states in part, “For contributions made by others to the pension plan during the measurement period to separately finance specific liabilities to the pension plan (excluding amounts associated with the employer from nonemployer contributing entities that are not in a special funding situation), the amount of the employer’s proportionate share of the total of such contributions determined using the employer’s proportion of the collective net pension liability should be recognized as a reduction of the employer’s pension expense.”

Employer Contributions Subsequent to Measurement Date

GASB Statement No. 68, as amended, states, in part, “Contributions to the pension plan from the employer subsequent to the measurement date of the collective net pension liability and before the end of the employer’s reporting period should be reported as a deferred outflow of resources related to pensions. In addition to the deferred inflows and outflows of resources arising from the calculation of pension expense, employers will also report a deferred outflow of resources for contributions to the pension system that occur after the measurement date.”

Under new GASB standards, employer contributions to pension systems are no longer considered a component of administrative expenses. These contributions are now treated as a payment of an outstanding liability, the net pension liability created through the employment arrangement.

14.19 Cost-Sharing Employers: Financial Resources and Modified Accrual Basis

GASB Statement No. 68, as amended, states, in part, “In financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, an employer’s proportionate share of the collective net pension liability should be recognized to the extent the liability measured as of the end of the reporting period is normally expected to be liquidated with expendable available financial resources. Net pension liabilities are normally expected to be liquidated with expendable available financial resources to the extent that benefit payments have matured—that is, benefit payments are due and payable and the pension plan’s fiduciary net position is not sufficient for payment of those benefits. Pension expenditures should be recognized equal to the total of (a) amounts paid during the reporting period by the employer (and, to the extent associated with the employer, by nonemployer contributing entities, if any) to the pension plan and (b) the change between the employer’s (and to the extent associated with the employer, nonemployer contributing entities’, if any) beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. Pension expenditures include amounts for payables to a pension plan.”

Special Funding Situations

A “Special Funding” situation exists when a nonemployer is statutorily required to make contributions into a pension plan.

According GASB Statement No. 68, as amended, a special funding situation exists when:

- (a) “The amount of contributions for which the non-employer entity is legally responsible is *not* dependent upon one or more events unrelated to pensions.
- (b) The non-employer is the only entity with a legal obligation to make contributions directly to a pension plan.

Special funding situations do not include circumstances in which resources are provided to the employer, regardless of the purpose for which those resources are provided.”

GASB Statement No. 68 states in part, “This Statement requires an employer that has a special funding situation for defined benefit pensions to recognize a pension liability and deferred outflows of resources and deferred inflows of resources related to pensions with adjustments for the involvement of non-employer contributing entities. The employer is required to recognize its proportionate share of the collective pension expense, as well as additional pension expense and revenue for the pension support of the non-employer contributing entities. This Statement requires the employer to disclose in notes to financial statements information about the amount of support provided by non-employer contributing entities and to present similar information about the involvement of those entities in 10-year schedules of required supplementary information.

The approach required by this Statement for measurement and recognition of liabilities, deferred outflows of resources and deferred inflows of resources, and expense by a governmental non-employer contributing entity in a special funding situation for defined benefit pensions is similar to the approach required for cost-sharing employers.

The information that should be disclosed in notes to financial statements and presented in required supplementary information of a governmental non-employer contributing entity in a special funding situation depends on the proportion of the collective net pension liability that it recognizes. If the governmental non-employer contributing entity recognizes a substantial proportion of the collective net pension liability, it should disclose in notes to financial statements a description of the pensions, including the types of benefits provided and the employees covered, and the discount rate and assumptions made in the measurement of the net pension liability. The governmental non-employer contributing entity also should present schedules of required supplementary information similar to those required of a cost-sharing employer. Reduced note disclosures and required supplementary information are required for governmental non-employer contributing entities that recognize a less-than-substantial portion of the collective net pension liability.”

Employer Calculation of Pension Expense

| Change in NPL subject to immediate recognition | |
|---|---|
| Plus (+) | Annual amount of service life amortization |
| Plus (+) | Annual amount of amortized investment returns |
| Equals (=) | Total Pension Expense |

In general, pension expense represents a change in the NPL from one measurement date to the next. The beginning NPL balance represents the value as of the previous year’s measurement date and the ending NPL balance represents the value as of the current year’s measurement date. The difference between these two values is the change in NPL.

Because the NPL can increase or decrease from one year to the next depending on such things as investment return, it is possible to have a pension expense one year and pension revenue the next.

GASB recognizes that certain elements of the total pension liability and plan net position have a longer-term perspective than can be represented in the current period. To reduce the volatility of the annual pension expense/revenue, these elements are amortized over periods of specific duration.

Elements subject to amortization include:

- actuarial gains and losses representing difference between actual and projected member experience;
- changes in actuarial assumptions;
- differences between actual and projected investment gains and losses;
- the effect of a change in employer’s total pension liability from one measurement date to the next; and;
- the difference between an employer’s contributions during the measurement period and the employer’s proportionate share of total contributions.

With the exception of differences between actual and projected investment gains and losses, each of these elements is amortized over the average expected remaining service lives of all plan members, determined as of the beginning of the measurement period. Differences between projected and actual

investment gains and losses are amortized over a closed five-year period. The use of closed periods means that there will be multiple tiers of annual values subject to amortization.

Annual amounts subject to amortization are deducted from the change in NPL to determine the portion of the NPL that will be immediately recognized as pension expense in the current year.

Amounts subject to amortization that are not recognized in the current year's pension expense are reported as *deferred inflow of resources* or *deferred outflow of resources*. Each year thereafter, a portion of these balances equal to the annual amortization amount of each tier is recognized in the pension expense of that year until the value of the tier is fully expensed.

Average Expected Remaining Service Lives

The average expected remaining service lives of active members is determined by the actuary based on actuarial assumptions regarding exit age probabilities. Remaining service life does not apply to members who are no longer working. Depending on the relative size of the active employee population, an example aggregate average could be ten years. In that case, it would take an estimated ten years to fully recognize the pension expense associated with each year's deferred amounts subject to a closed period amortization schedule.

Expense recognition of amounts subject to amortization begins in the current measurement period and continues in equal amounts each year until the end of the average expected remaining service lives period for that tier. Amounts subject to amortization have an expense recognition period equal to the average expected remaining service lives determined as of the beginning of the measurement period.

It is possible for the average expected remaining service lives to change from one year to the next based on member demographics, such as significant attrition of active members anticipating a change in retirement benefits. However, the annual amortization amount for elements subject to amortization in a given measurement period is based on the average expected remaining service lives for that period.

14.20 Notes to Financial Statements

The total of the employer's pension liabilities (aggregate for all pensions, whether provided through single-employer, agent, or cost-sharing pension plans), pension assets, *deferred outflow of resources* and *deferred inflow of resources* related to pensions, and pension expense/expenditures for the period associated with net pension liabilities should be disclosed, if the total amounts are not otherwise identifiable from information presented in the financial statements.

Single and Agent Employers

Under circumstances in which the employees of a primary government and its component units are provided with pensions through the same single-employer or agent pension plan, the note disclosures in the reporting entity's financial statements should separately identify amounts associated with the primary government (including its blended component units) and those associated with its discretely presented component units.

Cost-Sharing Employers, Governmental Non-Employer Contributing Entities that Recognize a Substantial Proportion of Collective Net Pension Liability

Information should be disclosed for benefits provided through each cost-sharing pension plan in which the employer participates. Disclosures related to more than one pension plan should be combined in a manner that avoids unnecessary duplication.

Governmental Non-Employer Contributing Entities that Recognize a Less than Substantial Proportion of the Collective Net Pension Liability

If the governmental non-employer contributing entity recognizes more than one collective net pension liability, information may be presented in the aggregate for all such liabilities.

Defined Contribution Plans — No Special Funding Situation

In financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, pension expenditures should be recognized equal to the total of (a) amounts paid by the employer to the pension plan and (b) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable financial resources. A liability for defined contribution pensions should be recognized to the extent that the liability is normally expected to be liquidated with expendable available financial resources. Liabilities for defined contribution pensions are normally expected to be liquidated with expendable available financial resources to the extent that contributions are due and payable pursuant to legal requirements, including contractual arrangements.

Pension liabilities and assets for pensions provided through different pension plans may each be displayed in the aggregate in the financial statements. Aggregated pension liabilities should be displayed separately from aggregated pension assets.

Defined Contribution Plans — Special Funding Situation

The employer should disclose (a) the proportion of the total pension expense for pensions provided through the pension plan that is represented by the employer's expense and (b) the amount of revenue recognized as a result of the support provided by non-employer contributing entities.

NOTE: Refer to GASB Statement No. 68, as amended for further explanation of the note requirements.

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14.21 Notes to Financial Statement GASB 68 Note Disclosures

| NOTES TO FINANCIAL STATEMENT GASB 68 NOTE DISCLOSURES | DEFINED BENEFIT PLANS | | | | DEFINED CONTRIBUTIONS PLANS | |
|---|--------------------------|------------------------|--|--|-----------------------------|----------------------------|
| | Single & Agent Employers | Cost Sharing Employers | Governmental Nonemployer Contributing Entities Recognizing Substantial Portion of Collective Net Pension Liability | Governmental Nonemployer Contributing Entities Recognizing Less Than Substantial Portion of Collective Net Pension Liability | No Special Funding | Special Funding Situations |
| <i>Pension Plan Description</i> | | | | | | |
| <i>Name of the Plan</i> | X | X | X | X | X | X |
| <i>Identification of Type of Plan</i> | X | X | X | X | X | X |
| <i>Description of Benefits and Authority Establishing Benefits</i> | X | X | X | | X | X |
| <i>Contribution Requirements and Authority Establishing the Rates</i> | X | X | | X | X | X |
| <i>Pension Expense Recognized</i> | | | | | X | X |
| <i>Amount of Forfeitures in Pension Expense Recognized</i> | | | | | X | X |
| <i>Liability Outstanding at the End of the Period</i> | | | | | X | X |
| <i>Number Outstanding at the End of the Period</i> | X | | | | | |
| <i>Whether the Plan Issues Stand Alone Financial Report</i> | X | X | X | | | |
| <i>Net Pension Liability</i> | | | | | | |
| <i>Assumptions and Other Inputs</i> | | | | | | |
| <i>Significant Assumptions and Sources</i> | X | X | X | | | |

| NOTES TO FINANCIAL STATEMENT GASB 68 NOTE DISCLOSURES | DEFINED BENEFIT PLANS | | | | DEFINED CONTRIBUTIONS PLANS | |
|---|--------------------------|------------------------|--|--|-----------------------------|----------------------------|
| | Single & Agent Employers | Cost Sharing Employers | Governmental Nonemployer Contributing Entities Recognizing Substantial Portion of Collective Net Pension Liability | Governmental Nonemployer Contributing Entities Recognizing Less Than Substantial Portion of Collective Net Pension Liability | No Special Funding | Special Funding Situations |
| <i>Dates of experience Studies on which the Assumptions are Based</i> | X | X | X | | | |
| <i>Discount Rate Applied</i> | X | X | X | | | |
| <i>Assumptions about Projected Cash Flows Into and Out of the Plan</i> | X | X | X | | | |
| <i>Long Term Expected Rate of Return</i> | X | X | X | | | |
| <i>Municipal Bond Rate if Incorporated</i> | X | X | X | | | |
| <i>Periods of Projected Benefit Payments</i> | X | X | X | | | |
| <i>Asset Allocation of the Pension Plans Portfolio</i> | X | X | X | | | |
| <i>Sensitivity of Net Pension Liability to Changes in Discount Rate (+1% and -1%)</i> | X | X | X | | | |
| <i>Pension Plan's Fiduciary Net Position</i> | | | | | | |
| <i>Assets</i> | | | | | | |
| <i>Deferred Outflows of Resources</i> | | | | | | |
| <i>Liabilities</i> | | | | | | |
| <i>Deferred Inflows of Resources</i> | | | | | | |
| <i>Fiduciary Net Position</i> | | | | | | |

| NOTES TO FINANCIAL STATEMENT GASB 68 NOTE DISCLOSURES | DEFINED BENEFIT PLANS | | | | DEFINED CONTRIBUTIONS PLANS | |
|--|--------------------------|------------------------|--|--|-----------------------------|----------------------------|
| | Single & Agent Employers | Cost Sharing Employers | Governmental Nonemployer Contributing Entities Recognizing Substantial Portion of Collective Net Pension Liability | Governmental Nonemployer Contributing Entities Recognizing Less Than Substantial Portion of Collective Net Pension Liability | No Special Funding | Special Funding Situations |
| <i>Changes in Net Pension Liability</i> | | | | | | |
| <i>Beginning Total Pension Liability, Pension Plans Fiduciary Net Position and Net Pension Liability</i> | X | | | | | |
| <i>Service Cost</i> | X | | | | | |
| <i>Interest</i> | X | | | | | |
| <i>Changes in Benefit Terms</i> | X | | | | | |
| <i>Differences Between Expected and Actual Experience</i> | X | | | | | |
| <i>Changes in Assumptions</i> | X | | | | | |
| <i>Contributions from the Employer</i> | X | | | | | |
| <i>Contributions from Non-Employer Contributing Entities</i> | X | | | | | |
| <i>Contributions from Employees</i> | X | | | | | |
| <i>Pension Plan Net Investment Income (Loss)</i> | X | | | | | |
| <i>Benefit Payment Including Refunds</i> | X | | | | | |
| <i>Pension Plan Administrative Costs</i> | X | | | | | |
| <i>Other Changes</i> | X | | | | | |

| NOTES TO FINANCIAL STATEMENT GASB 68 NOTE DISCLOSURES | DEFINED BENEFIT PLANS | | | | DEFINED CONTRIBUTIONS PLANS | |
|---|--------------------------|------------------------|--|--|-----------------------------|----------------------------|
| | Single & Agent Employers | Cost Sharing Employers | Governmental Nonemployer Contributing Entities Recognizing Substantial Portion of Collective Net Pension Liability | Governmental Nonemployer Contributing Entities Recognizing Less Than Substantial Portion of Collective Net Pension Liability | No Special Funding | Special Funding Situations |
| <i>Ending Balances of Total Pension Liability, Pension Plans Fiduciary Net Position and Net Pension Liability</i> | X | | | | | |
| <i>Special Funding Situation</i> | | | | | | |
| <i>Non-employer Contribution Entitles' Total Proportionate Share of Collective Net Pension Liability</i> | X | | | | | |
| <i>Employer's Proportionate Share of the Collective Net Pension Liability</i> | X | | | | | |
| <i>Additional Disclosures if Applicable</i> | | | | | | |
| <i>Measurement Date of Net Pension Liability</i> | X | X | X | | | |
| <i>Date of Actuarial Valuation Used</i> | X | X | X | | | |
| <i>Employer's Proportion of the Collective Net Pension Liability</i> | X | X | | X | | |
| <i>Basis on How the proportion was Determined</i> | X | X | X | X | | |
| <i>Special Funding Situation</i> | | | | | | |

| NOTES TO FINANCIAL STATEMENT GASB 68 NOTE DISCLOSURES | DEFINED BENEFIT PLANS | | | | DEFINED CONTRIBUTIONS PLANS | |
|--|--------------------------|------------------------|--|--|-----------------------------|----------------------------|
| | Single & Agent Employers | Cost Sharing Employers | Governmental Nonemployer Contributing Entities Recognizing Substantial Portion of Collective Net Pension Liability | Governmental Nonemployer Contributing Entities Recognizing Less Than Substantial Portion of Collective Net Pension Liability | No Special Funding | Special Funding Situations |
| <i>Portion of Non-Employer Contributing Entities Total proportionate Share of Collective Net Pension Liability Associated with the Employer</i> | | X | X | | | |
| <i>Total of Employer's Proportionate Share of the Collective Net Pension Liability</i> | | X | | | | |
| <i>Change in Proportion from Prior Measurement Date</i> | X | X | | | X | |
| <i>Brief Description of Changes in Assumptions Affecting Changes in Total Pension Liability Since Prior Measurement Date</i> | X | X | X | | | |
| <i>Brief Description of Changes in Benefit Terms Affecting Changes in Total Pension Liability Since Prior Measurement Date</i> | X | X | X | | | |
| <i>Amount of Benefit Payments Attributed to Purchase of Allocated Insurance Contracts Including Obligation to Transfer Payments from the Employer to One or More Insurance Companies</i> | X | | | | | |

| NOTES TO FINANCIAL STATEMENT GASB 68 NOTE DISCLOSURES | DEFINED BENEFIT PLANS | | | | DEFINED CONTRIBUTIONS PLANS | |
|---|--------------------------|------------------------|--|--|-----------------------------|----------------------------|
| | Single & Agent Employers | Cost Sharing Employers | Governmental Nonemployer Contributing Entities Recognizing Substantial Portion of Collective Net Pension Liability | Governmental Nonemployer Contributing Entities Recognizing Less Than Substantial Portion of Collective Net Pension Liability | No Special Funding | Special Funding Situations |
| <i>Brief Description of Nature of Changes Between Measurement Date and the Reporting Date that are Expected to have a Significant Effect on the Net Pension Liability</i> | X | X | X | | | |
| <i>Pension Expense Recognized by the Employer</i> | X | X | X | X | | |
| <i>Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources</i> | | | | | | |
| <i>Difference Between Expected and Actual Experience</i> | X | X | X | | | |
| <i>Changes of Assumptions</i> | X | X | X | | | |
| <i>Net Difference Between Projected and Actual Investment Earnings</i> | X | X | X | | | |
| <i>If Special Funding Situation — Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions</i> | X | X | X | | | |
| <i>Subsequent Contributions to the Measurement Date</i> | X | X | X | | | |
| <i>Five Year Schedule</i> | | | | | | |

| NOTES TO FINANCIAL STATEMENT GASB 68 NOTE DISCLOSURES | DEFINED BENEFIT PLANS | | | | DEFINED CONTRIBUTIONS PLANS | |
|--|--------------------------|------------------------|--|--|-----------------------------|----------------------------|
| | Single & Agent Employers | Cost Sharing Employers | Governmental Nonemployer Contributing Entities Recognizing Substantial Portion of Collective Net Pension Liability | Governmental Nonemployer Contributing Entities Recognizing Less Than Substantial Portion of Collective Net Pension Liability | No Special Funding | Special Funding Situations |
| <i>Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources to be Recognized in the Pension Expense</i> | X | X | X | | | |
| <i>Special Funding Situations</i> | | | | | | |
| <i>NO — Balance of Deferred Outflows to be Recognized as a Reduction of the Net Pension Liability</i> | X | | | | | |
| <i>YES — Balance of Deferred Outflows to be Included as a Reduction of the Collective net Pension Liability</i> | X | | | X | | |
| <i>Revenue Recognized for Support by Non-Employer Contributing Entities</i> | X | X | | | | |

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14.22 Required Supplementary Information (RSI)

GASB Statement No. 68, as amended, states, in part, “The following information must be presented in schedules of Required Supplementary Information (RSI) for each single-employer and agent pension plan through which pensions are provided. Information should be determined as of the measurement date of the net pension liability and may be presented in a single schedule. The information should be determined as of the employer's most recent fiscal year-end. If a primary government and one or more of its component units provide pensions through the same single-employer or agent pension plan, required supplementary information in the reporting entity’s financial statements should present information for the reporting entity as a whole.

- 1) A 10-year schedule of changes in net pension liability that separately presents for each year:
 - a) The beginning and ending balances of the total pension liability, the pension plan’s fiduciary net position, and the net pension liability; and
 - b) The effects of the following on items in (a) during the year, as applicable:
 - service cost;
 - interest on the total pension liability;
 - changes of benefit terms;
 - differences between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability;
 - changes of assumptions about future economic or demographic factors or of other inputs;
 - contributions from employers;
 - contributions from non-employer contributing entities;
 - contributions from plan members;
 - pension plan net investment income;
 - benefit payments, including refunds of plan member contributions;
 - pension plan administrative expense; and
 - other changes, separately identified if individually significant.
- 2) A 10-year schedule presenting the following for each year:
 - total pension liability;
 - pension plan’s fiduciary net position;
 - net pension liability;
 - pension plan’s fiduciary net position as a percentage of the total pension liability;
 - covered payroll; and
 - net pension liability as a percentage of covered payroll.

- 3) A 10-year schedule presenting the following information for each year, if an actuarially determined contribution is calculated:
- Actuarially determined contributions of the employer. For the purposes of this schedule, actuarially determined contributions should exclude amounts, if any, associated with payables to the pension plan that arose in a prior fiscal year and those associated with separately financed specific liabilities of the individual employer to the pension plan.
 - Amount of contributions recognized during the fiscal year by the pension plan in relation to the actuarially determined contribution of the employer. For purposes of this schedule, contributions should include only amounts recognized as additions to the pension plan's fiduciary net position during the employer's fiscal year resulting from actual contributions and from contributions recognized by the pension plan as current receivables.
 - Difference between the actuarially determined contributions of the employer and the amount of contributions recognized by the pension plan in relation to the actuarially determined contribution of the employer.
 - Covered payroll.
 - Amounts of contributions recognized by the pension plan in relation to the actuarially determined contribution of the employer as a percentage of covered payroll.
- 4) A 10-year schedule presenting the following information for each year, if an actuarially determined contribution is not calculated and the contribution requirements of the employer are statutorily or contractually established:
- Statutorily or contractually required employer contribution. For purposes of this schedule, statutorily or contractually required contributions should exclude amounts, if any, associated with payables to the pension plan that arose in a prior fiscal year and those associated with separately finance specific liabilities of the individual employer to the pension plan.
 - Amount of contributions recognized during the fiscal year by the pension plan in relation to the actuarially determined contribution of the employer. For purposes of this schedule, contributions should include only amounts recognized as additions to the pension plan's fiduciary net position during the employer's fiscal year resulting from actual contributions and from contributions recognized by the pension plan as current receivables.
 - Difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution.
 - Covered payroll.
 - Amounts of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of covered payroll.

The following information is required to be presented in schedules of Required Supplementary Information (RSI) for each cost-sharing pension plan through which pensions are provided. Information should be determined as of the measurement date of the collective net pension liability and should be determined as of the employer's most recent fiscal year-end.

1. A 10-year schedule presenting the following for each year:
 - employer's proportion (percentage) of the collective net pension liability;
 - employer's proportionate share (amount) of the collective net pension liability;
 - employer's covered payroll
 - employer's proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered payroll; and
 - the pension plan's fiduciary net position as a percentage of the total pension liability.

2. A 10-year schedule presenting for each year the information indicated below, if an actuarially determined contribution is not calculated and the contribution requirements of the employer are statutorily or contractually established:
 - Employer's proportion (percentage) of the collective net pension liability.

 - Statutorily or contractually required employer contribution. For purposes of this schedule, statutorily or contractually required contributions should exclude amounts, if any, to separately finance specific liabilities of the individual employer to the pension plan.

 - Amount of contributions recognized during the fiscal year by the pension plan in relation to the actuarially determined contribution of the employer. For purposes of this schedule, contributions should include only amounts recognized as additions to the pension plan's fiduciary net position during the employer's fiscal year resulting from actual contributions and from contributions recognized by the pension plan as current receivables.

 - Difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution.

 - Employer's covered payroll.

 - Amounts of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of covered payroll.

The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, that information should be presented for as many years as are available.”

See Section 17.24, *Overview of Required Supplementary Information (RSI)* for additional information.

14.23 Note to Required Schedules

The following are required to be presented in the notes to the Required Supplementary Information (RSI):

- For single-employer and agent pension plans through which pensions are provided, key methods and assumptions used in calculating the actuarially determined contributions reported per Section 14.09, part 1(a).
- Factors that significantly affect trends in the amounts reported in Section 14.11, include the following:
 - changes of assumptions;
 - changes of benefit terms; and
 - changes in size or composition of the population covered by the benefit terms.

14.24 Illustrations — Financial Statements, Notes, and Required Supplementary Information

| EXAMPLE – SPECIAL DISTRICT | | |
|---|-------------|-------------|
| STATEMENT OF FIDUCIARY NET POSITION | | |
| Fiscal Year Ended December 31, 20X1 and 20X2 | | |
| ASSETS | 20X1 | 20X2 |
| Cash & Cash Equivalents | | |
| Receivables | | |
| Contributions | | |
| Member Contributions | | |
| Employer Contributions | | |
| Investments | | |
| Accrued Interest | | |
| Dividends | | |
| Real Estate Mortgage Loans | | |
| Hedge Funds | | |
| Other Receivables | | |
| Sales of Securities | | |
| Real Estate Income | | |
| Miscellaneous | | |
| Investments (at Fair Value) | | |
| Short-Term Investments | | |
| Global Debt Securities | | |
| U.S Government Securities | | |
| Domestic Corporate Bonds | | |
| Municipal Bonds | | |
| International Bonds | | |
| Global Equity Securities | | |
| Domestic Stocks | | |
| International Stocks | | |
| Securities Lending Collateral | | |
| Private Equity | | |
| Real Estate Equity | | |
| Other Investments | | |
| Capital Assets (Net of Accumulated Depreciation) | | |
| Equipment and Furniture | | |
| Accumulated Depreciation — Equipment and Furniture | | |
| Buildings and Improvements | | |
| Accumulated Depreciation — Buildings and Improvements | | |
| Land | | |

| EXAMPLE – SPECIAL DISTRICT STATEMENT OF FIDUCIARY NET POSITION Fiscal Year Ended December 31, 20X1 and 20X2 | | |
|---|------|------|
| ASSETS | 20X1 | 20X2 |
| Other Assets | | |
| Total Assets | \$ | \$ |
| Deferred Outflows of Resources | | |
| LIABILITIES | 20X1 | 20X2 |
| Accounts Payable | | |
| Investment Purchase Payable | | |
| Securities Lending Obligation | | |
| Benefits Payable | | |
| Other Liabilities | | |
| Refunds Payable | | |
| Actuarial Services Fee | | |
| Custodian Services Fee | | |
| Investment Counselor Fee | | |
| Administrative Fee Expenses | | |
| Total Liabilities | \$ | \$ |
| Deferred Inflows of Resources | | |
| Net Position Held in Trust for Pension Benefits | \$ | \$ |

| COUNTY EMPLOYEE’S RETIREMENT ASSOCIATION STATEMENT OF CHANGES IN FIDUCIARY NET POSITION Fiscal Year Ended December 31, 20X1 and 20X2 | | |
|--|------|------|
| ADDITIONS | 20X1 | 20X2 |
| Contributions | | |
| Employer Contributions | | |
| Safety | | |
| Miscellaneous | | |
| Combined | | |
| Member Contributions | | |
| Safety | | |
| Miscellaneous | | |
| Combined | | |
| Other Contributions | | |
| Safety | | |
| Miscellaneous | | |
| Combined | | |
| Investments Income (Loss) | | |
| Securities Lending Income | | |

| COUNTY EMPLOYEE'S RETIREMENT ASSOCIATION STATEMENT OF CHANGES IN FIDUCIARY NET POSITION Fiscal Year Ended December 31, 20X1 and 20X2 | | |
|--|------|------|
| ADDITIONS | 20X1 | 20X2 |
| Interest Income | | |
| Bonds | | |
| Short-Term Investments | | |
| Dividends Income | | |
| Net Appreciation (Depreciation) in Fair Value of Investments | | |
| Other Investment Income | | |
| (Investment Expenses) | | |
| (Cost of Lending Securities) | | |
| Other Income | | |
| Total Additions | \$ | \$ |
| DEDUCTIONS | 20X1 | 20X2 |
| Benefit Payments | | |
| Service Retirement | | |
| Safety | | |
| Miscellaneous | | |
| Combined | | |
| Disability | | |
| Safety | | |
| Miscellaneous | | |
| Combined | | |
| Other | | |
| Safety | | |
| Miscellaneous | | |
| Combined | | |
| Member Refunds | | |
| Safety | | |
| Miscellaneous | | |
| Combined | | |
| Member Withdrawals | | |
| Safety | | |
| Miscellaneous | | |
| Combined | | |
| Administration Expenses | | |
| General | | |
| Professional Services | | |
| Other Expenses | | |
| Total Deductions | \$ | \$ |

| COUNTY EMPLOYEE'S RETIREMENT ASSOCIATION STATEMENT OF CHANGES IN FIDUCIARY NET POSITION Fiscal Year Ended December 31, 20X1 and 20X2 | | |
|---|-------------|-------------|
| ADDITIONS | 20X1 | 20X2 |
| Net Increase (Decrease) in Plan Fiduciary Net Position | \$ | \$ |
| Net Position Held in Trust for Pension Benefits Beginning of Year | | |
| Net Position Held in Trust for Pension Benefits End of Year | \$ | \$ |

**Example – Special District
Notes to the Financial Statements
For the years ended December 31, 20X1 and 20X2
(Dollar Amounts in Thousands)**

These Notes are recommended and are generally required by the Statements of the Governmental Accounting Standards Board.

Note 1: Plan Description

Plan Administration — The County Employees Retirement Association (CERA) administers the County Employees Pension Plan (CEPP), a single-employer defined benefit pension plan that provides pensions for all permanent full-time general and public safety employees of the County.

Plan Membership — At December 31, 20X2, plan membership consisted of the following:

| | |
|---|------------------------|
| Inactive plan members of beneficiaries currently receiving benefits | \$X,XXX |
| Inactive plan members entitled to, but not yet receiving benefits | X,XXX |
| Active plan members | X,XXX |
| | <u>\$XX,XXX</u> |

Benefit Provided — CEPP provides retirement, disability, and death benefits

Contributions — The Board establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The County is required to contribute the difference between the actuarially determined rate and the contribution rate of plan members. For the year ended December 31, 20X2, the average active member contribution rate was XX% of annual pay, and the County’s average contribution rate was XX.XX% of annual payroll.

Note 2: Summary of Significant Accounting Policies

Investments— Method used to value investments. Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Real estate assets are reported at fair value utilizing an income approach to valuation. By contrast, an independent appraisal is obtained once every year to determine the fair market value of the real estate assets.

Investment Policy — The pension plan’s policy in regard to the allocation of the invested assets. The policy is established and may be amended by the CERA Board by a majority vote of its members. It is the policy of the CERA Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan’s investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset allocations over short time spans. The following is the Board’s adopted asset allocation policy as of December 31, 20X2:

Example – Special District
Notes to the Financial Statements (Continued) For
the years ended December 31, 20X1 and 20X2
(Dollar Amounts in Thousands)

| Asset Class | Target Allocation |
|----------------------|-------------------|
| Domestic Equity | XX% |
| International Equity | XX |
| Fixed Income | XX |
| Real Estate | X |
| Cash | X |
| Total | 100% |

Net Pension Liability — The components of the net pension liability at December 31, 20X2, were as follows:

| | |
|-----------------------------|-------------|
| Total pension liability | \$X,XXX,XXX |
| Plan fiduciary net position | (X,XXX,XXX) |
| Net pension liability | \$X,XXX,XXX |

Plan fiduciary net position as a percentage of the total pension liability XX.XX%

Actuarial Assumptions — The total pension liability was determined by an actuarial valuation as of December 31, 20X2, using the following actuarial assumptions, applied to all periods included in the measurement:

| Inflation | X.X% |
|---------------------------|--|
| Salary increases | X.X%, average, including inflation |
| Investment rate of return | X.XX%, net of pension plan investment expense, including inflation |
| Mortality Assumptions | X.X% |

Discount Rate — Sensitivity of the net pension liability to changes in the discount rate. The following table presents the net pension liability of the County, calculated using the discount rate of X.XX%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1% point lower (X.XX%) or 1% point higher (X.XX%) than the current rate:

| | 1% Decrease | Current Rate | 1% Increase |
|------------------------------|--------------------|---------------------|--------------------|
| Net Pension Liability | \$X,XXX,XXX | \$X,XXX,XXX | \$X,XXX,XXX |

**Example – Special District
Notes to the Financial Statements (Continued) For
the years ended December 31, 20X1 and 20X2
(Dollar Amounts in Thousands)**

Actuarial Valuation — The information presented was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

- Valuation date
- Actuarial cost method
- Amortization method
- Remaining amortization period
- Asset valuation method
- Actuarial assumptions
- Investment rate of return
- Project salary increases
- Cost of living adjustments (Includes inflation at 0.00%)

Deferred Outflows/Inflows of Resources — CERA may enter into transactions that result in the consumption or acquisition of net assets in one period that are applicable to the future periods. Those consumptions or acquisitions are identified as *deferred outflows of resources* and *deferred inflows of resources*, respectively, and distinguished from assets and liabilities.

Funding Policy — Pension Plan — The plan classifies contributions as being employer-made due to a collective bargaining agreement. The pension periodically remits plan contributions to the administered trust in amounts authorized by the Board of Directors.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of net position. Actual results could differ from those estimates.

Note 3: Cash and Cash Equivalents

Cash and cash equivalents represent short term funds in operating accounts and deposits held in a pooled account. Short-term investments are expected to be utilized within 30 days and are reported at fair value.

Note 4: Receivables

Pension plan receivables generally are short term and consist of interest and dividends on investments, and contributions due as of the end of the reporting period from employers, non-employer contributing entities, and plan members. Amounts recognized as receivables for contributions should include only those due pursuant to legal requirements.

**Example – Special District
Notes to the Financial Statements (Continued) For
the years ended December 31, 20X1 and 20X2
(Dollar Amounts in Thousands)**

Note 5: Investments

The pension may invest, in accordance with state statutes, in any form or type of investment deemed prudent. The Board may invest, or delegate the authority to invest, the assets of the fund through the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction.

Note 6: Capital Assets

Capital assets consist of furniture, equipment, tangible assets (including computer software), and building and improvements for the portion of a headquarters building used for plan administration. Capital assets are defined as assets with an initial, individual cost of more than \$25,000 and estimated useful life in excess of one year. Such assets are recorded at cost. Capital assets are depreciated using the straight-line depreciation method over their estimated useful lives.

Note 7: Deferred Outflows/Inflows of Resources

Deferred outflows/inflows of resources are detailed below:

| | CY 20X2 | PY 20X1 |
|---|--------------------|--------------------|
| Deferred Outflow of Resources: | \$ | \$ |
| Accumulated decrease in fair value of hedging derivatives | \$ | \$ |
| Deferred Inflows of Resources: | \$ | \$ |
| Accumulated increase in fair value of hedging derivatives | \$ | \$ |

Note 8: Commitments and Contingencies

At December 31, 2012, the pension plan was involved in various litigation matters. In management’s opinion, and after consultation with legal counsel, the outcome of these matters is not expected to have a materially adverse effect on the financial position.

Required Supplementary Information:

- Schedule of changes in the net pension liability and related ratios;
- Schedule of employer’s contributions; and
- Schedule of investment returns.

Example – Special District
Notes to the Financial Statements (Continued)
For the years ended December 31, 20X2 and 20X1
(Dollar Amounts in Thousands)

Methods and assumptions used in calculations of actuarially determined contributions. The actuarially determined contribution rates in the schedule of contributions are calculated as December 31, two years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

| Actuarial Cost Method | Entry Age |
|-------------------------------|--|
| Amortization method | Level percentage of closed payroll |
| Remaining amortization period | XX years |
| Asset valuation method | X-year smoothed market |
| Inflation | X.X% |
| Salary increases | X.X%, average, including inflation |
| Investment rate of return | X.XX%, net of pension plan investment expense, including inflation |

Example – Special District
Schedules of Required Supplementary Information
Schedule of Changes in the Employer’s Net Pension Liability and Related Ratios
(Dollar Amounts in Thousands)

| Total Pension Liability | 20X2 |
|---|---------------------|
| Service Cost | \$ 72,924 |
| Interest | 219,455 |
| Changes of benefit terms | --- |
| Difference between expected and actual experience | (37,539) |
| Changes of assumptions | --- |
| Benefit payments, including refunds of member contributions | (119,434) |
| Net change in total pension liability | 135,406 |
| Total pension liability — beginning | 2,853,455 |
| Total pension liability — ending (a) | \$ 2,988,891 |
| | |
| Plan Fiduciary Net Position | |
| Contributions — employer | \$ 79,713 |
| Contributions — member | 31,451 |
| Net investment income | 196,154 |
| Benefit payments, including refunds of member contributions | (119,434) |
| Administrative expense | (3,373) |
| Other | 8 |
| Net change in plan fiduciary net position | 184,519 |
| Plan fiduciary net position — beginning | 2,052,589 |
| Plan fiduciary net position — ending (b) | \$ 2,237,108 |
| Employer’s net pension liability — ending (a-b) | \$ 751,753 |
| | |
| Plan fiduciary net position as percentage of the total pension liability | 74.85% |
| | |
| Covered payroll | \$ 449,293 |
| | |
| Employer’s net pension liability as a percentage of covered payroll | 167.32% |

**Example – Special District
Schedule of Employer Contributions
(Dollar Amounts in Thousands)**

| | 20X2 |
|--|-------------|
| Actuarially-determined contribution | \$ 79,713 |
| Contributions in relation to the actuarially-determined contribution | 79,713 |
| Contribution deficiency (excess) | \$ -- |
| | -- |
| Covered payroll | \$ 449,293 |
| Contributions as a percentage of covered payroll | 17.74% |

Notes to Schedule:

3. Valuation date
4. Actuarially-determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported
5. Methods and assumptions used to determine contribution rates
6. Actuarial cost method
7. Amortization method
8. Remaining amortization period
9. Asset valuation method
10. Inflation
11. Salary increases
12. Investment rate of return
13. Retirement Age
14. Mortality

Schedule of Investment Returns

| | 20X2 |
|---|-------------|
| Annual Money-weighted rate or return, net of investment expense | 9.58% |

Other Post-Employment Benefits Reporting

GASB Statements 74 and 75 have superseded GASB Statement No.'s 43, 45 and 57. Accounting and Financial Reporting requirements for other post-employment benefits will be covered in future editions of this manual.

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Chapter 15: Deferred Compensation Plans

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Chapter 15: Deferred Compensation Plans

Introduction

15.01 Nature and Purpose

Deferred compensation refers to an eligible deferred payment plan offered to employees whereby reporting of gross earnings are postponed to a future year, providing an exception to the general rule for reporting gross income to the Internal Revenue Service. The rules for eligibility for this timing for State and local governments are covered under U.S. Code: Title 26, Internal Revenue Code (IRC) section 457. To postpone earnings, an employee must agree to contribute current earnings according to the terms of the eligible plan.

The governing body of a special district may provide deferred compensation plans to the employees of the special district, including any of their subdivisions, agencies, or instrumentalities as long as they meet the requirements of IRC section 457. A primary benefit of most deferred compensation plans is the deferral of individual taxes on amounts being invested. Deferred compensation plans can be made up of annuities, pensions, deferred savings plans, stock options, and other deferred earnings. Vacation leave, sick leave, disability pay, or death benefit plans are excluded from eligibility. Some common examples of governmental deferred compensation plans include individual retirement accounts (IRA) accounts, 401(k) profit-sharing plans, 403(b) tax-sheltered annuity plans, and 457(b) retirement savings account, among others.

15.02 Deferred Compensation Plans

The deferred compensation plans should explain

- the meaning of words and terms;
- who will administer the plan;
- the types of investments to be made;
- who bears the cost of administration;
- which employees are eligible;
- how employees may enroll;
- the sign-up period;
- the maximum and minimum contributions;
- the investment options available to employees;
- how earnings are credited to individual accounts; and
- the processes if contributions are changed or terminated in full.

In addition, the employer is required to disclose the options available to the employee and beneficiary in the event of retirement, separation, disability, death, leave of absence, or hardship. Provisions must be made for the issuance of either W-2 or 1099 forms to former employees or their beneficiaries, covering plan disbursements.

15.03 Contributions

To be considered an eligible plan, IRC section 457 plans must be funded with assets held in trust for the benefit of employees. The deferred compensation fund should be reported as the appropriate fiduciary fund type according to the criteria covered in Chapter 4. An eligible plan may defer contributions from income up to an annual limit. In addition, “catch-up” contributions may be made to employees age 50 or older.

As defined in the plan documents, employee contributions may be pre-tax salary reductions (elective deferrals), designated Roth contributions, post-tax contributions, or catch-up contributions. The employer may make matching contributions, which can be discretionary or mandatory, for employees who contribute elective deferrals.

According to the IRS in *Retirement Topics—Contributions* at www.irs.gov: “Employers must deposit employee contributions to the retirement plan’s trust or individual accounts as soon as they can reasonably be segregated from the employer’s general assets. The Department of Labor provides a 7-business-day safe harbor rule for employee contributions to plans with fewer than 100 participants.”

15.04 Qualified and Nonqualified Plans

A *qualified employer plan* is a pension plan governed by the *Employee Retirement Income Security Act* (ERISA) and it must be offered to all employees, such as 401(k), 403(b), and 457(b) plans. The IRS administers a determination letter for sponsors to get advance assurance that their retirement plan is qualified. The special district should ensure their plan is operated in accordance to the plan document and that the determination letter is up to date. Online guidance to qualified plan requirements can be found at the IRS website, www.irs.gov, along with other guidance on retirement plans.

A *nonqualified deferred compensation plan* is a contractual agreement between the employer and employee to defer gross earnings. Rules for eligibility of a nonqualified plan are outlined in IRC section 409A. If an arrangement does not meet the requirements in IRC section 409A for a “qualified” plan, the deferred compensation must then meet the IRC section 409A criteria for a “nonqualified” plan to defer the income. If income is deferred but not in compliance with these requirements, then the employee becomes subject to interest and additional income tax, including a 20% additional tax and a possible penalty interest assessment.

Investments

15.05 Investment Valuation and Disclosure

If it is impractical to obtain investment valuation information from the plan administrator as of the special districts balance sheet date, then the most recent report of the administrator should be used, adjusted for interim contributions and withdrawals.

Special districts that report IRC Section 457 plans should refer to GASB Cod. Sec. D25.102 (Section D25, paragraph .102) for more details regarding valuation of plan assets if not using their actuarial or plan administrator information. All other plan investments should be reported at fair value.

Special districts should refer to GASB Cod. Sec. I50.108 (Section I50, paragraph .108) for more information on valuations.

Disclosures regarding the valuation and reporting of the investment assets should cover the techniques employed for the fair value measurement, changes from prior techniques, restrictions in the investments, and investment strategies. The disclosures of component units should be separately stated from the disclosures of the primary government.

Accounting for Deferred Compensation Plans

15.06 General Accounting

Accounting for deferred compensation plans requires an understanding of the underlying general transactions taking place. While the district records the earnings paid to the employee, deferred compensation is withheld from current earnings, similar to the withholding of payroll taxes, and therefore there is a liability to the employee for the withheld amount. To be eligible for the plan, the liability must be “funded”. In other words, an equivalent amount of assets must be held in trust to fund the liability, therefore there is a transfer of assets to the trust.

Some deferred compensation contracts provide for periodic payments to employees or their surviving spouses for life, with provisions for a minimum lump-sum settlement in the event of the early death of one or all of the beneficiaries. The estimated present value of future payments to be made under these types of contracts is required to be accrued over the period of active employment from the time the contract is agreed upon or entered into. The measurement of the total liability for the deferred compensation plan will depend on the individual plan and the value is usually provided through the services of an actuary. Chapter 14 provides additional guidance on the measurement of the total pension liability (TPL) for deferred compensation contributions to a pension plan.

Special districts should refer to the following GASB Statements for additional accounting and reporting guidance:

- GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, as amended.
- GASB Statement No. 67, *Reporting for Pensions Plans—an amendment of GASB Statement No. 25*, as amended.
- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, as amended.
- GASB Statement No. 73, *Accounting and for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB 67 and 68*, as amended.
- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended.
- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as amended.
- GASB Statement No. 82, *Pensions Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*, as amended.

Laws and Related Codes

15.07 State and Federal Law

Significant state and federal regulations pertaining to the deferred compensation plans are covered in multiple codes. Each local agency may establish a deferred compensation plan under California's Government Code section 53213, et seq., and each is obligated to identify risks and financial condition information annually under Labor Code section 2809. Deferred compensation plans are further covered in IRC sections 401 through 436, and 457.

For the most current regulations relating to the deferred compensation plans such as the IRC 401(a) plan—qualified plan, IRC 403(b) plan—annuity for public schools, and the IRC 457(b)/457(f) plans—nonqualified deferred compensation plans, go to the IRS website at <https://www.irs.gov/retirement-plans>.

15.08 Income Security Act of 1974 (ERISA)

The Income Security Act of 1974 (ERISA) set forth provisions that established new uniform requirements for all employee benefit plans, including notice and disclosure protections. Government plans are exempt from the requirements of ERISA, although many of the ERISA requirements have been incorporated into California statutory law and, therefore, made applicable to special district plans. ERISA provisions have been codified in U.S. Code, Title 29, Chapter 18, Retirement Income Security; the government exclusion is listed in Subchapter I, section 1003.

15.09 Small Business Job Protection Act of 1996

The purpose of the Small Business Job Protection Act of 1996 is to provide tax relief for small businesses, protect earnings, create opportunities, and increase the take-home pay of workers. The Act is the foundation for nondiscrimination provisions and new pension amendments that are in the current IRC.

15.10 Taxpayer Relief Act of 1997

The Taxpayer Relief Act of 1997 added provisions to U.S. Code for civil service retirement systems of State or local government, with administrative guidelines for trust funds. As part of this Act, Roth IRA's were established, permanently exempting these retirement accounts from capital gains taxes.

15.11 State and Federal Wages and Payroll Taxes

Under U.S. Code section 3401, deferred compensation plans are included in the definition of wages for the purpose of employment taxes. The Code of Federal Regulations include IRC provisions regarding the requirements for nonqualified plans in regard to the liability for social security tax. Refer to social security tax under Title 26, Chapter I, Subchapter C, Part 31, Subpart B, Section 31.3121(v)(2)-1 and federal unemployment tax under Title 26, Chapter C, Part 31, Subpart D, Section 31.3306(r)(2)-1.

The unique guidelines regarding the district's responsibility for withholding employee taxes and proper payroll tax reporting for deferred compensation can be obtained from the California State Employment Development Department (EDD) website at <https://www.edd.ca.gov/>, and the Internal Revenue Service (IRS) website at <https://www.irs.gov>.

Helpful employer publications to reference include the following:

- IRS Publication 5138, *Quick Reference Guide for Public Employers*;
- IRS Publication 15, *Circular E, Employer's Tax Guide*;
- IRS Publication 15-A, *Employer's Supplemental Tax Guide*;
- IRS Publication 963, *Federal-State Reference Guide*;
- EDD Information Sheets DE 231A, *Wages*; and
- DE 231EB, *Taxability of Employee Benefits*.

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Chapter 16: Risk Management

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Chapter 16: Risk Management

Introduction

Special districts are exposed to a variety of risks that may result in losses. These risks include possible losses from natural disasters, injuries to employees, or breaches of contract. The purpose of this section is to provide general guidance on accounting and financial reporting standards for risk, financing, and insurance-related activities for special districts.

16.01 Risks

Special districts face a variety of risks, which include

- torts (wrongful acts, injuries, or damages, not involving breach of contract, for which a civil action can be brought);
- theft of, damage to, or destruction of assets;
- business interruptions;
- errors and omissions (deficiencies, such as omission of information, which can result in legal claims for negligence or failure to perform);
- job-related illnesses, employee related damages, or injuries to employees;
- liabilities for environmental remediation; and
- Natural disasters (events beyond human origin or control, such as lightning, windstorms, and earthquakes).

According to GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, as amended, defines *Risk Management* as “The process of managing an organization’s activities to minimize the adverse effects of certain types of losses.”

A special district must decide how to finance losses that may arise from the types of risks identified above. A special district should also needs to consider whether an accrual for possible losses should be recognized at the end of an accounting period. The consideration for a possible accrual for losses by a special district is no different from the evaluation that a private enterprise must make.

16.02 Costs of Risk

The costs of risk include:

- Administration costs such as salaries, benefits, and other operating expenses associated with managing the total risk of the special district;
- Mitigation costs, such as security software, background checks, and safety education programs;
- Transfer costs, such as insurance or financial instruments; and
- Uninsured losses, such as losses from accidents, repairs, or insurance deductibles.

16.03 Self-Insurance Allocations

Self-insurance describes an entity's retention of its own risk, rather than transferring the risk through insurance. Risk financing techniques for self-insurance require an effective cost allocation system to formulate contributions. Contributions must be:

- equitable, reflecting actual hazards and costs;
- based on easily ascertained and quantifiable data;
- adjustable for different size deductibles, if units have widely disparate financial size; and
- within guidelines and contribution thresholds set by law.

Risk Pools

16.04 Public Entity Risk Pools

GASB Statement No. 10, as amended, defines public entity risk pool as, “a cooperative group of governmental entities joining together to finance an exposure, liability, or risk. Risk may include property and liability, worker's compensation, or employee health care. A pool may be a stand-alone entity or be included as part of a larger governmental entity that acts as the pool's sponsor. A government that is a pool's sponsor may also participate in the pool for its own risk management function.”

State and local government entities can agree to establish a stand-alone pool under an authorizing statute. These stand-alone entities are frequently operated by a board that has a member from each participating government. These entities have no publicly elected officials of their own.

All public entity risk pools should account for their activities in an enterprise fund, regardless of the transfer or pooling of risk.

There are four basic types of public entity risk pools:

- A *risk sharing pool*—governments pool funds and share in the risks and the costs of losses.
- An *insurance-purchasing pool* or *risk-purchasing group*—governments' pool funds to purchase insurance.
- A *banking pool*—an arrangement that makes money available for pool members in the event of loss on a loan basis.
- A *claims-servicing pool* or *account pool*—an arrangement in which a pool manages separate accounts for each pool member from which the losses of that member are paid.

The guidance applicable to public entity risk pools excludes postemployment benefits and Medicaid plans under Title XIX of the Federal Social Security Act.

If a special district or other government provides insurance or risk management coverage that is separate from its own risk management activities to others outside the special district and there is material transfer or pooling of risk among the participants, that activity should be accounted for as a public entity risk pool.

If a special district or other government provides risk transfer or pooling coverage that is combined with its own risk management activities to others outside its reporting entity, those activities should continue to be reported in the general fund or an internal service fund, but only as long as the special district is the predominant participant in the fund. If the special district is not the predominant participant in the fund, then the combined activities should be reported as a public entity risk pool.

16.05 Risk Pools with Transfer of Risk

Risk retention and risk transfer are not necessarily mutually exclusive and presumable transfers are only as good as the amount of assets the pool has available to pay claims.

Premiums (or required contributions) paid by a special district to risk pools that result in the transfer or sharing of risk should be reported as an insurance expenditure or expense.

If the special district is subject to premium assessment by the risk pools, then consideration should be given to whether an additional expenditure or expense should be accrued or disclosed in the financial statements. An accrual for the supplemental premium assessment should be made if the following conditions exist:

- A supplemental premium assessment will probably be made; and
- A reasonable estimate of the supplemental premium assessment can be made.

Assessment amounts that cannot be easily estimated but are probable should be disclosed in the notes to financial statements. The disclosure should indicate the nature of the contingency and an estimated range of the potential loss the loss itself cannot be estimated.

If the pooling agreement a special district is a part of does not allow for additional member assessments and the pool shows a deficit, the special district (including other members) should assess the pools ability to pay its obligations. If the pool is not able to pay all of its obligations, then the special district will have to estimate its own obligations and recognize the expenditures/expenses or reasonably estimated liabilities related to those obligations in their financial statements. Special districts will also have to disclose their portion of the obligation in the notes to financial statements.

16.06 Risk Pools without Transfer of Risk

A special district may participate in pools in which there is no transfer or pooling of risk, such as those where only banking or servicing is the function of the pool. In this instance, the special district should measure and recognize its expenditures/expenses and reasonably estimated liabilities in accordance with the principles outlined in Section 16.08, *Liability, and Expenditure/Expense Recognition of Claims*.

Payments, including capitalization contributions, made to risk pools, to which there has been no transfer or pooling of risk, should be accounted for as either a deposit or a reduction of the claims liabilities account. A deposit should be recorded when there are no recorded liabilities for reasonably expected claims. A reduction of the claims liabilities account should be made when payments to the risk pools are to be used to pay claims as they are incurred.

16.07 Capitalization Contributions to Risk Pools

When a special district makes capital contributions to a risk pool whereby risk has been transferred or pooled, a determination must be made whether to record the contribution as an asset, deposit, or an expenditure/expense.

The contribution should be reported as a deposit if it is probable that the contribution will be returned to the special district upon either the dissolution of or the approved withdrawal from the risk pools. The decision as to whether an asset exists should be based on the type of fund, the pooling agreement, and the pool's ability to return the contribution.

In governmental funds, a capital contribution would be reported as the nonspendable asset, prepaid insurance, if it is contractually required to remain intact, but absent contractual requirements, it should be reported as an expenditure. In the proprietary funds, a contribution would be reported as prepaid insurance, allocated and recognized over the period of coverage.

Accounting

16.08 Liability and Expenditure/Expense Recognition of Claims

If a risk of loss from events has not been transferred to a third party, the special district should report estimated expenditures/expenses from a claim as an accrued liability if both the following conditions exist:

- On the basis of information available, it is probable that an asset has been impaired or a liability has been incurred as of the date of the financial statements; and,
- The loss can be reasonably estimated.

To determine whether a loss is probable, all relevant information available prior to the issuance of the financial statements should be evaluated. The expenditure/expense and liability related to the loss should be recognized and disclosed in the financial statements if a claim has been asserted and the probable loss related to the claim can be reasonably estimated.

An accrual of a loss is based on a strong likelihood that the future event will in fact occur. The accrual of a loss suggests that the special district will be held liable for the loss, which will eventually be confirmed when the special district is required to pay the injured party.

The various probabilities of whether a contingent loss will eventually be confirmed by a future event, for purposes of disclosure, include:

- **Probable**—the future event or events confirming the fact that a loss has occurred are likely to occur;
- **Reasonably Possible**—the chance of the future event or events occurring is more than remote by less than likely; or
- **Remote**—the chance of the future event or event occurring is slight.

Special districts must evaluate their exposure to liabilities related to unpaid claims, which includes both (1) claims that have been reported and (2) claims incurred but not reported. Liabilities for unpaid claims should be based on the following cost factors:

- Total ultimate costs of settling a claim, including provisions for inflation and other societal and economic factors;
- Past experience of settling claims; and
- Factors needed to make past experience trends consistent with current conditions.

Incurred but Not Reported Claims (IBNR)

Incurred but not reported claims (IBNR) are those claims that have not yet been asserted, as of the financial statements issuance date, even though, the incident related to the claim may have occurred before the date of the balance sheet date. If the special district concludes that it is not probable that the IBNR claim will be asserted, the loss should not be accrued or disclosed in the financial statements. If the special district concludes that it is probable that another party will assert an IBNR claim, the expense/expenditure and liability related to the loss should be recognized in the financial statements.

IBNR claims include

- known loss events that are expected to become claims;
- unknown loss events that are expected to become claims; or
- expected future development on claims already reported.

The *AICPA Audit and Accounting Guide—State and Local Governments*, lists the following examples of loss contingencies that should be evaluated for possible accrual:

- Contractual actions (such as claims for delays or inadequate specification on contracts);
- Guarantees of another entities' debt;
- Unemployment compensation claims;
- Property tax appeals;
- Tax refund claims; or
- Refunds of nonexchange revenues when the recipient government does not satisfy a provider's requirements.

16.09 Valuation of Accrued Claims

The claim liability should be based on the estimated ultimate cost of settling the claims, including economic factors, using past experience as adjusted for current trends. The cost of settling should be evaluated in terms of the claims' estimated realizable value. When historical experience is used to estimate claim liability, the claims should be refined by the amount and type of claim to ensure that the estimate is reasonable. Other allocated or unallocated claim expenditures or expenses should be included in the estimated liability for claims; however, their inclusion is not required if not incremental to the claim. The composition of the accrual must be disclosed in the financial statements.

The estimated liability for claims costs should be reduced by estimated recoveries, such as salvage and subrogation, which may also arise from unsettled claims.

- **Salvage** is defined in GASB Cod. Sec. C50.528 (Section C50, paragraph .528) as the “amount received by a public entity risk pool from the sale of property (usually damaged) on which the pool has paid a total claim to the insured and has obtained title to the property.”
- **Subrogation** is defined in GASB Cod. Sec. C50.532 (Section C50, paragraph .532) as “the right of an insurer to pursue any course of recovery of damages, in its name or the name of the policyholder, against a third party who is liable for costs of an insured event that has been paid by the insurer.”

In addition to claims that have not been settled, the special district may also anticipate recoveries from claims that have already been settled. Anticipated recoveries on settled claims should be netted (reduced) against the estimated liability for claims costs.

16.10 Discounting

It is acceptable to report the accrual at either gross amounts or a discounted present value of estimated future amounts, with one exception—structured settlements should be discounted if the amount to be paid to the claimant is fixed by contract and the payment dates are fixed or determinable.

When claims liabilities are presented in the financial statements at discounted amounts, the rate selected to compute the discounted amounts should be the entities settlement rate and investment yield rate.

- *Settlement Rate*—is defined in GASB Cod. Sec. C50.530 (Section C50, paragraph .530) as the rate at which a monetary liability with uncertain terms can be settled or a monetary asset (receivable) with uncertain terms can be sold.
- *Investment Yield Rate*—is defined in the *2016 Governmental GAAP Guide for State and Local Governments*, by Eric S. Berman, as the expected rate of return on investments held by the special district during the period in which the expected payments to the claimant will occur.

16.11 Insurance Related Transactions

According to GASB Statement No. 30, *Risk Financing Omnibus—an amendment of GASB Statement No. 10*, as amended, claims development information for public entity risk pools should be reported consistently, using either an accident-year basis, a report-year basis, or a policy-year basis. The type of policy affects the complexity of producing consistent risk information and may require added disclosures.

GASB 30 also establishes that required supplementary information schedules should be presented as originally reported at the end of each of the past ten **accident years** (for occurrence-based policies or contracts), **report years** (for claims-made policies or contracts), or **policy years** including the latest year. Amounts should be limited to provisions for claims resulting from events that triggered coverage under the policy or participation contract in that year. If amounts are not presented on an accident-year basis or a report-year basis, they should be reported on a policy-year basis.

Claims-Made Policies

A claims-made policy covers losses reported during the policy period, regardless of whether the event occurred in that period. A claims-made policy transfers risk to the insurer or pool only for claims reported within an allowable period. The special district is separately liable for any claims that have been made but were not reported nor filed during the period allowed. In such cases, the government entity should account for the unreported risk using the recognition rules in Section 16.08, *Liability, and Expenditure/Expense Recognition of Claims*. For claims-based policies, a report-year basis would include the claims that were reported during the same period for all policies, regardless of individual policy years.

Tail coverage is a type of policy designed to cover claims incurred before, but reported after, expiration of a claims-made policy. The risk exposure related to a claims-made policy can be avoided by acquiring a tail coverage insurance policy. When tail coverage is acquired, a special district does not have to evaluate the possible accrual or disclosure of unreported losses that are covered by the tail coverage policy.

Occurrence-Based Policies

An occurrence-based policy is a type of policy or participation contract that covers losses that happen during the policy period, regardless of when the claims are asserted, reported, or paid.

According to *GASB Statement No. 30, Risk Financing Omnibus—an amendment of GASB Statement No. 10*, as amended, “For occurrence-based policies, a policy-year basis includes the actual periods covered in each policy, whether or not they are coextensive.”

If there is a possibility that the insurer or pool may not be able to fulfill its obligations or that the risk may fall outside the coverage of the policy due to type or timing of claim or occurrence, risk may not effectively be transferred. The special district should evaluate the likelihood that it will be required to pay its own claims.

Retrospectively Rated Policies and Contracts

Retrospective (experience) rating is a method for determining premiums based on actual experience. When a special district acquires a retrospectively rated policy, the minimum premium should be recognized as an expenditure or expense over the period covered by the policy. Accruals should be done for estimated claim losses (reported and unreported) in the manner prescribed in Section 16.08, *Liability, and Expenditure/Expense Recognition of Claims*. If there is a maximum contribution identified in the contract, the accrual should not exceed the amount of the maximum premium.

Some special districts purchase retrospectively rated policies that are based on the experience of a group of policyholders. When a retrospective-rated policy is based on group experience, the initial premium should be amortized pro rata as an expenditure or expense over the period of time covered by the contract.

The special district should accrue supplemental premiums or refunds that arise from the experience of the group to date. The accrual should be based on the ultimate cost of reported and unreported claims as of the date of the financial statements. In addition, both of the following additional disclosures should be made:

- Insurance coverage is based on retrospectively rated policies; and
- Premiums are accrued based on the experience to date of the ultimate cost of experience of a group.

The special district should rely on the insurer entity to provide the information necessary to accrue additional premiums or refunds as of the date of the statement of net position.

When a special district cannot estimate losses from reported or unreported claims, it should disclose the existing contingency in the notes to financial statements.

Cash Reserves for Self-Insurance

A special district may also consider maintaining cash reserves for self-insurance. A trust fund or reserve account can set aside money to pay for anticipated and unanticipated events. The district should retain control of cash reserves for self-insurance until claims are actually paid.

A well-managed self-insurance program offers the potential for significant cost savings as compared to some of the more traditional insurance plans. Potential cost savings can result from reducing and controlling losses, increased awareness of claim payments, reduction in expenses associated with insurance plans, and the opportunity to generate investment income as a result of maintaining control of the cash reserves. Maintaining sufficient cash reserves for self-insurance can promote the district's short-term and long-term sustainability as it minimizes the impact of potential financial losses.

The decision to self-insure should be based on a balanced consideration of the distinctive risks, reserve policies, and regulations. Any self-insurance program should be reviewed regularly, as the financial environment of a special district is dynamic—which includes periodic applicable legislative or regulatory changes.

16.12 Policyholder or Pool Dividends

A special district may be entitled to a policyholder dividend or return of contribution based on the terms of its insurance or pool participation contract. A policyholder dividend should be recorded by the special district as a reduction of expenditures or expenses as of the date the dividend is declared by the insurer.

16.13 Annuity Contracts

A special district may satisfy its obligation to a claimant by purchasing an annuity in the claimant's name. If the possibility of making additional payments to the claimant is remote, the claim should be removed as a liability on the proprietary and government-wide financial statements, and the purchase of the annuity contract should not be presented as an asset.

When claims have been removed from the claims liability account because of the purchase of an annuity contract, the amount removed should be disclosed as a contingent liability. The disclosure should continue as long as there is a legal possibility that the claimant could demand payment from the special district. Disclosure is not required for annuity contracts purchased if both of the following conditions exist:

- The claimant has signed an agreement releasing the special district from further obligation; and
- The likelihood of future payments to the claimant is remote.

If a claim was removed from the claims liability account because an annuity contract was purchased in a previous period, but in the current period it is determined that the governmental entity is primarily liable for the claim, the claim should be reestablished as a claims liability.

Funds

16.14 Governmental Funds Used to Account for Risk Financing Activities

The modified accrual basis of accounting and current financial resources measurement focus should be applied to accounting for claims and judgments in governmental funds. As noted earlier, expenditures and liabilities should be recognized based on the principles discussed in Section 16.08, *Liability, and Expenditure/Expense Recognition of Claims*.

If a special district is using a governmental fund to recognize claim expenditures and liabilities, then the special district may choose any methodology to allocate "loss expenditures" to other funds. When allocating the loss expenditures, the governmental fund managing the risk financing activity should reduce its own expenditures while the paying funds recognize the allocation as an expenditure. Any amounts allocated in excess of the special district's total expenditure should be treated as a transfer.

The governmental fund used to manage the risk financing activities should record contributions from other funds as interfund reimbursements. Claims liabilities should be reduced by amounts to be recovered through excess insurance.

16.15 Internal Service Funds Used to Account For Risk Financing Activities

When an Internal Service Fund (ISF) is used to account for a special district's risk financing activities, claims liabilities and the related expenses should be recognized based on the standards discussed in Section 16.08, *Liability, and Expenditure/Expense Recognition of Claims*. Any accrual of claims liabilities should be reduced by amounts to be paid through excess insurance.

If a special district concludes that a loss related to risk-financing activities should not be accrued because the occurrence of the loss is not probable or the amount of the loss is not subject to reasonable estimation, then the loss should be evaluated to determine whether disclosure in the financial statement is necessary.

The risk financing activities provided by the ISF should be charged to other funds using any method that the ISF considers appropriate as long as the following guidelines are satisfied:

1. The total charges to other funds are calculated in accordance with the principles outlined in Section 16.08, *Liability, and Expenditure/Expense Recognition of Claims*, or
2. The total charges to other funds are based on an actuarial method or historical cost information, reasonably adjusted over time so that the expenses and revenues are approximately the same; and the total charge may include a reasonable provision to cover expected future catastrophic losses.

The amount charged by the ISF to the other funds should be recognized as revenue, and each fund should recognize the amount charged as expenditures/expenses. Deficits do not have to be adjusted in the year if adjustments are made over a reasonable period of time to reduce the difference but the deficit should be disclosed in the notes to the special district's financial statements. Any amount in the ISF's net position that arose from an optional additional charge for catastrophic losses should also be reported in the notes to the financial statements, reported as restricted for future catastrophic losses.

16.16 Reporting Claim Losses in Proprietary and Fiduciary Funds

The accrual basis of accounting and the economic resources measurement focus should be used to determine which claims should be presented in a proprietary or fiduciary fund. Estimated losses from a claim should be treated as an expense or deduction and a liability in the proprietary or fiduciary fund financial statements in accordance with the principles outlined in Section 16.08, *Liability, and Expenditure/Expense Recognition of Claims*. Transactions related to insurance recoveries, excluding impairment of capital assets, and theft or embezzlement of monetary assets, should be accounted for separately as an other financing source or extraordinary item.

16.17 Reporting Claim Losses in Government-Wide Financial Statements

The accrual basis of accounting and the economic resources measurement focus should be used to determine which claims and assessment should be presented in the government-wide financial statements. Reporting should be in accordance with the principles outlined in Section 16.08, *Liability, and Expenditure/Expense Recognition of Claims*. If a claims liability is incurred, the liability should be presented as a debt obligation of the special district in its governmental and business activities columns of the statement of net position.

Liabilities that have an average maturity of greater than one year must be reported in two components on the statement of net position, namely, the amount due within one year (current liabilities) and the amount due in more than one year (long-term liabilities).

When claim expenses are recorded, the expenses must be evaluated to determine how the expense should be presented in the statement of activities. A determination should be made as to whether the claims expense is a direct expense, identifiable to a particular function or program. In some instances a claims expense may be an extraordinary item and therefore should be presented in the lower section of the statement of activities. When a claims expense is either unusual or infrequent, the item should be disclosed in the notes to the financial statements.

16.18 Reporting Risk Financing

Internal Service Fund Balances and Activity in the Government-Wide Financial Statements

If an ISF is used to account for risk management activities, such activities should ideally be eliminated to avoid doubling-up expenses and revenues in the government activities column of the statement of activities. Any residual risk activity balances related to the ISF's net position should usually be reported in the government activities column in the statement of net position. If, however, an enterprise fund is the main participant in the risk financing internal service fund, the assets, liabilities, deferred inflows and outflows should be reported in the business-type activities column of the statement of net position.

Disclosures

16.19 Disclosure of Loss Contingencies

When a possible future loss does not satisfy the criteria for accrual in accordance with the principles outlined in Section 16.08, *Liability, and Expenditure/Expense Recognition of Claims*, the loss should be evaluated to determine whether it should be disclosed in the governmental entity's financial statements. Any loss should be disclosed if there is a reasonable possibility that the loss may have been incurred.

When a loss is disclosed in the financial statements, the following should be disclosed:

- Nature of the loss; and
- Estimate, or estimated range of the loss (if no estimate can be made, the disclosure should state so).

When a loss is based on a future event whose likelihood of occurring is remote, the loss should not be accrued or disclosed in the financial statements.

16.20 Risk Management Disclosures

The following disclosures should be made in the financial statements, if applicable:

- Description the types of risk to which the special district is exposed and how they are handled, such as the methods used for risk financing.
- Description significant reductions in insurance coverage from the previous year, arranged by major category of risk, and an indication of whether settlements exceeded insurance coverage for each of the past three years.
- Disclosure of whether the special district participates in a risk pool and the nature of participation, if any, including rights and obligations of the special district and the risk pool.
- Disclosure of whether the special district has retained the risk of loss, and description of the following:
 - The basis of estimating liabilities for unpaid claims including the effects of specific, incremental claim adjustment expenditures and expenses, salvage and subrogation, and whether the allocated or unallocated claim adjustment expenditures and expense are included. Include insurance that does not cover risk exposure (the special district has in-substance retained the risk of loss).
 - The carrying amount of unpaid claims liabilities that have been reported at present value and the range of discount rates used to make compute the discount.
 - The aggregated total of outstanding claims liabilities that have been removed from the balance sheet because of the purchase of annuity contracts from third parties in the name of claimants.
 - Presentation of an aggregated claims liabilities reconciliation, including changes in aggregate liabilities for claims in the current year and prior year using the following tabular format:
 - Beginning balance of claims liabilities;
 - Incurred claims for the year and increases or decreases in the provision for events that were incurred in prior years;
 - Payments made for claims arising during the current year and prior fiscal years;
 - Explanation of each material item; and
 - Ending balance of claims liabilities.

Component units that participate in the primary government's risk management internal service fund should make the above disclosures in their separate financial statements, disclosing the participation, the nature, and the rights and responsibilities of the unit and the primary government.

An example of risk management disclosure is contained in the examples at the end of Chapter 17:
Financial Reports.

Level of Disclosure

Professional judgment must be exercised to determine the most appropriate level of disclosure. The notes to the financial statements should focus on the special district, including its blended component units, and supporting the information presented in the government-wide financial statements and the fund financial statements. A special district should also ensure that disclosures related to discretely presented units are identified separately. In some situations, it may be appropriate for the special district to make disclosures for the entity as a whole. Separate or additional disclosures by individual major funds may be appropriate in other situations.

16.21 Subsequent Events

To ensure that the financial statements are not misleading, the special district should consider the need to disclose subsequent events, which are events or transactions related to risk management that occurred after the date of the balance sheet but before the financial statements are issued.

Disclosure may be necessary to keep financial statements from being misleading for material items that have one of the following characteristics:

- The subsequent event resulted in the impairment of an asset or the incurrence of a liability.
- A reasonable possibility exists that a subsequent event resulted in the impairment of an asset or the incurrence of a liability.

If a special district concludes that a subsequent event should be disclosed, the following information should be presented in the disclosure:

- The nature of the actual or contingent loss; and
- An estimate (or the range of estimates) of the actual or contingent loss (if no estimate can be made, disclose appropriately).

Sometimes a subsequent event may result in the presentation of pro forma financial statements to supplement the historical financial statements. Usually, a pro forma balance sheet or statement of net position is most informative when prepared on a comparative basis.

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Chapter 17: Financial Reports

Basic Financial Reporting– Nature and Purpose

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

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

GASB has generated GAAP standards for comprehensive reporting in order to improve the consistency of reporting, allowing improved comparability of statements across governmental and non-governmental entities.

17.01 The Comprehensive Annual Financial Report (CAFR)

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

Special districts should prepare a CAFR covering all funds and the activities for which it is financially accountable, including those of component units. Government Code section 53890 et seq., requires special districts to use data from their audited financial statements to prepare the Financial Transactions Report (FTR). The audited financial statements should be prepared in accordance with generally accepted accounting principles.

The CAFR should include the following sections:

- Introductory Section
- Financial Section
 - Auditors Report
 - Management Discussion and Analysis
 - Basic Financial Statements
 - Required Supplementary Information
 - Combined financial statements for non-major funds
 - Individual fund statements and related schedules
- Statistical Section

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

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

Introductory Section of the CAFR

The introductory section of a CAFR is unaudited Supplementary Information (SI). It is provided voluntarily by the special district.

The introductory section includes the following:

- Title page
- Table of contents
- Letter of transmittal
- List of principal officials
- Audit committee letter

Special districts should note that other material deemed appropriate by management may be added to the introductory section.

Financial Section of the CAFR

17.02 Table of Contents

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

17.03 Independent Auditor's Report

An independent auditor's report is considered an essential tool when reporting financial information to users, particularly in business. Since many third-party users require financial information to be certified by an independent external auditor, government entities rely on auditor reports to certify their information in order to attract investors, obtain loans, and improve public trust. Some have even stated that financial information without an auditor's report is "essentially worthless" for investment purposes. Refer to the Examples section at the end of this chapter for a sample of an independent auditors report.

17.04 Management Discussion and Analysis (MD&A)

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

The MD&A serves several purposes:

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

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

The MD&A introduction section should include concepts such as:

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

Section's 17.04 through 17.14 provide general guidelines as to what information may be presented. The MD&A is an opportunity for financial managers to effectively report the most relevant information; however, the MD&A should be confined to these topics.

Refer to the Examples section at the end of this chapter to see a sample MD&A document.

17.05 Discussion on Basic Financial Statements

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

17.06 Presentation of Condensed Financial Statements

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

17.07 Results of Operations and Overall Financial Position

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

17.08 Analysis of Fund Balances

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

17.09 Analysis of the Budget

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

17.10 Discussion on Significant Capital Assets Activity

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

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

17.11 Discussion on Significant Long-Term Debt Activity

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

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

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

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

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

17.12 Discussion of Modified Approach, When Used

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

17.13 Currently Known Facts Bearing on the Future

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

17.14 Request for information

This section provides the reader with contact information and website links to find additional on-line financial statistics such as budgets, rates, and interim and annual financial reporting.

Basic Financial Statements

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

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

17.15 Government-Wide Financial Statements

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

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

- Statement of net position
- Statement of activities

The focus of the government-wide financial statements should be on the special district itself. The special district should do the following when reporting its government-wide financial statements:

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

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

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

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

17.16 Fund Financial Statements – Governmental Funds

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

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

Refer to sections 17.18 and 17.19 for more details on these financial statements.

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

Refer to the table below to determine whether a governmental fund meets the criteria for being reported as a major fund in the fund financial statements. Any one of the elements below must meet the criteria in both columns.

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

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

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

- Assets
- Deferred outflows/inflows of resources
- Liabilities
- Fund balance

For governmental funds, the balance sheet should be prepared using the current financial resource measurement focus and modified accrual basis of accounting.

The statement of revenues, expenditures, and changes in fund balance should report information on inflows and outflows of financial resources. Similar to the balance sheet, this financial statement should be prepared using the current financial resource measurement focus and modified accrual basis of accounting.

17.17 Fund Financial Statements – Proprietary Funds

Special districts should prepare three basic financial statements:

- Statement of Net Position or Balance Sheet
- Statement of Revenues, Expenses and Changes in Net Position
- Statement of Cash Flows.

The focus of proprietary fund financial statements is on major funds. Special districts should display each major fund separately while reporting nonmajor funds under one column in the fund financial statements. Refer to the table presented in section 17.16 to determine whether a fund meets the criteria of being reported as a major fund in the financial statements. Any one of the elements below must meet the criteria in both columns.

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

As with governmental funds, special districts should note that the general fund is always a major fund. If a nonmajor fund is deemed important to the community a special district serves, the nonmajor fund may be reported as major fund in the financial statements.

Major fund reporting requirements do not apply to internal service funds. Internal service funds should be reported in separate columns of a proprietary fund financial statement.

Proprietary fund financial statements are prepared using the flow of economic resources measurement focus and accrual basis of accounting.

17.18 Statement of Net Position or Balance Sheet

The statement of net position displays the resources of a special district at a given point in time, usually the last day of the fiscal year. It provides an overview of the assets and liabilities, netted against each other. The special district has two options when presenting the statement of net position. They may use either a net position format, which is preferred, or a balance sheet format.

These formats are described in Chapter 7, Section 7.02. Samples of the balance sheet and statement of net position formats can be found in Chapter 7, sections 7.07 and 7.08, and in the Examples section at the end of this chapter. The bottom line is that “net position” represents the resources remaining after they have been offset by existing liabilities.

Deferred outflows of resources and deferred inflows of resources identify resource impacts that do not yet affect the current fiscal period, but are part of the long-term financial picture. Special districts often present this information in “comparative financial statements”, which include information for both the current fiscal year and the preceding fiscal year or years. This is typically accomplished by presenting multiple columns, one for each year, on a single page. The term “comparative financial statements” reveals their primary purpose, which is putting a special districts financial information in a comparative context. In a comparative statement, a reader may see not only where a special district stands financially, but how that financial standing compares with where it was in the prior year.

The statement of net position is prepared in a “classified format”, which categorizes the assets and liabilities as current and noncurrent and provides separate subtotals for each. This format is helpful for certain kinds of analyses. For example, if an interested party wanted to assess a special district’s short-term financial needs, the classified format would help them to focus only on the special district’s most immediately available resources.

Account Placement

The accounts included in these statements are described in Chapter 7. They are grouped by their account types: assets, deferred outflows, liabilities, deferred inflows, and net position.

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

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

Deferred inflows and outflows are, by their nature, not liquid in the current fiscal year and therefore do not need to be further broken down. Deferred inflows and outflows help the users of the financial statements assess inter-period equity. Inter-period equity refers to the degree to which a special district raises sufficient resources in a fiscal year to cover its costs, as opposed to using up future resources by deferring payments to future years. By waiting to report inflows and outflows as revenues and expenses, respectively, until the years to which they are related, financial statements make it easier to assess whether a special district is operating within their means from year to year.

The “net position section” of the statement of net position should include the following components:

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

Component Units

Component units are separate organizations, however due to their financial relationship with a special district; they are usually treated as part of the special district. Component units may have their own governing boards but a special district may be accountable for a component unit. Component units often take the form of a public benefit corporation or public authority. Some special districts may be component units of another government, such as a state or city utilities. Component units may be either blended or discrete.

The finances of most component units are shown separately from those of its parent special district. These separately shown entities are known as “discretely-presented component units”. The financial statements provide only an overview of discretely-presented component units and the relationship should be disclosed in the notes.

Blended component units, are so intertwined with those of its parent special district that the financial information of the blended component unit is usually combined with that of the parent special district. One reason a unit may be blended, rather than discretely presented, is that its governing body is substantially the same as that of the parent special district, and the special district has operational responsibility for the blended component unit.

Any of the following criteria can involve reporting a component unit as blended:

- The component unit has substantively the same governing body and there is a financial relationship.
- The primary government has operational responsibility for the component unit.
- The component unit provides services entirely to the primary government.
- The component unit provides services that are almost exclusively for the benefit of the primary government.
- The component unit’s outstanding debt is expected to be repaid almost entirely by the primary government.

The component unit is organized as a not-for-profit corporation in which the primary government is the sole member.

17.19 Statement of Activities and Statement of Revenues, Expenses and Changes in Net Position

The Statement of Activities presents the operations of the government in a format that reports the net revenue of its individual functions. This net is sometimes referred to as the “net cost” of a program. The format allows the reader to visualize the degree to which a program or function is self-financing rather than a burden borne by taxpayers.

The statement of revenues, expenses, and changes in net position, on the other hand, tracks a special district’s yearly operating revenues and expenses, as well as any other transaction that enhances or reduces its net position. Revenues are reported by major source rather than by function. Revenues and expenses should be displayed as operating and nonoperating revenues and expenses.

A detailed discussion of revenue and expenses, as well as other transactions that influence net position, is covered in Chapter 6. Sample statements can be found in the Examples section at the end of this chapter.

17.20 Statements of Cash Flows

According to GAAP guidelines, a statement of cash flows should be presented by proprietary funds and governmental activities engaged in business type-activities. The purpose of a statement of cash flows is to identify the cash receipts and cash payments of a special district. It should explain changes in cash and cash equivalents for a given period.

When used with related disclosures the statement of cash flows will assist the reader to assess:

- (a) whether a special district can generate cash flows in the future;
- (b) whether a special district can pay its debts when they become due;
- (c) whether a special district needs to borrow more funds to sustain itself;
- (d) why operating income reported in the statement of revenues, expenses, and changes in fund net position is different from the operating income reported in the statement of cash flows (reconciliation); and;
- (e) how financial position affects both cash and noncash transactions.

Cash flows should be reported in the following categories:

- Cash from operating activities
- Cash from noncapital financing activities
- Cash flows from capital and related financing activities
- Cash flows from investing activities.

The statement of cash flows should also provide a reconciliation of (1) the net cash provided by (used in) operating activities with (2) the operating income (loss) in the statement of revenues, expenses, and changes in net position.

The reconciliation is presented on either the statement of cash flows, an accompanying statement, or presented in the notes to the financial statements. The intent of the reconciliation is to explain the difference between the accrual-based results of operations of a special district and its annual cash flows. Not all revenues and expenses involve cash. Depreciation, for example, is a noncash expense; the listed value of capital assets, rather than cash, is reduced on the statement of net position. There are other expenses that similarly do not involve cash changing hands.

Refer to the Examples section at the end of this chapter for a sample statement of cash flows (page 1) and reconciliation of operating income to net cash provided by operating activities (page 2).

Fiduciary Funds Financial Statements

Required financial statements for fiduciary fund financial statements are as follows:

- Statement of fiduciary net position
- Statement of changes in fiduciary net position

Fiduciary financial statements contain information on both the fiduciary funds and on component units that are fiduciary in nature. The following fund types should be reported in separate columns in the fiduciary fund financial statements:

- Pension and other post-employment benefit trust funds
- Investment trust funds
- Private purpose trust funds
- Agency funds (to be renamed “custodial funds” in 2019)

17.21 Statement of Fiduciary Net Position

The statement of fiduciary net position should include information on assets, liabilities, deferred inflows/outflows and net position of each fiduciary fund type, similar to the Statement of Net Position prepared for proprietary funds. Investments are reported based on their market value as of the period end. Deferred inflows and outflows are displayed separately from assets and liabilities; and assets and liabilities are presented in order of liquidity.

Financial statement preparers of a special district can use either the “net position” or “balance sheet” format to display the statement of fiduciary net position. The “net position” method is recommended by GASB.

17.22 Statement of Changes in Fiduciary Net Position

The statement of changes in fiduciary net position reflects the additions and deductions to the net position in each fiduciary fund. Additions include transactions like employer contributions, plan member contributions, gifts, and bequests. Deductions include payments and refunds to plan members, administrative expenses, distributions to shareholders, and payments of taxes to other governments. Special districts should note that if a fund is used as a “clearing account”, it should not be treated as an agency fund and should have a zero balance at fiscal year-end.

Refer to the Examples section at the end of this chapter to see a sample statement of fiduciary net position and statement of changes in fiduciary net position.

Notes to the Financial Statements

17.23 Overview of Note Disclosures

Note disclosures provide additional information that is essential for a fair presentation of a special district’s financial position. This information is not displayed on the face of the financial statements. The focus of the notes should be on the activities (governmental and business-type) of a special district. The notes should also support the information provided in the government-wide and fund financial statements. Refer to the Examples section at the end of this chapter for samples of note disclosures.

Following is a list (not all-inclusive) of disclosure items that should be included in the notes to financial statements:

- Summary of significant accounting policies
- Cash and investments
- Receivables
- Capital assets
- Payables
- Long-term liabilities
- Net position
- Pensions and other postemployment benefits
- Risk management
- Known environmental matters
- Contingent liabilities
- Commitments and contingencies (including significant transactions between discretely presented component units and with the primary government and donor restricted endowments)
- Independent auditors report on internal controls

Additional note disclosures should be made if applicable to the special district. Disclosures may include:

- Significant risks
- Property taxes
- Segment information for enterprise funds
- Condensed financial statements for major discretely presented component units
- Budget basis of accounting and budget-to-GAAP reporting differences not otherwise reconciled
- Short-term debt instructions and liquidity
- Transactions with related organizations
- The nature of the primary government's accountability for related organizations
- Capital leases
- Joint agreements and jointly-governed organizations
- Debt refunding
- Inter-fund eliminations in fund financial statements not apparent from headings
- Pension and OPEB plans
- Bond, tax, or revenue anticipation notes excluded from fund or current liabilities
- Nature and amount of inconsistencies in financial statements caused by transactions between component units having different fiscal year-ends or changes in component unit fiscal year-ends
- Special assessment debt
- Reverse repurchase agreements and dollar reverse repurchase agreements
- Securities lending transactions
- Demand bonds
- Landfill closure and post closure activities
- On-behalf payments for fringe benefits and salaries
- Involvement in conduit debt obligations
- External investment pools reported as investment trust funds
- The amount of interest expense included in direct expenses
- Nature of individual elements of a particular reconciling item, if obscured in the aggregate
- Discounts and allowances that reduce gross revenues, when not reported on the face of the financial statements
- Disaggregation of receivable and payable balances
- Impairment losses, idle impaired capital assets, and insurance recoveries, when not otherwise apparent from the face of the financial statements
- Termination benefits
- Future revenues that are pledged or sold
- Derivative instruments
- Conditions and events giving rise to substantial doubt about the special districts ability to continue as a going concern
- Bankruptcy proceedings
- Stabilization arrangements and minimum fund balance policies
- Lending and mortgage banking activities
- Regulated business type activities

Required Supplementary Information other than MD&A

17.24 Overview of Required Supplementary Information (RSI)

Accounting standards require that the following data be provided as required supplementary information (RSI) in the CAFR, but not part of the basic financial statements, and should be presented immediately following the notes:

- Schedules and statistical data
- Budgetary comparisons schedules
- Pension and OPEB information
- Combining statements and individual fund statements and schedules

Refer to the Examples section at the end of this chapter to see samples of RSI schedules.

17.25 Combining Statements and Individual Fund Statements and Schedule

Combined and individual fund financial statements are required to be presented in the financial section of the CAFR. Required schedules that support the fund financial statements are presented in this section.

Refer to the Examples section at the end of this chapter for samples of combining balance sheet and combining statement of changes in net position for a retirement trust fund.

17.26 Statistical Section

The statistical section of the CAFR contains tables of trends in financial, economic, and demographic data. This should be presented as factual data; the narratives on these trends should be introduced in the MD&A. A typical schedule would present information for several periods of time—often 10 years or more. It should be noted that the information presented in the statistical section is unaudited.

The schedules in the statistical section can be collated into five groups:

- Financial trends
- Revenue capacity
- Debt capacity
- Demographic and economic information
- Operating information

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EXAMPLES

Introduction including Management Discussion and Analysis

Sample 01 Table of Contents

**SPECIAL DISTRICT
BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 20xx and 20xx-1
Table of Contents**

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Sample 02 Independent Auditors Report

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Special District
Oakland, California

Report on Financial Statements

We have audited the accompanying financial statements of each major fund and the discretely presented component unit, of the Special District as of and for the years ended June 30, 20xx and 20xx, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial positions of each major fund and the discretely presented component unit of the Special District as of June 30, 20xx and 20xx-1, and the respective changes in the financial positions and cash flows, where applicable, thereof for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Management adopted the provisions of the following Governmental Accounting Standards Board Statements, which became effective during the year ended June 30, 20xx and required the restatement of net position as discussed in Note xx to the financial statements:

- Statement No. xx – Accounting and Financial Reporting for topic.

The emphasis of this matter does not constitute modifications to our opinion.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and certain schedules related to the Pension and Post Employment Healthcare Plans be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to this information in accordance with generally accepted auditing standards in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Special District's basic financial statements as a whole. The Supplemental Information as listed in the Table of Contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with generally accepted auditing standards in the United States of America. In our opinion, the Supplemental Information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 20xx on our consideration of the Special District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Auditor

Name of Firm

City, California

August 27, 20xx

Sample 03 Overview of Basic Financial Statements

This section presents management’s analysis of the Special District’s (the District) financial condition and activities as of and for the year ended 5. Management’s Discussion and Analysis (MDA) is intended to serve as an introduction to the District’s basic financial statements.

This information should be read in conjunction with the audited financial statements that follow this section. The District, as the primary governmental entity, includes within the financial statements, the financial position and activities of the District’s Employees’ Retirement System (Employees’ Retirement System) as a component unit. The Employees’ Retirement System issues its own financial statements and MDA under separate cover. Significant matters pertaining to the Employees’ Retirement System have been included in the notes to the financial statements as deemed appropriate.

The information in this MDA is presented under the following headings:

Organization and Business

Overview of the Basic Financial Statements

Financial Analysis

Capital Assets

Debt Administration

Request for Information

ORGANIZATION AND BUSINESS

The District provides utility services to industrial, commercial, residential and public authority users. The Utility System collects, transmits, treats, and distributes high-quality utility to approximately xx% (xxx square miles) of the developed area within counties of California and serves a population of about x million. The District recovers cost of service primarily through user fees.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The District’s basic financial statements are comprised of two components: (1) Fund Financial Statements and (2) Notes to Basic Financial Statements. The report also contains other required supplementary information in addition to the basic financial statements.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other special purpose governments, uses fund accounting to ensure and demonstrate compliance with financial-related legal requirements.

Proprietary Funds. The District’s proprietary funds consist of xx enterprise funds, the Utility System and the utility System. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises—where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The District's proprietary fund statements include:

The *Statement of Net Position/Statement of Net Position/Balance Sheet* presents information on the District's assets and deferred outflows, and liabilities and deferred inflows, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

While the Statement of Net Position/Balance Sheet provides information about the nature and amount of resources and obligations at year-end, the *Statement of Revenues, Expenses, and Changes in Net Position* presents the results of the District's operations over the course of the fiscal year and information as to how the net position changed during the year. This statement can be used as an indicator of the extent to which the District has successfully recovered its costs through user fees and other charges. All changes in net position are reported during the period in which the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods, such as delayed collection of operating revenues and the expense of employee earned but unused vacation leave.

The *Statement of Cash Flows* presents changes in cash and cash equivalents resulting from operational, capital, noncapital, and investing activities. This statement summarizes the annual flow of cash receipts and cash payments, without consideration of the timing of the event giving rise to the obligation or receipt and excludes noncash accounting measures of depreciation or amortization of assets.

Fiduciary Fund. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The District's fiduciary fund consists of the Pension and Other Employee Benefit Trust fund, which is maintained to account for assets held by the Employees' Retirement System in a trustee capacity for vested and retired employees. The accounting used for fiduciary funds is much like that used for the proprietary funds.

Notes to Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to basic financial statements can be found on pages xx to xx of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents *certain required supplementary information* concerning the District's progress in funding its obligation to provide pension and other post-employment healthcare benefits to its employees. Such required supplementary information can be found on pages xx to xx of this report.

Sample 04 Financial Analysis: Financial Highlights

FINANCIAL ANALYSIS

Financial Highlights

In fiscal year 20xx, THE DISTRICT continued to effectively manage its finances and strengthen its financial position by adopting sufficient utility rates to fund capital infrastructure improvements and to maintain strong financial performance. The District implemented Government Accounting Standards Board (GASB) Statement No. xx - Accounting and Financial Reporting for Code Changes which created a \$xxx million decrease of prior period adjustment in net position. The following results of operations indicate a continuing strong and stable fiscal position.

The total assets and deferred outflows of the District exceeded the total liabilities and deferred inflows by \$ x billion (*net position*).

Net position increased by \$xx million or x% during the fiscal year before \$ xx million decrease of prior period adjustment in net position per implementation of GASB xx.

Capital assets increased by \$ xx million or x% to \$x billion.

Operating revenue increased by \$x million or x% to \$x million.

Operating expense decreased by \$x million or x% to \$x million.

Non-operating net expense decreased by \$x million or x% to (\$xx) million.

Capital contributions, consisting of capital facility fees, increased by \$x million or x% from the prior fiscal year.

Sample 05 Summary of Financial Position

Financial Position

In the current year, the District’s total net position increased by \$xx million or x% during the fiscal year before \$xx million decrease in prior period adjustment per implementation of GASB xx. Current and other assets increased by \$xx million or x%. Capital assets increased by \$xx million or x%. By far the largest portion of the District’s net position, xx % or \$x billion, represents its investment in capital assets necessary to provide services.

The Utility System’s net position increased by \$xx million or x% during the year ended June 30, 20xx before \$x million decrease in prior period adjustment per implementation of GASB xx.

In the previous fiscal year, the District’s total net position increased by \$x million or x%. Current and other assets decreased by \$x million or x%. Capital assets increased by \$x million or x%. By far the largest portion of the District’s net position, x% or \$x billion, represents its investment in capital assets necessary to provide services.

Table 1 shows the District’s net position for the fiscal years ended June 30, 20xx and 20xx-1 and 20xx-1 and 20xx2:

Table 1
Net Position
District
June 30, 20xx and 20xx-1
(In thousands)

| | <u>20xx</u> | <u>20xx</u> | <u>Variance</u> | <u>%</u> |
|---------------------------------------|-------------------|----------------|-----------------|----------|
| Current and other assets | \$ xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Capital assets | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Deferred outflow of resources | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Total assets and deferred outflow | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Current and other liabilities | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Long-term liabilities | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Deferred inflow of resources | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Total liabilities and deferred inflow | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Net position: | | | | |
| Net investment in capital assets | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Restricted | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Unrestricted | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Total net position | \$ <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |

| Net Position District June 30, 20xx-1 and 20xx-2 (In thousands) | | | | |
|--|-------------------|----------------|-----------------|----------|
| | <u>20xx-1</u> | <u>20xx-2</u> | <u>Variance</u> | <u>%</u> |
| Current and other assets | \$ xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Capital assets | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Deferred outflow of resources | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Total assets and deferred outflow | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Current and other liabilities | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Long-term liabilities | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Deferred inflow of resources | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Total liabilities and deferred inflow | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Net position: | | | | |
| Net investment in capital assets | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Restricted | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Unrestricted | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Total net position | \$ <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |

Sample 06 Result of Operations

Results of Operations

In the current fiscal year, the District's total operating revenue of \$xxx million for the year increased by \$x million and total operating expense of \$xx million for the year decreased by \$xx million. The change in net position (including capital contributions) increased from \$xx million in the previous fiscal year to \$x million in the current fiscal year. The District's total net position decreased from \$x million to \$x million during the current fiscal year after \$x million prior period adjustment per implementation of GASB xx.

The major components of the District's results of operations in the current fiscal year were:
Utility revenues decreased by \$x million, mainly reflecting an x% decrease in billed utility consumption offset by a x% utility rate increase in the current fiscal year.

Operating expense decreased by \$x million, primarily as a result of negative \$x million pension expense per implementation of GASB xx in fiscal year 20xx. Due to the current utility expenses increased by of \$x million and utility treatment and distribution expenses increased by \$x million as a result of purchase of additional supply and additional expenses incurred to address the issue. General administration expenses decreased by \$x million primarily as a result of a \$x million decrease in amortization expenses and additional \$x million capitalized administration expenses.

Non-operating net expense decreased by \$x million primarily due to the \$x million increase in bond interest expense paid for advance refunding offset by the \$x million reclassification of the change of equity in JPA partnership fund from amortization expense to non-operating expense in the prior fiscal year.

Capital contributions increased by \$x million, primarily reflecting an increase of \$x million in system capacity charges and \$x million in earned contributions on constructions received in the current fiscal year compared to the prior year. Page xx contains additional capital contributions information.

In the prior fiscal year, the District's total operating revenue of \$xxx million for the prior year increased by \$x million and total operating expense of \$xx million for the year decreased by \$xx million. The change in net position (including capital contributions) increased from \$xx million in the previous fiscal year to \$x million in the prior fiscal year. The District's total net position decreased from \$x million to \$x million during the prior fiscal year after \$x million prior period adjustment per implementation of GASB xx.

The major components of the District's results of operations in the prior fiscal year were:
Utility revenues decreased by \$x million, mainly reflecting an x% decrease in billed utility consumption offset by a x% utility rate increase in the prior fiscal year.

Operating expense decreased by \$x million, primarily as a result of negative \$x million pension expense per implementation of GASB xx in fiscal year 20xx. Due to the current utility, expenses increased by \$x million and utility treatment and distribution expenses increased by \$x million as a result of purchase of additional supply and additional expenses incurred to address issue.

General administration expenses decreased by \$x million primarily as a result of a \$x million decrease in amortization expenses and additional \$x million capitalized administration expenses.

Non-operating net expense decreased by \$x million primarily due to the \$x million increase in bond interest expense paid for advance refunding offset by the \$x million reclassification of the change of equity in JPA partnership fund from amortization expense to non-operating expense in the prior fiscal year.

Capital contributions increased by \$x million primarily reflecting an increase of \$x million in system capacity charges and \$x million in earned contributions on constructions received in current fiscal year compared to the prior year. Page xx contains additional capital contributions information.

Table 2 shows changes in the District's net position for the fiscal years ended June 30, 20xx, 20xx-1, and 20xx-2:

Table 2
Changes in Net Position
District
June 30, 20xx and 20xx-1
(In thousands)

| | <u>20xx</u> | <u>20xx-1</u> | <u>Variance</u> | <u>%</u> |
|--|-------------------|----------------|-----------------|----------|
| Operating Revenue: | | | | |
| Fee Sales | \$ xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Other Sales | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Property Taxes | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Total operating revenue | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Operating Expense: | | | | |
| Raw Product | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Disribution | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Recreation areas, net | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Customer accounting & collecting | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Financial and risk management | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Facilities management | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| General administration | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Pension expense | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Depreciation (excluding amounts reported within the Other Operating activites above) | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Total operating expense | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Net operating income (expense) | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Nonoperating income (expense): | | | | |
| Investment income | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Taxes & subventions | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Interest & amortization of bond expenses, net | (xxx,xxx) | (xxx,xxx) | (xxx,xxx) | xx% |
| Increase (decrease) of Equity in partnership fund | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Other income | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Total nonoperating income (expense), net | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Income (loss) before contributions | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Capital contributions | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Change in net position | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Total net position – beginning | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Prior period adjustment per implementation GASB | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Total net position – ending | \$ <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |

Table 2 Continued
 Changes in Net Position
 District
 June 30, 20xx-1 and 20xx-2
 (In thousands)

| | <u>20xx-1</u> | <u>20xx-2</u> | <u>Variance</u> | <u>%</u> |
|--|-------------------|----------------|-----------------|----------|
| Operating Revenue: | | | | |
| Fee Sales | \$ xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Other Sales | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Property Taxes | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Total operating revenue | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Operating Expense: | | | | |
| Raw Product | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Disribution | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Recreation areas, net | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Customer accounting & collecting | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Financial and risk management | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Facilities management | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| General administration | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Pension expense | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Depreciation (excluding amounts reported within the Other Operating activites above) | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Total operating expense | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Net operating income (expense) | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Nonoperating income (expense): | | | | |
| Investment income | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Taxes & subventions | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Interest & amortization of bond expenses, net | (xxx,xxx) | (xxx,xxx) | (xxx,xxx) | xx% |
| Increase (decrease) of Equity in partnership fund | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Other income | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Total nonoperating income (expense), net | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Income (loss) before contributions | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Capital contributions | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Change in net position | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Total net position – beginning | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Total net position – ending | \$ <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |

Sample 07 Cash Management Policies and Cash Flow activities

Liquidity

The District had \$xx million in combined current and non-current District Cash and Investments as of June 30, 20xx, an increase of \$x million compared to \$xx million as of June 30, 20xx-1. Components of cash and investments for the year ended June 30, 20xx were:

- Utility System total combined current and non-current Cash and Investments increased by \$xx million or x% from \$x million as of June 30, 20xx-1 to \$xx million as of June 30, 20xx. Net increase (decrease) in cash and cash equivalents increased by \$xx million compared to the prior year. This was primarily due to an increase of \$ xx million from capital and related financing activities as a result of new revenue bonds issuances and an increase of \$xx million from the reallocation of investments between short-term and long-term, offset by decrease of \$xx million in cash provided from operating activities. Net increase (decrease) in investments decreased by \$xx million also primarily due to reallocation of investments between short-term and long-term.

Table 3 shows the District's cash flow for the fiscal years ended June 30, 20xx, 20xx-1 and 20xx-2:

Table 3
Cash Flows
District
June 30, 20xx and 20xx-1
(In thousands)

| | <u>20xx</u> | <u>20xx-1</u> | <u>Variance</u> | <u>%</u> |
|---|----------------|----------------|-----------------|----------|
| Cash and cash equivalents: | | | | |
| Beginning of year | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Net cash provided by operating activities | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Net cash provided by financing activities | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Net cash provided by (used in) capital and related financing activities | -xxx,xxx | -xxx,xxx | xxx,xxx | xx% |
| Net cash provided by (used in) investing activities | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Net increase (decrease) in cash and cash equivalents | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| End of period | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Investments: | | | | |
| Beginning of year | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Net increase (decrease) in investments | -xxx,xxx | -xxx,xxx | xxx,xxx | xx% |
| End of period | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Total District Cash and Investments | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |

Table 3 continued

Cash Flows

District

June 30, 20xx-1 and 20xx-2

(In thousands)

| | <u>20xx-1</u> | <u>20xx-2</u> | <u>Variance</u> | <u>%</u> |
|---|----------------|----------------|-----------------|----------|
| Cash and cash equivalents: | | | | |
| Beginning of year | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Net cash provided by operating activities | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Net cash provided by financing activities | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Net cash provided by (used in) capital and related financing activities | -xxx,xxx | -xxx,xxx | xxx,xxx | xx% |
| Net cash provided by (used in) investing activities | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Net increase (decrease) in cash and cash equivalents | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| End of period | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Investments: | | | | |
| Beginning of year | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Net increase (decrease) in investments | -xxx,xxx | -xxx,xxx | xxx,xxx | xx% |
| End of period | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Total District Cash and Investments | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |

Sample 08 Restricted and Unrestricted Cash and Investments, and Capital Contributions

Cash and Investments by Fund

In fiscal years 20xx and 20xx-1, total cash and investments available for operating and capital activities are reported in current and noncurrent assets as unrestricted and restricted funds. Significant activities were as follows: Utility System reserved an additional \$xx million in revenues in the rate stabilization fund, additional \$x million in working capital, additional \$xx million in capital reserve, and released \$xx million debt service reserve fund due to revenue bonds' refunding.

In the previous fiscal year, significant activities were as follows: Utility System reserved an additional \$xx million in revenue in the rate stabilization funds and used \$14 million in capital reserves to fund capital projects. Operating and Capital Reserves are components of Unrestricted Cash and Investments. Individual funds within Operating and Capital Reserves are funded pursuant to Board policy but are unrestricted as to use. For additional information see Note 1H on page xx. Table 4 shows the District's cash and investment by fund for the fiscal years ended June 30, 20xx, 20xx-1 and 20xx-2:

Table 4
Cash and Investment by Fund
District
June 30, 20xx and 20xx-1
(In thousands)

| | <u>District</u> | | <u>Increase (decrease)</u> | |
|--|-----------------|----------------|----------------------------|----------|
| | <u>20xx</u> | <u>20xx-1</u> | <u>Amount</u> | <u>%</u> |
| Unrestricted cash and investment | | | | |
| Operating reserves: | | | | |
| Rate stabilization fund | \$ xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Working capital reserve | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Self-insurance | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Workers compensation | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Total operating reserves | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Capital reserves: | | | | |
| Reserved for capital projects | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Reserve funded CIP - Wastewater | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Vehicle replacements | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Equipment replacements | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Total capital reserves | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Total Unrestricted cash and investment | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Restricted Cash and Investments | | | | |
| Bond interest and redemption fund | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Debt service reserve fund | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Funds received for construction | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| FERC partnership fund | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Monetary reserve | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| ABAG program restricted fund | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Total restricted cash and investments | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |

Table 4 continued
Cash and Investment by Fund
District
June 30, 20xx-1 and 20xx-2
(In thousands)

| | District | | Increase (decrease) | |
|--|-----------------|----------------|----------------------------|----------|
| | 20xx-1 | 20xx-2 | Amount | % |
| Unrestricted cash and investment | | | | |
| Operating reserves: | | | | |
| Rate stabilization fund | \$ xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Working capital reserve | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Self-insurance | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Workers compensation | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Total operating reserves | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Capital reserves: | | | | |
| Reserved for capital projects | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Reserve funded CIP - Wastewater | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Vehicle replacements | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Equipment replacements | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Total capital reserves | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Total Unrestricted cash and investment | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Restricted Cash and Investments | | | | |
| Bond interest and redemption fund | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Debt service reserve fund | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Funds received for construction | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| FERC partnership fund | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| Monetary reserve | xxx,xxx | xxx,xxx | xxx,xxx | xx% |
| ABAG program restricted fund | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |
| Total restricted cash and investments | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> | xx% |

Capital Contributions

Capital contributions primarily consist of System Capacity Charges (SCC) and Seismic Improvement Program (SIP) surcharges. Additionally, the District receives contributions when the District's facilities need to be relocated during construction projects. The District also receives state and federal grants to fund capital projects.

The Utility System's SCC consists of charges collected from all applicants who request a new utility service connection or a larger utility meter size, and varies depending on geographic region. The SCC pays for the applicant's share of the capital facilities, including those that serve the entire utility system such as the aqueducts and raw utility facilities, regional facilities such as treatment plants and distribution facilities, and future utility supply upgrades needed to meet long-term increases in utility demand created by new customers. The portion of the SCC that pays for the future utility supply is restricted and the remainder is unrestricted.

The Waste Utility System's Capacity Fee is treated as unrestricted funds and pays for the share of Waste Utility facilities attributed to new customers.

A flat Seismic Improvement Program (SIP) surcharge is imposed on each Single Family Residential or Multiple Family Residential account to pay for system-wide seismic improvements of the Utility System being made from 1995-2025. The SIP surcharge is designed to recover costs of the SIP, the objective of which is to provide fire flow availability for real property, and provide continued utility service to residential, commercial, industrial and public authority customers after a seismic event. SIP program costs are being paid over 30 years; the charge is effective on each utility bill through February 28, 2025.

System capacity charges increased by \$xx million and earned contributions on construction increased by \$xx million due to rising development activities as the housing industry continues its rebound from the most recent recession.

Table 5 shows the District’s capital contributions received for the fiscal years ended June 30, 20xx, 20xx-1 and 20xx-2:

Table 5
Capital Contributions
District
June 30, 201xx and 20xx-1
(In thousands)

| | <u>District</u> | | <u>Increase (decrease)</u> | |
|--------------------------------------|------------------|---------------|----------------------------|----------|
| | <u>20xx</u> | <u>2014</u> | <u>Amount</u> | <u>%</u> |
| System capacity charges | \$ xx,xxx | xx,xxx | xx,xxx | xx% |
| Earned contributions on construction | xx,xxx | xx,xxx | xx,xxx | xx% |
| Seismic improvement surcharge | xx,xxx | xx,xxx | xx,xxx | xx% |
| Grants and other reimbursements | xx,xxx | xx,xxx | xx,xxx | xx% |
| Totals | \$ <u>xx,xxx</u> | <u>xx,xxx</u> | <u>xx,xxx</u> | xx% |

Capital Contributions
District
June 30, 201xx-1 and 20xx-2
(In thousands)

| | <u>District</u> | | <u>Increase (decrease)</u> | |
|--------------------------------------|------------------|---------------|----------------------------|----------|
| | <u>20xx-1</u> | <u>20xx-2</u> | <u>Amount</u> | <u>%</u> |
| System capacity charges | \$ xx,xxx | xx,xxx | xx,xxx | xx% |
| Earned contributions on construction | xx,xxx | xx,xxx | xx,xxx | xx% |
| Seismic improvement surcharge | xx,xxx | xx,xxx | xx,xxx | xx% |
| Grants and other reimbursements | xx,xxx | xx,xxx | xx,xxx | xx% |
| Totals | \$ <u>xx,xxx</u> | <u>xx,xxx</u> | <u>xx,xxx</u> | xx% |

Sample 09 Summary of Capital Assets, Net of Depreciation and Capital Activities

CAPITAL ASSETS

Table 6 shows the District’s capital assets for the fiscal years ended June 30, 20xx, 20xx-1 and 20xx-2:

District
June 30, 20xx and 20xx-1
(In thousands)

| | District | | Increase/(decrease) | |
|---|---------------------|------------------|----------------------------|----------|
| | 20xx | 20xx-1 | Amount | % |
| Structures, buildings, and equipment | \$ x,xxx,xxx | x,xxx,xxx | xxx,xxx | xx% |
| Land and rights of way | x,xxx,xxx | x,xxx,xxx | xxx,xxx | xx% |
| Construction work in progress | x,xxx,xxx | x,xxx,xxx | xxx,xxx | xx% |
| Totals | \$ <u>x,xxx,xxx</u> | <u>x,xxx,xxx</u> | <u>xxx,xxx</u> | xx% |

Table 6
Capital Assets, Net of Depreciation

District
June 30, 20xx-1 and 20xx-2
(In thousands)

| | District | | Increase/(decrease) | |
|---|---------------------|------------------|----------------------------|----------|
| | 20xx-1 | 20xx-2 | Amount | % |
| Structures, buildings, and equipment | \$ x,xxx,xxx | x,xxx,xxx | xxx,xxx | xx% |
| Land and rights of way | x,xxx,xxx | x,xxx,xxx | xxx,xxx | xx% |
| Construction work in progress | x,xxx,xxx | x,xxx,xxx | xxx,xxx | xx% |
| Totals | \$ <u>x,xxx,xxx</u> | <u>x,xxx,xxx</u> | <u>xxx,xxx</u> | xx% |

The District had \$x billion (net of accumulated depreciation) invested in a broad range of utility capital assets as of June 30, 20xx. Total capital assets were \$xx billion as of June 30, 20xx-1. The investment in capital assets includes land, buildings, improvements, utility treatment plants, filter plants, aqueducts, utility transmission and distribution mains, utility storage facilities, pump stations, utility reclamation facilities, waste utility and wet weather treatment facilities, machinery and equipment (*see Table 6 above*). In the current fiscal year, capital assets increased by \$xx million or x% over the prior fiscal year. In fiscal year 20xx-1, capital assets increased \$xx million or x% over fiscal year 20xx-2. Annual changes are consistent with the District’s capital improvement program.

The Utility System had \$x billion (net of accumulated depreciation) invested in a broad range of utility capital assets as of June 30, 20xx. The investment in capital assets includes land, buildings, improvements, utility treatment plants, filter plants, aqueducts, utility transmission and distribution mains, utility storage facilities, power generation, pump stations, utility reclamation facilities, machinery and equipment. The District’s net revenue, long-term debt, and contributions from customers are used to finance capital investments. More detailed information about the District’s capital assets is presented in Note 3 to the basic financial statements.

This year’s major capital expenditures included:

District

| | | |
|---------------------------------|----|--------|
| Project A | \$ | 45,821 |
| Project B | | 44,802 |
| Project D | | 32,710 |
| Project xyz | | 19,658 |
| Adm Bldg Modifications | | 14,249 |
| Main Facility Rehab/Maintenance | | 12,745 |
| Summit Improve | | 10,182 |
| SRVProgram | | 9,979 |
| Equipment | | 9,463 |

Sample 10 Long-Term Debt Administration

DEBT ADMINISTRATION

The District had total long-term debt outstanding of \$xx billion as of June 30, 20xx, a x% increase from June 30, 20xx-1. Total long-term debt outstanding was \$x billion as of June 30, 20xx-1, x% increase from June 30, 20xx-2. Components of the District’s long-term debt portfolio as of June 30, 20xx are:

- The Utility System had total long-term debt outstanding of \$x billion. During fiscal year 20xx, the District issued a total of \$x million Utility System Revenue Bonds, of which \$xx million was issued to refund a total of \$xx million Utility System Subordinated Revenue Refunding Bond Series 20aa, 20bb, and 20cc.

Table 7 shows the District’s long-term debt outstanding for the fiscal years ended June 30, 20xx, 20xx-1 and 20xx-2:

| Long -Term Debt (Net of Unamortized Costs) District June 30, 20xx and 20xx-1 (In thousands) | | | | |
|---|---------------------|------------------|---------------------|------|
| | District | | Increase (decrease) | |
| | 20xx | 20xx-1 | Amount | % |
| General obligation bonds | \$ — | xxx | -xxx | xxx% |
| Revenue bonds | x,xxx,xxx | x,xxx,xxx | xxx | xxx% |
| Extendable commercial paper | x,xxx,xxx | x,xxx,xxx | xxx | xxx% |
| Loans | xxx | xxx | xxx | xxx% |
| Totals | \$ <u>x,xxx,xxx</u> | <u>x,xxx,xxx</u> | <u>xxx</u> | xxx% |

| Long -Term Debt (Net of Unamortized Costs) District June 30, 20xx-1 and 20xx-2 (In thousands) | | | | |
|---|---------------------|------------------|---------------------|------|
| | District | | Increase (decrease) | |
| | 20xx-1 | 20xx-2 | Amount | % |
| General obligation bonds | \$ xxx | xxx | xxx | xxx% |
| Revenue bonds | x,xxx,xxx | x,xxx,xxx | xxx | xxx% |
| Extendable commercial paper | x,xxx,xxx | x,xxx,xxx | xxx | xxx% |
| Loans | xxx | xxx | xxx | xxx% |
| Totals | \$ <u>x,xxx,xxx</u> | <u>x,xxx,xxx</u> | <u>xxx</u> | xxx% |

It is the policy of the District to maintain a reasonable balance between debt and current revenue financing of capital projects. The following targets provide the framework for financing capital projects:

Debt Service Coverage Ratio: Maintain an annual revenue bond debt coverage ratio of at least 1.6 times coverage. As of 6/30/20xx, the coverage ratio for the overall District’s ratio was 1.xx.

Debt-Funded Capital Spending: Limit debt-funded capital to no more than xx% of the total capital program over each five-year planning period. As of 6/30/20xx, the percentage of debt-funded capital spending for the overall District's percentage was xx%.

Extended Commercial Paper and Un-hedged Variable Rate Debt: Limit to xx% of outstanding long-term debt. As of 6/30/20xx, the percentage of extended commercial paper and un-hedged variable rate debt compared to total outstanding long-term debt for the overall District's percentage was xx%.

Sample 11 Credit Rating

The District’s credit ratings are outlined in Table 8.

Table 8
 Credit Ratings
 District
 June 30, 20xx

| District debt by type | Rating by | | |
|-----------------------------|-------------------|---------------------------|-------|
| | Standard & Poor’s | Moody’s Investors Service | Fitch |
| District: | | | |
| Fixed Rate Revenue Bonds | AA | Aa | AA |
| Variable Rate Revenue Bonds | | | |
| Long-term Underlying Rating | AA+ | Aa1 | - |
| Short-Term Rating | A-1+ | VMIG-1 | - |
| Extendable Commercial Paper | A-1+ | P-1 | F1+ |

For detail credit rating by bond issue, please visit our website at <http://www.the District.com>.

Revenue-supported debt authorization for the District can be approved by the District’s board of directors, subject to a referendum process. At xx, the Utility System had \$xxx million in authorized but unissued revenue bonds. Additional information on the District’s long-term debt can be found in Note 6 to the financial statements.

Sample 12 Currently Known Facts Bearing on the Future

An example of some type of explanation is allowed but not required. There is no restriction on content. The Authority provides eligible retired employees with health insurance coverage equal to what they had during their active employment, under a written plan adopted by the Authority. In 20xx, the Authority implemented GASB Statement No. 45, Accounting and Financial Reporting Employers for Postemployment Benefits Other Than Pensions. One of the immediate effects of GASB Statement 45 was that the Authority was required to recognize a more comprehensive measure of the cost of providing retiree health insurance when preparing its financial statements. Consequently, the Authority considered the higher OPEB expenses it was reporting when establishing its budget and airline rates and charges.

The Authority began to retain revenues based upon inclusion of this expense in its airline revenue-sharing calculation under its signatory airline lease agreement. During 20xx, the Authority created a legally separate trust to accumulate the resources it was collecting to fund its obligation to provide for retired employee healthcare insurance. In late 20xx, the Authority contributed the amounts it had budgeted for this expense in 20xx and 20xx, which reflected the actuarially determined cost when it did not have a trust. After creating and funding the Sleepy Hollow Airport Authority OPEB Trust (the Trust), the Authority recalculated its liability and annual expense for its obligation to fund retiree healthcare benefits.

The Authority is negotiating with the unions representing its employees regarding achieving potential cost savings for the OPEB provided to current and future retirees. The Authority also is monitoring actions in the state legislature regarding pensions. Several bills have been introduced and are pending that would create new pension plan tiers to (1) further increase retirement age, (2) lengthen vesting periods, (3) extend the final period upon which pension payments are based to prevent salary spiking, and (4) change contribution rates, as well as other actions intended to reduce the cost of pension benefits for future hires.

Sample 13 Request for Information

REQUEST FOR INFORMATION

This financial report is designed to provide ratepayers and creditors with a general overview of the District's finances and demonstrate the District's accountability for the monies it receives. If you have any questions about this report or need additional information, please contact: Finance, Attention: XXX, P.O. Box xxxx, City, CA xxxxx-xxxx or visit our website at <http://www.the District.com>.

Funds Financial Statements

Sample 14 Statement of Net Position (Preferred format over balance sheet format)

Statement of Net Position**June 30, 2017**

(amounts in thousands)

| | Primary Government | | | Component Units |
|--|----------------------------|-----------------------------|----------------|--------------------|
| | Governmental Activities | Business-type Activities | Total | |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and pooled investments | \$ 35,186,647 | \$ 7,820,089 | \$ 43,006,736 | \$ 2,820,694 |
| Amount on deposit with U.S. Treasury | — | 11,730 | 11,730 | — |
| Investments | 607,262 | 2,080,478 | 2,687,740 | 8,477,085 |
| Restricted assets: | | | | |
| Cash and pooled investments | 638,075 | 1,033,576 | 1,671,651 | 386,587 |
| Investments | — | — | — | 47,996 |
| Due from other governments | — | 100,385 | 100,385 | — |
| Net investment in direct financing leases | 36,877 | 11,055 | 47,932 | — |
| Receivables (net) | 19,848,799 | 2,006,463 | 21,855,262 | 4,565,340 |
| Internal balances | 272,508 | (272,508) | — | — |
| Due from primary government | — | — | — | 204,062 |
| Due from other governments | 20,068,777 | 234,313 | 20,303,090 | 123,896 |
| Prepaid items | 218,010 | 55,981 | 273,991 | 5,001 |
| Inventories | 79,801 | 16,671 | 96,472 | 226,995 |
| Recoverable power costs (net) | — | 106,000 | 106,000 | — |
| Other current assets | 45,253 | 6,601 | 51,854 | 379,000 |
| Total current assets | 77,002,009 | 13,210,834 | 90,212,843 | 17,236,656 |
| Noncurrent assets: | | | | |
| Restricted assets: | | | | |
| Cash and pooled investments | 176,851 | 716,720 | 893,571 | 34,934 |
| Investments | — | 361,913 | 361,913 | 80,329 |
| Loans receivable | — | 1,276,297 | 1,276,297 | — |
| Investments | — | 2,446,159 | 2,446,159 | 28,321,247 |
| Net investment in direct financing leases | 289,525 | 241,333 | 530,858 | — |
| Receivables (net) | 2,076,165 | 418,821 | 2,494,986 | 2,523,282 |
| Loans receivable | 4,581,163 | 3,586,044 | 8,167,207 | 3,104,780 |
| Recoverable power costs (net) | — | 2,467,000 | 2,467,000 | — |
| Long-term prepaid charges | 2,030 | 1,222,745 | 1,224,775 | — |
| Capital assets: | | | | |
| Land | 19,715,991 | 258,295 | 19,974,286 | 1,318,690 |
| State highway infrastructure | 75,071,022 | — | 75,071,022 | — |
| Collections – nondepreciable | 22,627 | 22,086 | 44,713 | 468,308 |
| Buildings and other depreciable property | 31,115,033 | 13,717,614 | 44,832,647 | 51,543,464 |
| Intangible assets – amortizable | 2,075,973 | 420,480 | 2,496,453 | 1,029,465 |
| Less: accumulated depreciation/amortization | (14,304,302) | (5,616,235) | (19,920,537) | (25,042,875) |
| Construction/development in progress | 15,870,690 | 1,750,443 | 17,621,133 | 2,560,457 |
| Intangible assets – nonamortizable | 428,676 | 117,068 | 545,744 | 5,411 |
| Other noncurrent assets | — | 23,920 | 23,920 | 221,663 |
| Total noncurrent assets | 137,121,444 | 23,430,703 | 160,552,147 | 66,169,155 |
| Total assets | 214,123,453 | 36,641,537 | 250,764,990 | 83,406,811 |
| DEFERRED OUTFLOWS OF RESOURCES | 17,172,864 | 2,350,512 | 19,523,376 | 5,623,947 |
| Total assets and deferred outflows of resources | \$ 231,296,317 | \$ 38,992,049 | \$ 270,288,366 | \$ 89,029,758 |

The notes to the financial statements are an integral part of this statement.

Statement of Net Position (continued)

| | Primary Government | | | Component Units |
|---|----------------------------|-----------------------------|-----------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total | |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable..... | \$ 24,823,392 | \$ 468,035 | \$ 25,291,427 | \$ 3,295,919 |
| Due to component units..... | 204,062 | — | 204,062 | — |
| Due to other governments..... | 6,887,502 | 132,040 | 7,019,542 | — |
| Revenues received in advance..... | 1,595,429 | 375,215 | 1,970,644 | 1,348,905 |
| Tax overpayments..... | 5,144,945 | — | 5,144,945 | — |
| Deposits..... | 489,888 | — | 489,888 | 858,006 |
| Contracts and notes payable..... | 1,036 | — | 1,036 | 9,457 |
| Unclaimed property liability..... | 937,822 | — | 937,822 | — |
| Interest payable..... | 1,166,841 | 64,976 | 1,231,817 | 36,850 |
| Securities lending obligations..... | — | — | — | 1,121,899 |
| Benefits payable..... | — | 457,305 | 457,305 | — |
| Current portion of long-term obligations..... | 5,940,497 | 2,674,355 | 8,614,852 | 4,025,103 |
| Other current liabilities..... | 645,346 | 528,147 | 1,173,493 | 1,397,983 |
| Total current liabilities..... | 47,836,760 | 4,700,073 | 52,536,833 | 12,094,122 |
| Noncurrent liabilities: | | | | |
| Lottery prizes and annuities..... | — | 684,997 | 684,997 | — |
| Compensated absences payable..... | 3,510,653 | 205,082 | 3,715,735 | 354,494 |
| Workers' compensation benefits payable..... | 3,642,228 | 3,639 | 3,645,867 | 445,251 |
| Commercial paper and other borrowings..... | 1,158,080 | 147,365 | 1,305,445 | 200 |
| Capital lease obligations..... | 358,964 | 309,716 | 668,680 | 422,661 |
| General obligation bonds payable..... | 75,329,254 | 666,999 | 75,996,253 | — |
| Revenue bonds payable..... | 16,087,416 | 13,868,527 | 29,955,943 | 20,321,545 |
| Mandated cost claims payable..... | 2,453,039 | — | 2,453,039 | — |
| Net other postemployment benefits obligation..... | 28,181,028 | 978,204 | 29,159,232 | 147,636 |
| Net other postemployment benefits liability..... | — | — | — | 19,290,424 |
| Net pension liability..... | 77,278,086 | 8,786,887 | 86,064,973 | 10,987,614 |
| Revenues received in advance..... | — | 10,840 | 10,840 | — |
| Other noncurrent liabilities..... | 1,371,771 | 225,301 | 1,597,072 | 2,010,815 |
| Total noncurrent liabilities..... | 209,370,519 | 25,887,557 | 235,258,076 | 53,980,640 |
| Total liabilities..... | 257,207,279 | 30,587,630 | 287,794,909 | 66,074,762 |
| DEFERRED INFLOWS OF RESOURCES..... | 2,714,215 | 1,121,317 | 3,835,532 | 6,315,880 |
| Total liabilities and deferred inflows of resources..... | \$ 259,921,494 | \$ 31,708,947 | \$ 291,630,441 | \$ 72,390,642 |

(continued)

The notes to the financial statements are an integral part of this statement.

Statement of Net Position (continued)

June 30, 2017

(amounts in thousands)

| | Primary Government | | | Component Units |
|---|----------------------------|-----------------------------|-----------------------|----------------------|
| | Governmental Activities | Business-type Activities | Total | |
| NET POSITION | | | | |
| Net investment in capital assets | \$ 107,042,274 | \$ 2,295,270 | \$ 109,337,544 | \$ 13,922,202 |
| Restricted: | | | | |
| Nonexpendable – endowments | — | 1,746 | 1,746 | 6,420,741 |
| Expendable: | | | | |
| Endowments and gifts | — | — | — | 11,254,940 |
| General government | 3,902,047 | 210,549 | 4,112,596 | — |
| Education | 829,516 | 140,220 | 969,736 | 1,304,254 |
| Health and human services | 4,758,357 | 170,828 | 4,929,185 | — |
| Natural resources and environmental protection | 4,741,159 | 1,917,575 | 6,658,734 | — |
| Business, consumer services, and housing | 4,022,533 | 22,465 | 4,044,998 | — |
| Transportation | 8,829,656 | 6,778 | 8,836,434 | — |
| Corrections and rehabilitation | 35,542 | 2,017 | 37,559 | — |
| Unemployment programs | — | 3,836,786 | 3,836,786 | — |
| Indenture | — | — | — | 576,548 |
| Statute | — | — | — | 1,636,242 |
| Other purposes | 6,713,422 | — | 6,713,422 | 29,016 |
| Total expendable | 33,832,232 | 6,307,218 | 40,139,450 | 14,801,000 |
| Unrestricted | (169,499,683) | (1,321,132) | (170,820,815) | (18,504,827) |
| Total net position (deficit) | (28,625,177) | 7,283,102 | (21,342,075) | 16,639,116 |
| Total liabilities, deferred inflows of resources, and net position | \$ 231,296,317 | \$ 38,992,049 | \$ 270,288,366 | \$ 89,029,758 |

(concluded)

The notes to the financial statements are an integral part of this statement.

Sample 15 Balance Sheet (Alternative net position format)

Assets Page

DISTRICT
BALANCE SHEETS
JUNE 30, 20xx AND JUNE 30, 20xx-1
(DOLLARS IN THOUSANDS)

| | District | |
|--|-------------------|--------------------|
| | June 30, 20xx | June 30, 20xx-1 |
| Current assets: | | |
| Cash and cash equivalents (Note 2) | \$ xxx,xxx | \$ xxx,xxx |
| Investments (Note 2) | xxx,xxx | xxx,xxx |
| Receivables: | | |
| Customer | xxx,xxx | xxx,xxx |
| Interest and other | xxx,xxx | xxx,xxx |
| Materials and supplies | xxx,xxx | xxx,xxx |
| Prepaid Insurance | xxx,xxx | xxx,xxx |
| Total current assets | <u>xxx,xxx</u> | <u>xxx,xxx</u> |
| Noncurrent assets: | | |
| Restricted cash and investments (Note 2): | | |
| Cash and cash equivalents | xxx,xxx | xxx,xxx |
| Investments | xxx,xxx | xxx,xxx |
| Total restricted cash and investments | <u>xxx,xxx</u> | <u>xxx,xxx</u> |
| Other assets: | | |
| Equity in JPA partnership fund (Note 2I) | xxx,xxx | xxx,xxx |
| Other | xxx,xxx | xxx,xxx |
| Total other assets | <u>xxx,xxx</u> | <u>xxx,xxx</u> |
| Capital assets (Note 3): | | |
| Structures, buildings, and equipment | xxx,xxx | xxx,xxx |
| Less accumulated depreciation | (xxx,xxx) | (xxx,xxx) |
| Subtotal | <u>xxx,xxx</u> | <u>xxx,xxx</u> |
| Land and rights-of-way | xxx,xxx | xxx,xxx |
| Construction in progress | xxx,xxx | xxx,xxx |
| Total capital assets, net | <u>xxx,xxx</u> | <u>xxx,xxx</u> |
| Total noncurrent assets | <u>xxx,xxx</u> | <u>xxx,xxx</u> |
| Total assets | <u>xxx,xxx</u> | <u>xxx,xxx</u> |
| Deferred outflows of resources: | | |
| Accumulated decrease in fair value of hedging derivatives (Note 6) | xxx,xxx | xxx,xxx |
| Pension related (Note 8G) | xxx,xxx | xxx,xxx |
| Total deferred outflows | <u>xxx,xxx</u> | <u>xxx,xxx</u> |
| Total assets and deferred outflows | <u>\$ xxx,xxx</u> | <u>\$ xxx,xxx</u> |

Liabilities and Net Position Page

DISTRICT
BALANCE SHEETS
JUNE 30, 20xx AND JUNE 30, 20xx-1
(DOLLARS IN THOUSANDS)

| | District | |
|---|------------------|--------------------|
| | June 30, 20xx | June 30, 20xx-1 |
| Current liabilities: | | |
| Current maturities of long-term debt and Commercial Paper (Note 5 & 6) | \$ xxx,xxx | \$ xxx,xxx |
| Accounts payable and accrued expenses (Note 4) | xxx,xxx | xxx,xxx |
| Current reserve for claims (Note 9) | xxx,xxx | xxx,xxx |
| Accrued interest | xxx,xxx | xxx,xxx |
| Total current liabilities | xxx,xxx | xxx,xxx |
| Noncurrent liabilities: | | |
| Advances for construction | xxx,xxx | xxx,xxx |
| OPEB liabilities (Note 8) | xxx,xxx | xxx,xxx |
| Reserve for claims (Note 9) | xxx,xxx | xxx,xxx |
| Net pension liability (Note 8G) | xxx,xxx | xxx,xxx |
| Other liabilities | xxx,xxx | xxx,xxx |
| Long-term liabilities, net of current maturities (Note 5 & 6) | xxx,xxx | xxx,xxx |
| Total noncurrent liabilities | xxx,xxx | xxx,xxx |
| Total liabilities | xxx,xxx | xxx,xxx |
| Deferred inflows of resources | | |
| Derivative instrument (Note 6) | xxx,xxx | xxx,xxx |
| Swap Novation (Note 6F) | xxx,xxx | xxx,xxx |
| Pension related (Note 8G) | xxx,xxx | xxx,xxx |
| Total deferred inflows | xxx,xxx | xxx,xxx |
| Total liabilities and deferred inflows | xxx,xxx | xxx,xxx |
| Net position (Note 7): | | |
| Net investment in capital assets | xxx,xxx | xxx,xxx |
| Restricted for construction (Note 1G) | xxx,xxx | xxx,xxx |
| Restricted for debt service (Note 1G) | xxx,xxx | xxx,xxx |
| Restricted for JPA | xxx,xxx | xxx,xxx |
| Restricted - other (Note 1G) | xxx,xxx | xxx,xxx |
| Unrestricted | xxx,xxx | xxx,xxx |
| Total net position | xxx,xxx | xxx,xxx |
| Total liabilities and net position | \$ xxx,xxx | \$ xxx,xxx |

See accompanying notes to financial statements

Sample 16 Statement of Activities

Year Ended June 30, 2017
(amounts in thousands)

| FUNCTIONS/PROGRAMS | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | | Component Units |
|--|-----------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|-------------------------|-----------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | Total | |
| | | | | | Governmental Activities | Business-type Activities | | |
| Primary government | | | | | | | | |
| Governmental activities: | | | | | | | | |
| General government | \$ 17,400,482 | \$ 5,825,533 | \$ 929,306 | \$ — | \$ (10,645,643) | \$ — | \$ (10,645,643) | |
| Education | 67,377,805 | 74,548 | 7,413,197 | — | (59,890,060) | — | (59,890,060) | |
| Health and human services | 135,090,171 | 11,638,503 | 77,917,754 | — | (45,533,914) | — | (45,533,914) | |
| Natural resources and environmental protection | 7,342,079 | 3,998,751 | 424,586 | — | (2,918,742) | — | (2,918,742) | |
| Business, consumer services, and housing | 1,163,511 | 844,445 | 84,406 | — | (234,660) | — | (234,660) | |
| Transportation | 12,947,296 | 4,611,244 | 2,603,508 | 3,027,780 | (2,704,764) | — | (2,704,764) | |
| Corrections and rehabilitation | 13,086,499 | 17,988 | 124,533 | — | (12,943,978) | — | (12,943,978) | |
| Interest on long-term debt | 4,191,283 | — | — | — | (4,191,283) | — | (4,191,283) | |
| Total governmental activities | 258,599,126 | 27,011,012 | 89,497,290 | 3,027,780 | (139,063,044) | — | (139,063,044) | |
| Business-type activities: | | | | | | | | |
| Electric Power | 945,000 | 945,000 | — | — | \$ — | \$ — | \$ — | |
| Water Resources | 1,223,340 | 1,223,340 | — | — | — | — | — | |
| State Lottery | 6,271,875 | 6,213,074 | — | — | — | (58,801) | (58,801) | |
| Unemployment Programs | 11,907,623 | 14,437,094 | — | — | — | 2,529,471 | 2,529,471 | |
| California State University | 8,001,396 | 3,224,919 | 1,805,406 | — | (2,971,071) | (2,971,071) | (2,971,071) | |
| State Water Pollution Control Revolving | 17,112 | 75,912 | — | 61,027 | 119,827 | 119,827 | 119,827 | |
| Housing Loan | 62,885 | 52,842 | — | — | (10,043) | (10,043) | (10,043) | |
| Other enterprise programs | 75,397 | 93,177 | — | — | — | 17,780 | 17,780 | |
| Total business-type activities | 28,504,628 | 26,265,358 | 1,805,406 | 61,027 | (372,837) | (372,837) | (372,837) | |
| Total primary government | \$ 287,103,754 | \$ 53,276,370 | \$ 91,302,696 | \$ 3,088,807 | \$ (139,063,044) | \$ (372,837) | \$ (139,435,881) | |
| Component Units: | | | | | | | | |
| University of California | 34,270,286 | 21,777,538 | 9,422,754 | 86,776 | — | — | — | \$ (2,983,218) |
| California Housing Finance Agency | 208,118 | 95,432 | — | — | — | — | — | (112,686) |
| Nonmajor component units | 2,125,925 | 1,079,450 | 639,510 | 12,142 | — | — | — | (394,823) |
| Total component units | \$ 36,604,329 | \$ 22,952,420 | \$ 10,062,264 | \$ 98,918 | — | — | — | \$ (3,490,727) |
| General revenues: | | | | | | | | |
| Personal income taxes | | | | | \$ 85,712,013 | \$ — | \$ 85,712,013 | \$ — |
| Sales and use taxes | | | | | 38,726,332 | — | 38,726,332 | — |
| Corporation taxes | | | | | 11,128,198 | — | 11,128,198 | — |
| Motor vehicle excise tax | | | | | 4,878,953 | — | 4,878,953 | — |
| Insurance taxes | | | | | 2,719,489 | — | 2,719,489 | — |
| Managed care organization enrollment tax | | | | | 2,282,313 | — | 2,282,313 | — |
| Other taxes | | | | | 2,574,456 | — | 2,574,456 | — |
| Investment and interest income (loss) | | | | | 149,135 | — | 149,135 | 3,485,177 |
| Escheat | | | | | 325,755 | — | 325,755 | — |
| Other | | | | | — | — | — | 2,657,655 |
| Gain on early extinguishment of debt | | | | | 30,986 | — | 30,986 | — |
| Transfers | | | | | (3,083,437) | 3,083,437 | — | — |
| Total general revenues and transfers | | | | | 148,444,193 | 3,083,437 | 148,527,630 | 6,142,882 |
| Change in net position | | | | | 6,381,149 | 2,710,600 | 9,091,749 | 2,652,105 |
| Net position (deficit) – beginning | | | | | (35,006,326)* | 4,572,502 | (30,433,824) | 13,987,011 * |
| Net position (deficit) – ending | | | | | \$ (28,625,177) | \$ 7,285,102 | \$ (21,340,075) | \$ 16,639,116 |

* Restated

The notes to the financial statements are an integral part of this statement.

Sample 17 Statement of Revenues, Expenses and Changes in Net Position, Proprietary Funds

Proprietary Funds

Year Ended June 30, 2017

(amounts in thousands)

| | Business-type Activities – Enterprise Funds: | | | | | | Total | Governmental |
|--|--|------------------|--------------------|-----------------------|-----------------------------|---------------------|-------------------|------------------------|
| | Electric Power | Water Resources | State Lottery | Unemployment Programs | California State University | Nonmajor Enterprise | | Internal Service Funds |
| OPERATING REVENUES | | | | | | | | |
| Unemployment and disability insurance | \$ — | \$ — | \$ — | \$ 14,410,450 | \$ — | \$ — | \$ 14,410,450 | \$ — |
| Lottery ticket sales | — | — | 6,233,468 | — | — | — | 6,233,468 | — |
| Power sales | (29,000) | 85,089 | — | — | — | — | 56,089 | — |
| Student tuition and fees | — | — | — | — | 2,185,443 | — | 2,185,443 | — |
| Services and sales | — | 1,138,251 | — | — | 547,580 | 104,052 | 1,789,883 | 2,802,643 |
| Investment and interest | — | — | — | — | — | 107,670 | 107,670 | 10,515 |
| Rent | — | — | — | — | — | 108 | 108 | 437,203 |
| Grants and contracts | — | — | — | — | 71,277 | — | 71,277 | — |
| Other | — | — | — | — | 208,480 | 1,971 | 210,451 | — |
| Total operating revenues: | (29,000) | 1,223,340 | 6,233,468 | 14,410,460 | 3,012,780 | 213,801 | 25,064,839 | 3,260,361 |
| OPERATING EXPENSES | | | | | | | | |
| Lottery prizes | — | — | 3,963,453 | — | — | — | 3,963,453 | — |
| Power purchases (net of recoverable power costs) | (42,000) | 339,993 | — | — | — | — | 297,993 | — |
| Personal services | — | 567,083 | 91,254 | 184,019 | 5,168,665 | 36,851 | 5,847,872 | 891,258 |
| Supplies | — | — | 18,037 | — | 1,454,430 | 37,266 | 1,509,733 | 10,306 |
| Services and charges | 13,000 | 177,842 | 649,656 | 87,017 | — | 35,695 | 963,210 | 2,036,439 |
| Depreciation | — | 77,265 | 16,890 | 11,585 | 330,187 | 468 | 436,395 | 56,092 |
| Scholarships and fellowships | — | — | — | — | 844,019 | — | 844,019 | — |
| Distributions to beneficiaries | — | — | — | 11,615,853 | — | — | 11,615,853 | — |
| Interest expense | — | — | — | — | — | 31,604 | 31,604 | 402,506 |
| Amortization of long-term prepaid charges | — | — | — | — | — | — | — | 238 |
| Other | — | 57,066 | — | 9,149 | — | 350 | 66,565 | — |
| Total operating expenses: | (29,000) | 1,019,249 | 4,739,290 | 11,907,623 | 7,797,301 | 142,234 | 25,576,697 | 3,396,839 |
| Operating income (loss) | — | 204,091 | 1,494,178 | 2,502,827 | (4,784,521) | 71,567 | (511,858) | (146,478) |
| NONOPERATING REVENUES (EXPENSES) | | | | | | | | |
| Donations and grants | — | — | — | — | 1,805,406 | — | 1,805,406 | — |
| Private gifts | — | — | — | — | 54,526 | — | 54,526 | — |
| Investment and interest income (loss) | 974,000 | — | (20,488) | 26,644 | 52,662 | 7,405 | 1,040,223 | 1,911 |
| Interest expense and fiscal charges | (974,000) | (105,768) | (33,580) | — | (204,095) | (12,458) | (1,329,901) | (16) |
| Lottery payments for education | — | — | (1,499,005) | — | — | — | (1,499,005) | — |
| Other | — | (98,323) | 94 | — | 104,951 | 23 | 6,745 | (1,939) |
| Total nonoperating revenues (expenses): | — | (204,091) | (1,582,979) | 26,644 | 1,813,480 | (8,030) | 77,994 | (44) |
| Income (loss) before capital contributions and transfers | — | — | (58,801) | 2,529,471 | (2,971,071) | 66,537 | (433,864) | (146,522) |
| Capital contributions | — | — | — | — | — | 61,027 | 61,027 | 125 |
| Transfers in | — | — | — | — | 3,083,437 | — | 3,083,437 | 4,500 |
| Transfers out | — | — | — | — | — | — | — | (122,509) |
| Change in net position | — | — | (58,801) | 2,529,471 | 112,366 | 127,564 | 2,710,600 | (264,406) |
| Total net position (deficit) – beginning | — | 1,208,428 | 55,963 | 1,538,175 | (2,576,889) | 4,352,625 | 4,572,502 | (367,407)* |
| Total net position (deficit) – ending | \$ — | \$ 1,208,428 | \$ (2,838) | \$ 4,064,646 | \$ (2,464,323) | \$ 4,480,189 | \$ 7,283,102 | \$ (631,813) |

* Restated

The notes to the financial statements are an integral part of this statement.

Sample 18 Statement of Revenues, Expenses and Changes in Net Position, Governmental Funds

Governmental Funds

Year Ended June 30, 2017

(amounts in thousands)

| | General | Federal | Transportation | Environmental and Natural Resources | Nonmajor Governmental | Total |
|--|---------------------|-------------------|---------------------|-------------------------------------|-----------------------|----------------------|
| REVENUES | | | | | | |
| Personal income taxes..... | \$ 84,253,851 | \$ — | \$ — | \$ — | \$ 1,484,054 | \$ 85,737,905 |
| Sales and use taxes..... | 24,921,347 | — | 427,333 | — | 13,393,035 | 38,741,715 |
| Corporation taxes..... | 11,125,198 | — | — | — | — | 11,125,198 |
| Motor vehicle excise taxes..... | 80,033 | — | 4,674,274 | 57,649 | 66,997 | 4,878,953 |
| Insurance taxes..... | 2,427,851 | — | — | — | 291,638 | 2,719,489 |
| Managed care organization enrollment tax..... | — | — | — | — | 2,282,313 | 2,282,313 |
| Other taxes..... | 604,685 | — | — | 158,893 | 1,802,350 | 2,565,928 |
| Intergovernmental..... | — | 92,505,515 | — | — | 3,204,269 | 95,709,784 |
| Licenses and permits..... | 5,563 | — | 4,460,973 | 441,286 | 3,205,720 | 8,113,542 |
| Charges for services..... | 298,997 | — | 146,249 | 128,746 | 286,249 | 860,241 |
| Fees..... | 242,054 | — | 20,631 | 2,575,522 | 7,646,908 | 10,485,115 |
| Penalties..... | 288,560 | 67 | 35,611 | 75,271 | 687,310 | 1,086,819 |
| Investment and interest..... | 106,614 | — | 39,339 | 74,972 | 97,577 | 318,502 |
| Escheat..... | 325,638 | — | 2 | — | 1,974 | 327,614 |
| Other..... | 441,253 | — | 81,810 | 1,167,464 | 1,243,630 | 2,934,157 |
| Total revenues..... | 126,121,644 | 92,606,582 | 9,886,222 | 4,679,803 | 36,694,024 | 267,887,275 |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| General government..... | 5,177,883 | 956,915 | 518,262 | 143,595 | 10,454,065 | 17,250,720 |
| Education..... | 59,445,776 | 7,393,711 | 3,987 | 2,677 | 378,645 | 67,224,796 |
| Health and human services..... | 32,975,439 | 77,411,341 | 2,344 | 80,154 | 23,902,816 | 134,372,094 |
| Natural resources and environmental protection..... | 1,652,353 | 252,264 | 249,374 | 4,310,057 | 248,790 | 6,712,838 |
| Business, consumer services, and housing..... | 29,732 | 76,530 | 95,881 | 85,158 | 816,393 | 1,103,694 |
| Transportation..... | 3,888 | 5,619,898 | 9,079,331 | 297,439 | 7,083 | 15,007,639 |
| Corrections and rehabilitation..... | 10,574,249 | 124,533 | — | — | 1,577,609 | 12,276,391 |
| Capital outlay..... | 988,680 | — | — | 199,865 | 50,155 | 1,238,700 |
| Debt service: | | | | | | |
| Bond and commercial paper retirement..... | 2,583,630 | 9,360 | 683,216 | 1,072,282 | 5,016,062 | 9,364,550 |
| Interest and fiscal charges..... | 2,828,409 | 2,030 | 11,984 | 18,862 | 1,124,985 | 3,986,270 |
| Total expenditures..... | 116,260,839 | 91,846,582 | 10,644,379 | 6,210,089 | 43,676,693 | 268,637,692 |
| Excess (deficiency) of revenues over (under) expenditures..... | 8,861,605 | 659,000 | (758,157) | (1,530,286) | (7,882,579) | (650,417) |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| General obligation bonds and commercial paper issued..... | — | — | 2,118,245 | 1,227,295 | 979,535 | 4,325,075 |
| Refunding debt issued..... | — | — | 693,570 | 1,070,045 | 5,210,610 | 6,974,225 |
| Payment to refund long-term debt..... | — | — | (406,247) | (660,166) | (1,871,868) | (2,938,281) |
| Premium on bonds issued..... | 52,438 | — | 133,342 | 218,253 | 905,221 | 1,309,254 |
| Remarketing bonds issued..... | — | — | 100,000 | — | — | 100,000 |
| Payment to remarket long-term debt..... | — | — | (100,000) | — | — | (100,000) |
| Capital leases..... | 988,680 | — | — | — | — | 988,680 |
| Transfers in..... | 876,015 | — | 30,026 | 228,620 | 3,451,538 | 4,586,199 |
| Transfers out..... | (5,330,080) | (678,955) | (1,261,432) | (13,136) | (268,024) | (7,551,627) |
| Total other financing sources (uses)..... | (3,412,947) | (678,955) | 1,307,504 | 2,070,911 | 8,407,012 | 7,693,525 |
| Net change in fund balances..... | 5,448,658 | (19,955) | 549,347 | 540,625 | 524,433 | 7,043,108 |
| Fund balances: (deficit) – beginning..... | 361,728 | 247,834 | 8,638,917 | 10,127,694 | 11,890,026 * | 39,866,699 |
| Fund balances – ending..... | \$ 8,810,386 | \$ 227,879 | \$ 9,088,264 | \$ 10,667,719 | \$ 12,114,459 | \$ 37,908,707 |

* Restated

The notes to the financial statements are an integral part of this statement.

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Sample 19 Statement of Cash Flows (2 Pages)

Page 1: Statement of Cash and Cash Equivalents

DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 20xx AND 20xx-1
(DOLLARS IN THOUSANDS)

| | District | |
|---|------------------|------------------|
| | June 30, 20xx | June 30, 20xx |
| Cash flows from operating activities | | |
| Cash received from customers | \$ xxx,xxx | \$ xxx,xxx |
| Cash received from other income | xxx,xxx | xxx,xxx |
| Cash payments for judgments and claims | (xxx,xxx) | (xxx,xxx) |
| Cash payments to suppliers for goods and services | (xxx,xxx) | (xxx,xxx) |
| Cash payments to employees for services | (xxx,xxx) | (xxx,xxx) |
| Net cash provided by operating activities | xxx,xxx | xxx,xxx |
| Cash flows from noncapital financing activities: | | |
| Tax receipts | xxx,xxx | xxx,xxx |
| Net cash provided by financing activities | xxx,xxx | xxx,xxx |
| Capital and related financing activities: | | |
| Capital contributions | xxx,xxx | xxx,xxx |
| Proceeds from advances for construction | (xxx,xxx) | (xxx,xxx) |
| Proceeds from sale of capital assets | xxx,xxx | xxx,xxx |
| Net proceeds and premiums from sale of bonds | xxx,xxx | xxx,xxx |
| Acquisition and construction of capital assets | (xxx,xxx) | (xxx,xxx) |
| Change in Investment in JPA | (xxx,xxx) | (xxx,xxx) |
| Principal retirement on long-term debt and commercial paper | (xxx,xxx) | (xxx,xxx) |
| Amount paid to refunding bond escrow agent | (xxx,xxx) | (xxx,xxx) |
| Costs and discounts from issuance on long-term debt | (xxx,xxx) | (xxx,xxx) |
| Interest paid on long-term debt | (xxx,xxx) | (xxx,xxx) |
| Net cash provided by (used in) capital and related financing activities | (xxx,xxx) | (xxx,xxx) |
| Cash flows from investing activities: | | |
| Proceeds from securities | xxx,xxx | xxx,xxx |
| Expenditures from purchases of securities | (xxx,xxx) | (xxx,xxx) |
| Interest received on investments | xxx,xxx | xxx,xxx |
| Net cash provided by (used in) investing activities | xxx,xxx | xxx,xxx |
| Net increase (decrease) in cash and cash equivalents | xxx,xxx | xxx,xxx |
| Cash and cash equivalents: | | |
| Beginning of year | xxx,xxx | xxx,xxx |
| End of period | \$ xxx,xxx | \$ xxx,xxx |

Page 2: Reconciliation of Operating Income to net cash provided by operating activities

DISTRICT
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 20xx AND 20xx-1
(DOLLARS IN THOUSANDS)

| | District | |
|---|-------------------|--------------------|
| | June 30, 20xx | June 30, 20xx-1 |
| Reconciliation of net operating income to net cash provided by operating activities: | | |
| Net operating income | \$ xxx,xxx | \$ xxx,xxx |
| Adjustments to reconcile net operating income to net cash provided by operating activities: | | |
| Pension expense | xxx,xxx | xxx,xxx |
| Depreciation on utility plant and vehicle | xxx,xxx | xxx,xxx |
| Depreciation within recreation areas | xxx,xxx | xxx,xxx |
| Amortization | xxx,xxx | xxx,xxx |
| Other income | xxx,xxx | xxx,xxx |
| Changes in assets/liabilities: | | |
| Materials and supplies | xxx,xxx | xxx,xxx |
| Prepaid insurance | xxx,xxx | xxx,xxx |
| Customer receivables | xxx,xxx | xxx,xxx |
| Other assets | xxx,xxx | xxx,xxx |
| OPEB liability | xxx,xxx | xxx,xxx |
| Reserve for claims | xxx,xxx | xxx,xxx |
| Accounts payable and accrued expenses | xxx,xxx | xxx,xxx |
| Net cash provided by operating activities | <u>\$ xxx,xxx</u> | <u>\$ xxx,xxx</u> |
| Schedule of Non-Cash Activities | | |
| Change in Fair Value | <u>\$ xxx,xxx</u> | <u>\$ xxx,xxx</u> |

Fiduciary Funds Financial Statements (Stand Alone Plans Only)

Sample 20 Statement of Fiduciary Net Position

| District | | |
|---|--------------|--------------|
| Statements of Fiduciary Net Position | | |
| Fiduciary Fund - Pension and Other Employee Benefit Trust | | |
| (Component Unit) | | |
| June 30, 20xx and 20xx-1 | | |
| (Dollars in thousands) | | |
| | 20xx | 20xx-1 |
| Assets: | | |
| Cash and cash equivalents, at fair value | \$ xx,xxx | \$ xx,xxx |
| Invested securities lending collateral | xx,xxx | xx,xxx |
| Receivables: | | |
| Brokers, securities sold | x,xxx | x,xxx |
| Employer | x,xxx | x,xxx |
| Plan members | x,xxx | x,xxx |
| Interest and dividends | x,xxx | x,xxx |
| Others | x,xxx | x,xxx |
| Prepaid expenses | | |
| Investments, at fair value: (Note x) | | |
| U.S. Government obligations | xx,xxx,xxx | xx,xxx,xxx |
| Municipal Bond | xx,xxx,xxx | xx,xxx,xxx |
| Domestic corporate bonds | xx,xxx,xxx | xx,xxx,xxx |
| International bonds | xx,xxx,xxx | xx,xxx,xxx |
| Domestic stocks | xx,xxx,xxx | xx,xxx,xxx |
| International stocks | xx,xxx,xxx | xx,xxx,xxx |
| Real estate | xx,xxx | xx,xxx |
| Total investments | xxx,xxx | xxx,xxx |
| Total assets | x,xxx,xxx | x,xxx,xxx |
| Liabilities: | | |
| Accounts payable and accrued expenses | x,xxx | x,xxx |
| Retirement System Liabilities | x,xxx | x,xxx |
| Securities lending collateral | xxx,xxx | xxx,xxx |
| Total liabilities | xxx,xxx | xxx,xxx |
| Net Position: | | |
| Net assets held in trust for pension benefits | x,xxx,xxx | x,xxx,xxx |
| Held in trust for post-employment health care benefits | xx,xxx | xx,xxx |
| Total Net Position | \$ x,xxx,xxx | \$ x,xxx,xxx |

See accompanying notes to financial statements.

Sample 21 Statement of Changes in Fiduciary Net Position

| District | | |
|--|------------------|------------------|
| Statements of Changes in Fiduciary Net Position | | |
| Fiduciary Fund - Pension and Other Employee Benefit Trust | | |
| (Component Unit) | | |
| June 30, 20xx and 20xx-1 | | |
| (Dollars in thousands) | | |
| | <u>20xx</u> | <u>20xx-1</u> |
| Additions: | | |
| Contributions | | |
| Employer | \$ xx,xxx | \$ xx,xxx |
| Plan Members | <u>xx,xxx</u> | <u>xx,xxx</u> |
| Total contributions | <u>xx,xxx</u> | <u>xx,xxx</u> |
| Investment income: | | |
| Net appreciation (depreciation) in fair value of investments | | |
| investments: | | |
| Traded securities | xx,xxx | xx,xxx |
| Real estate | x,xxx | x,xxx |
| Interest | x,xxx | x,xxx |
| Dividends | xx,xxx | xx,xxx |
| Real estate operating income, net | <u>xx,xxx</u> | <u>xx,xxx</u> |
| Total investment income | <u>xxx,xxx</u> | <u>xxx,xxx</u> |
| Less: | | |
| Investment Expense | (x,xxx) | (x,xxx) |
| Borrowers' rebates and other agent fees on securities | | |
| lending transactions | <u>(x,xxx)</u> | <u>(x,xxx)</u> |
| Net Investment Income | <u>xx,xxx</u> | <u>xx,xxx</u> |
| Total Additions, net | <u>xxx,xxx</u> | <u>xxx,xxx</u> |
| Deductions: | | |
| Benefits paid | x,xxx | x,xxx |
| Refunds of contributions | xx,xxx | xx,xxx |
| Administrative expenses | <u>xx,xxx</u> | <u>xx,xxx</u> |
| Total deductions | <u>xxx,xxx</u> | <u>xxx,xxx</u> |
| Change in Net Position | xx,xxx | xx,xxx |
| Net | | |
| Position: | | |
| Beginning of year | <u>x,xxx,xxx</u> | <u>x,xxx,xxx</u> |
| End of | \$ | \$ |
| Year | <u>x,xxx,xxx</u> | <u>x,xxx,xxx</u> |

See accompanying notes to financial statements.

Notes to Financial Statements

Sample 22 Summary of Significant Accounting Policies

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Primary Government

The District (the District) was formed in xxxx under the provisions of the Act of 19xx or resolution xxxx, as amended in 19xx. The District is comprised of the xxxx System. This entity is governed by the same elected seven-member board of directors which determines such matters as rates and charges for services, approval of contracts, and District policies.

B. Description of the Component Unit

The District's Employees' Retirement System (the System) has been reported as a Pension and Other Employee Benefit Trust fund (a fiduciary fund) in the accompanying basic financial statements and is discretely presented. The System provides retirement, disability, survivorship, and post-employment health insurance benefits for eligible directors, officers, and employees of the District. The System is administered by a Retirement Board composed of three members appointed by the board of directors of the District, two members elected by and from the active membership, and one (nonvoting) member elected by and from the retired membership of the System. Retirement Ordinance No. xx (Ordinance) assigns the authority to establish Plan benefit provisions to the District's board of directors.

Copies of the audited financial statements of the Employees' Retirement System may be obtained by writing to the Controller, P.O. Box xxxxx, City, CA xxxxx or visit our website at <http://www.district.com>.

C. Basis of Presentation

The accounts of the District are organized and operated on a fund basis. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows, liabilities, deferred inflows, net position, revenues, and expenses.

The basic financial statements include prior year comparative information. A complete presentation of the prior year information can be found in the District's financial statements for the year ended June 30, 20xx-1.

The District reports the following major proprietary (enterprise) funds:

The **District** is engaged in the collection, transmission, and distribution of water to communities within xxxxxx and xxxxxx counties of California.

Additionally, the District reports the following fiduciary fund:

The **Pension and Other Employee Benefit Trust** is used to account for the resources held by the Employees' Retirement System which provides retirement, disability, and survivorship benefits for eligible directors, officers, and employees of the District.

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises—where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The Pension and Other Employee Benefit Trust fund is maintained to account for assets held by the Employees’ Retirement System in a trustee capacity.

D. Basis of Accounting

Proprietary funds and the Pension and Other Employee Benefit Trust fund are accounted for on a flow of economic resources measurement focus, using the accrual basis of accounting. Under this method, all assets, deferred outflows, liabilities and deferred inflows associated with operations are included on the balance sheet, and revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. The District also recognizes wet weather facilities charges as operating revenue. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, then unrestricted resources as they are needed.

In addition, the accounting policies of the District conform to accounting policies generally accepted in the United States of America for water utilities. The accounts are maintained substantially in accordance with the Uniform System of Accounts for Utilities followed by investor-owned and major municipally owned utilities.

Balance Sheet – The balance sheet is designed to display the financial position of the District. The District’s fund equity is reported as net position, which is broken down into three categories defined as follows:

- Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets and related deferred inflows and outflows.
- Restricted – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or law or regulations of other governments. It also pertains to constraints imposed by law or constitutional provisions or enabling legislation.
- Unrestricted – This component of net position consists of net assets that do not meet the definition of “restricted” or “net investment in capital assets.”

Statement of Revenues, Expenses, and Changes in Net Position – The statement of revenues, expenses, and changes in net position is the operating statement for proprietary funds. Revenues are reported by major source. This statement distinguishes between operating and non-operating revenues and expenses and presents a separate subtotal for operating revenues, operating expenses, and other income.

E. Use of Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F. Capital Assets

Utility Plant – at Original Cost

The cost of additions to utility plant and replacement of retired units of property are capitalized. Cost includes material, direct labor and fringe benefits, transportation, and such indirect items as engineering, supervision, and interest on borrowed funds during construction, net of interest earned on unspent construction proceeds. Repairs, maintenance, and minor purchases of equipment are charged to expenses as incurred.

The depreciated cost of capital assets, plus removal costs, less salvage, is charged to expense upon retirement.

Supply Management Program

Costs incurred in this program are debt funded and capitalized as construction in progress. These costs are transferred to the utility plant upon completion of the project and depreciated over their useful life. Debt service costs on the debt used to finance the program are recovered in future through connection fees and rates and charges for service to those benefiting from the program.

Preliminary Survey and Investigation Costs

The District capitalizes initial costs incurred to study and evaluate certain potential long-term capital projects. These costs are transferred to the property, plant and equipment account upon completion of the project and are depreciated over the life of the asset. In the event the project is abandoned, these costs are expensed.

Contract Use Rights

The District has contracted with the U.S. for supply deliveries from the CV Project through February 20xx (Long Term Renewal Contract), with the anticipation of subsequent renewals of 40 year terms. Payments under the contract include reimbursement based on the amounts of water delivered to District of capital costs for CVP storage and conveyance facilities (Districts' current allocation is \$x,xxx) and the Operation & Maintenance Deficit (Districts' current balance is \$x,xxx). The Enterprise Fund capitalized the two components.

G. Depreciation

Depreciation of capital assets is computed on a straight-line basis using the estimated service lives of the related assets (5 to 100 years).

H. Restricted Assets

The District segregates cash and investments into funds that are “Restricted” and “Unrestricted.” Funds are “restricted” when limitations on use of the resources are imposed by creditors, grantors, contributors, laws, or regulations of other governments, or imposed by law through constitutional provision or by enabling legislation. “Unrestricted” resources are committed by the Board of Directors through the passage of a resolution, or constrained for a specific purpose by committees or officials with authority delegated by the Board. The exception is the Reserve for Capital Projects which is anticipated but not committed or constrained to be used for the District’s capital improvement program.

Unrestricted cash and investments are further categorized into Operating and Capital Reserves:

Operating Reserves:

- Rate Stabilization Fund (RSF) reserve is established by Policy xx.x, as adopted by the Board of Directors in the bi-annual budget, to maintain at least 20% of projected revenues.
- Working Capital reserve is established by Policy xx.x, as adopted by the Board of Directors in the bi-annual budget, to maintain at least three times the District’s monthly net operating and maintenance expenses.
- Self-insurance reserve is established by Policy xx.x, as adopted by the Board of Directors in the bi-annual budget, to maintain 1.25 times the expected annual costs.
- Workers' compensation reserve is established by Policy xx.x, as adopted by the Board of Directors in the bi-annual budget, to maintain a level equal to the estimated future liability for workers’ compensation claims.

Capital Reserves:

- Reserve for Capital Projects comprises the resources available for cash funding of the District’s capital improvement program as projected in conjunction with the bi-annual budget.
- Vehicle Replacement Fund [Board Motion xx-sss] is financed by deposits based on internal user rate charges, and used to reimburse operational expenditures and vehicle replacement purchases.
- Equipment Replacement Fund was established by the District with the implementation of the Capacity Fees effective July 1, 19xx. The balance in this account represents funds set aside for future department equipment replacements.

Restricted funds include the following:

- Debt funded construction funds are the proceeds of bond or commercial paper issues that are restricted for use on eligible projects in the District's capital program. The current year balance is \$xx,xxx.
- Capitalized Interest fund is restricted by the District's bond indenture for the purpose of defraying that bond issue's debt service payments for a specified period. The current year balance is \$0.00.
- Bond Interest and Redemption fund is required, under the District's bond indentures, in order for the District to transfer funds to the Trustee for the payment of principal and interest on the outstanding bonds one business day prior to the date such payment is due. The District uses the Bond Interest and Redemption Fund to segregate funds accumulated for such payments. In addition, under certain of the interest rate swap agreements related to the District's outstanding bonds, the District is required to post collateral to the swap counterparty to the extent that the District's total exposure for termination payments under the swap agreement exceeds the threshold amount specified in the applicable swap agreement. The District also uses the Bond Interest and Redemption Fund to segregate District funds held by the applicable custodian to satisfy this collateral posting obligation. As of June 30, 20xx and 20xx, respectively, the balances were \$xx,xxx and \$xx,xxx.
- Debt Service Reserve fund is created and required to be maintained at a specified level in connection with certain series of the District's outstanding bonds. Amounts in a Bond Reserve Fund may only be used (a) for the payment of principal of and interest on the related series of bonds in the event the District fails to transfer the required payment from the related system Revenue Fund (the respective designated part of the General Fund) (b) for the payment of redemption of all of the related series of bonds then outstanding or (c) for the payment of the final principal and interest payments on the related series of bonds. As of June 30, 20xx and 20xx, respectively, the balances were \$xx,xxx and \$xx,xxx.
- Funds received for construction reflect advances received from applicants for work to be performed by the District. This fund is used for the construction of major facilities, applicant requested services, and the design and construction of supply improvement program projects. The balance as of June 30, 20xx was \$xx,xxx for Future projects and \$x,xxx for Applicant Work. The balance as of June 30, 2014 was \$xx,xxx for Future projects, \$x,xxx for Applicant Work.
- JPA partnership fund of \$x million was established January 11, 1xxx, in compliance with Federal Energy Regulatory Commission (FERC) order which brought resolution. The District manages the fund and income derived from investing the funds provides operating support to Joint Settlement Agreement with US to protect the Ecosystem. The principal and any unused earnings shall remain the property of the District and will revert to the District upon expiration of the agreement in March 20xx or upon withdrawal of any party to the agreement. As of June 30, 20xx and 20xx-1, respectively, the balances were \$x,xxx and \$x,xxx for Water.

I. Deferred Amount on Bond Refunding's

Gains and losses incurred in connection with debt refunding transactions are deferred and amortized over the shorter of the life of the refunded debt or the new debt.

J. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District considers all highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents.

K. District Investments

Investments are stated at fair value. Included in investment income (loss) is the net change in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) of those investments.

Measurement of the fair value of investments is based upon quoted market prices, if available. The estimated fair value of investments that have no quoted market price is determined based on equivalent yields for such securities or for securities of comparable maturity, quality, and type as obtained from market makers.

Each of the financial instruments invested in by the District represents a potential concentration of credit risk. However, as the portfolio and the components of the various instruments are diversified, and issuers of securities are dispersed throughout many industries and geographic locations, the concentrations of credit risk are limited.

L. Retirement System Investments

Investments are reported at fair value. Securities and bonds traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that have no quoted market price are reported at estimated fair value, which is determined based on yields equivalent for such securities or for securities of comparable maturity, quality, and type as obtained from market makers. Measurement of the fair value of real estate investments is estimated by the investment managers and reflects both internal and independent appraisals of real estate properties.

The System presents in the Statements of Changes in Plan Net Position the net change in the fair value of its investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Each of the financial instruments invested in by the System represents a potential concentration of credit risk. However, as the portfolio and the components of the various instruments are diversified and issuers of securities are dispersed throughout many industries and geographical locations, the concentrations of credit risk are limited.

Retirement Board policies permit the Employees' Retirement System to use investments of the pension plan to enter into securities lending transactions, which are loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return collateral for the same securities in the future. The System's securities custodian is an agent in lending the Plan's securities for cash collateral, U.S. government securities, and irrevocable letters of credit of 102% for domestic securities lent and 105% for international securities lent. As of June 30, 20xx, the Employees' Retirement System had no credit risk exposure to borrowers because the amounts the Employees' Retirement System owes the borrowers exceed the amounts the borrowers owe the Employees' Retirement System.

Contracts with the lending agent require them to indemnify the Employees' Retirement System under certain circumstances if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the System for income distributions by the securities issuers while the securities are on loan. The risk of any loss of collateral or investment of cash collateral (including a loss of income or principal, or loss of market value thereon) lies with the System, except for losses resulting from negligence or intentional misconduct of the agent in performing the duties allocated under the securities lending agreement with respect to collateral. During the year ended June 30, 20xx, there were no violations of legal or contractual provisions, and no borrower or lending agent default losses known to the securities lending agent.

In lending securities, cash collateral is invested in the lending agent's short-term investment pool, which as of June 30, 20xx, had a weighted average maturity of 26 days. The relationship between the maturities of the investment pool and the System's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the System cannot determine. Cash collateral may also be invested separately in term loans, in which case the maturity of the collateral investment generally matches the term of the loan. Noncash collateral cannot be pledged or sold unless the borrower defaults. All securities loans can be terminated on demand by either the lender or the borrower, although the average term of overall loans for the System was approximately 110 days. There are no dividends or coupon payments owing on the securities lent. Cash received as collateral on securities lending transactions is reported as an asset of the System with a corresponding liability.

As of June 30, 20xx, the fair value of securities on loan, which was comprised of Global Equities, US Corporate Fixed Equities, US Equities, and US Government Fixed Equities, was \$xxx,xxx. The total cash collateral held by the System's custodian to secure these securities on loan was valued at \$xxx,xxx.

M. Material and Supplies

Material and supplies inventories are valued at cost, which approximates market, using the average-cost method.

N. *Compensated Absences*

Compensated absences as of June 30, 20xx, are included on the balance sheet in accounts payable and accrued expenses. In previous years, trends have shown that the District employees utilize the accruals annually; therefore, amounts payable are accrued and reported as a current liability on the financial statements.

The changes in compensated absences were as follows:

| | <u>June 30</u> <u>20XX</u> | <u>June 30</u> <u>20XX-1</u> |
|-------------------|-------------------------------|---------------------------------|
| Beginning Balance | \$xxx,xxx | \$xxx,xxx |
| Additions | xx,xxx | xx,xxx |
| Payments | <u>xx,xxx</u> | <u>xx,xxx</u> |
| Ending Balance | <u>\$xxx,xxx</u> | <u>\$xxx,xxx</u> |

O. *Revenue*

Billings include charges for fees, and a monthly charge. Customer accounts are read on a cyclical basis throughout a monthly or bimonthly period. Bills are rendered and revenue is recognized in the period that accounts are read.

P. *Interest Rate Swap*

The District enters into interest rate swap agreements to modify interest rates on some outstanding debt. The net interest is recorded in the financial statements annually.

In June 2008, GASB issued Statement No. 53, Accounting and Financial Reporting for Derivative Instruments (GASB 53). The statement specifically requires governments to measure and report most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The requirement of reporting the derivative instruments at fair value on the face of the basic financial statements gives the users of those statements a clearer look into the risks their governments are sometimes exposed to when they enter into these transactions and how those risks are managed. The statement also addresses hedge accounting requirements and improves disclosures, providing a summary of the government’s derivative instrument activity, its objectives for entering into derivative instruments, and their significant terms and risks. The District implemented GASB 53 in fiscal year 2010.

Q. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time.

In addition to liabilities, the statement of financial position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

R. Implementation of Governmental Accounting Standards Board (GASB) Pronouncements

GASB Statement No. 68 – In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The requirements of this Statement will improve the decision-usefulness of information in employer and governmental non-employer contributing entity financial reports and will enhance its value for assessing accountability and inter-period equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2014, therefore, the District implemented this Statement in the fiscal year ending June 30, 2015, which required a restatement to the District’s financial statements. The financial statements for the fiscal year ended June 30, 2014 could not be restated as the information required to do so was not readily available. See Note 8 for additional information.

GASB Statement No. 70 – In 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Non-exchange Finance Guarantees*. This Statement requires a government that extends a non-exchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more than likely than not the government will be required to make a payment on that guarantee. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013, therefore, the District implemented this statement for fiscal year ended June 30, 2015, and had no impact on the financial statements.

Sample 23 Cash and Investment Note Disclosures

NOTE 2 - CASH AND INVESTMENTS

A. Classification

Reconciliations of cash and investments reported on the financial statements as of June 30, 20xx, are as follows:

| | <u>Total</u> |
|---|---------------------------|
| District Enterprise Funds: | |
| Cash and investments included in current assets | \$xxx,xxx |
| Cash and investments included in restricted investments | <u>xx,xxx</u> |
| Total District cash and investments | xxx,xxx |
| Less investments | <u>(xxx,xxx)</u> |
| Cash and cash equivalents | <u><u>\$ xxx,xxx</u></u> |
| System Pension Trust Funds: | |
| Cash and cash equivalent | \$xx,xxx |
| Invested securities lending collateral | xxx,xxx |
| Retirement system investments | <u>x,xxx,xxx</u> |
| Total System cash and investments | <u><u>\$x,xxx,xxx</u></u> |

B. District Enterprise Fund Investments Authorized by the California Government Code and the District's Investment Policy

The District's Investment Policy and the California Government Code allow the District to invest in the following investment types, provided the credit ratings of the issuers are acceptable to the District; and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code, or the District's Investment Policy where the District's Investment Policy is more restrictive and provides information as to the limitations as they relate to interest rate risk, credit risk and concentration risk.

| Authorized Investment Type | Maximum Maturity | Minimum Credit Quality | Maximum in Portfolio | Maximum Investment In One Issuer |
|---|------------------|------------------------|----------------------|----------------------------------|
| Repurchase Agreements | 270 Days | N/A | 20% | 10% |
| State of California Local Agency Investment Fund (LAIF Pool) | Upon Demand | N/A | \$50,000 per account | N/A |
| U. S. Treasury Bonds, Notes and Bills | 5 Years | N/A | 0 to 100% | N/A |
| U.S. Government Agency and U.S. Government-Sponsored Enterprise Obligations | 5 Years | N/A | 0 to 100% | 40% in each Agency |
| Bankers' Acceptances | 180 Days | N/A | 40% | 10% |
| Commercial Paper | 270 Days | A1, P1 or F1 | 25% | 10% |
| Negotiable Certificates of Deposit | 5 Years | AA | 30% | 10% |
| Time Certificates of Deposit – Banks or Savings and Loans | 5 Years | N/A | 30% | 10% |
| Medium Term Corporate Notes | 5 Years | AA | 30% | 10% |
| Money Market Mutual Funds | N/A | AAA | 40% | 10% |
| Municipal Bonds | 5 Years | AA | 40% | 10% |
| Calif Asset Management Pgm (CAMP) | Upon Demand | Highest Rating | 10% | 10% |

The District does not enter into reverse repurchase agreements.

C. District Enterprise Fund Investments Authorized by Debt Agreements

The District must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged reserves to be used if the District fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with District resolutions, bond indentures or State statutes. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

| <u>Authorized Investment Type</u> | <u>Minimum Credit Quality</u> |
|--|---------------------------------------|
| Repurchase Agreements | Top Four Short term Rating Category |
| U.S. Treasury Bonds, Notes and Bills | N/A |
| U.S. Government Agency and U.S. Government-Sponsored Enterprise Obligation | N/A |
| State Obligations | Not lower than District's bond rating |
| Commercial Paper | Top Rating Category |
| Negotiable Certificates of Deposit | FDIC insured or collateralised |
| Time Certificates of Deposits - Banks or Savings and Loans | FDIC insured or collateralised |
| Corporate Notes and Bonds | Not lower than District's bond rating |
| Variable Rate Obligations | Not lower than District's bond rating |
| Cash Swap Agreements | Top Rating Category |
| Guaranteed Investment Contract | Not lower than District's bond rating |
| Shares of Beneficial Interest | Top Rating Category |

D. Employees Retirement System Authorized Investment Strategy

The System’s investment policies authorize the System to invest in financial instruments in three broad investment categories: equity, fixed income, and real estate. These financial instruments can include, but are not limited to, corporate bonds, commercial paper, U.S. government securities, common and preferred stock, real estate investment trusts, and mutual funds. Fixed income investments may include futures and options contracts in order to provide added flexibility in managing the fixed income portfolio. The following is a summary of the System investment policy adopted by the System with *Resolution No. xxxx*.

The Retirement Board is authorized to designate multiple investment managers to manage the assets under their supervision subject to the laws of the State of California and the Investment Guidelines established by the Retirement Board. Allocation of assets to the investment managers shall be determined by the Retirement Board to accommodate changing conditions and laws. The long-range asset allocation goal is as follows:

| | |
|-----------------------|-----|
| Core Fixed Income | 10% |
| Non-Core Fixed Income | 10% |
| Domestic Equity | 40% |
| Covered Calls | 20% |
| International Equity | 15% |
| Real Estate | 5% |
| Allocation to Cash | 0% |

The composite asset allocation goal will be pursued by the Retirement System on a long-term basis and be revised if significant changes occur within the economic and/or capital market environment. Progress toward the goal will be reviewed at least annually.

The Director of Finance is authorized to transfer assets from any asset class which exceeds the long-term asset allocation goal by more than 3% at the end of two or more consecutive quarters, allocating the excess assets to a manager or group of managers with the exception of real estate managers. The Director of Finance is further authorized to withdraw assets from assigned managers as necessary to efficiently meet operating needs.

The equity and fixed income asset allocations may vary by up to $\pm 5\%$ from the long-range asset allocation goals.

The core fixed income target allocation (10% of the total portfolio) will primarily consist of U.S. denominated fixed income securities. Individual managers may invest up to 20% of their assets in international fixed income securities.

The non-core fixed income target allocation (10% of the total portfolio) will primarily consist of U.S. denominated fixed income securities. Individual managers may invest up to 35% of their assets in international fixed income securities. It is expected that this allocation may have a material allocation to below investment grade securities.

The domestic equity allocation target (40% of the total portfolio) will consist of approximately 37% in large cap market related growth and value (average risk) securities, 3% in small capitalized securities, and 20% in international securities. The international equity allocation target will consist of approximately 17% international equities and 3% emerging markets. It is expected this allocation will allow for exposure to mid-cap securities based on tactical decisions by the Retirement Fund's large cap and small cap domestic equity managers.

The covered calls target allocation (20% of the total portfolio) may consist of a combination of Chicago Board Options Exchange S&P 500 Buy Write Index (the “BXM Index”) replication strategy and/or active non-replication strategies and their underlying domestic equity portfolios.

The international equity target allocation (15% of the total portfolio) will consist of approximately 12% in international equities and 3% in emerging markets equities.

The real estate target allocation (5% of the total portfolio) will consist of either equity (ownership) and/or fixed income participation in commercial, industrial, or residential properties. Investments may include interests in mortgages pools secured by loans of underlying properties.

The allocation goal recognizes that at any time equity and fixed income managers may have transactional cash on hand and the District will maintain enough cash as working capital to effectively meet cash flow demands on the system. However, there is no specific allocation for cash as all investable cash is allocated to specific investment disciplines.

Holdings of securities issued by the United States Government or any of its agencies need not be diversified. Securities of any one issuer with maturities of more than one year, other than the United States Government or any of its agencies, shall not exceed 5% of the value of the total portfolio. Securities of any one issuer of foreign government issues shall not exceed 10% of the value of the total portfolio at the time of purchase. Fixed income managers have the authority to make international investments, not to exceed 20% of their total portfolio.

The use of futures and options in the fixed income accounts may be used as part of their portfolio management strategy and will be incidental to their securities trading activities. The resulting aggregate risk profile (volatility) of the portfolio will not be different from that permissible by using securities only.

Short (sold) options positions will generally be hedged, either with current portfolio security holdings, other options or futures options. Mortgage derivatives with significant short option characteristics will not exceed 5% of the portfolio, and will generally be a) offset by positions in other mortgage derivatives, or b) offset by other portfolio positions.

No derivatives will be executed that will increase the value at risk of the portfolio by more than 25 basis points of the portfolio’s market value.

Structured notes with significant short options positions or increasing leverage will not be purchased, and in no case will structured notes exceed 5% of portfolio value. Structured notes issued by the U.S. Government (treasuries and agencies) will be considered allowable investments, and are restricted to 25%.

Fixed income managers are authorized to use futures and options contracts to supplement their investment capabilities to provide flexibility in managing the fixed income portfolios and reduce the cost of implementing strategies to respond to changing market conditions without incurring the higher transaction costs associated with buying and selling specific securities. These transactions are authorized to enable the manager to reduce the exposure of the portfolio to interest rate changes by reducing or increasing the duration of the portfolio without selling any of the actual holdings.

No more than 5% of the portfolio will be invested in original futures margin and options premiums, exclusive of any in-the-money portion of the premiums.

Each equity portfolio shall be diversified. When fully invested in equities or at its normal level of investment, a minimum of 20 securities should be held. At no time may a single equity investment exceed 5% of the value of the total retirement fund.

Each international equity portfolio shall be diversified. When fully invested in international equities or at its normal level of investment, a minimum of 20 securities should be held. At no time may a single international equity investment exceed 5% of the value of the total retirement fund.

E. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the market value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its market value to changes in market interest rates. The District generally manages its interest rate risk by holding investments to maturity.

Information about the sensitivity of the market values of the District’s and System’s investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the District’s investments by maturity or earliest call date.

District Enterprise Funds:

| <u>Investment Type</u> | <u>12 Months or less</u> | <u>13 to 24 Months</u> | <u>25 to 60 Months</u> | <u>Total</u> |
|----------------------------|----------------------------------|--------------------------------|--------------------------------|------------------|
| Asset Back Securities | \$ xxx | \$ xxx | \$ xxx | \$ x, xxx |
| Equity Securities | \$xxx | | | xxx |
| Mortgage Backed Securities | | xxx | xxx | x,xxx |
| Corporate Bonds | xxx | xxx | xxx | x,xxx |
| Government Agencies | xx,xxx | xxx | | xx,xxx |
| Short Term investments | xxx | xxx | | xxx |
| Municipal Bonds | xxx | xxx | | x,xxx |
| Mutual Funds | xx,xxx | xxx | | x,xxx |
| Real Estate | xx,xxx | | | xx,xxx |
| Demand Deposits | xx,xxx | | | xx,xxx |
| LAIF | xx,xxx | | | xx,xxx |
| CAMP | xx,xxx | | | xx,xxx |
| Total Investments | <u>\$xxx,xxx</u> | <u>\$x,xxx</u> | <u>\$xxx</u> | xxx,xxx |
| Cash In Banks | | | | xx,xxx |
| Total Cash and Investments | | | | <u>\$xxx,xxx</u> |

System Pension Trust Fund:

| Investment Type | Less than 12 months | 12 to 72 Months | 72 to 120 Months | More than 120 Months | Maturity no determined | Total |
|-----------------------------------|----------------------------|------------------------|-------------------------|-----------------------------|-------------------------------|-----------------------------|
| Asset Back Securities | \$ xxx | \$ xxx | \$ xxx | \$ xxx | | \$ x, xxx |
| Equity Securities | \$xxx | | | | | xxx |
| Mortgage Backed Securities | | xxx | xxx | xxx | | x,xxx |
| Corporate Bonds | xxx | xxx | xxx | xxx | xxx | x,xxx |
| Government Agencies | xx,xxx | xxx | | xxx | | xx,xxx |
| Short Term investments | xxx | xxx | | | xxx | xxx |
| Municipal Bonds | | | | xxx | | x,xxx |
| Mutual Funds | | | | xxx | | x,xxx |
| Real Estate | | | | | xx,xxx | xx,xxx |
| Demand Deposits | xx,xxx | | | | | xx,xxx |
| LAIF | xx,xxx | | | | | xx,xxx |
| CAMP | xx,xxx | | | | | xx,xxx |
| Total Investments | <u>\$xxx,xx</u> | <u>\$x,xxx</u> | <u>\$x,xxx</u> | <u>\$x,xxx</u> | <u>\$x,xxx</u> | <u>xxx,xxx</u> |
| Cash In Banks | | | | | | xx,xxx |
| Total Cash and Investments | | | | | | <u>\$xxx,xx</u> <u>x</u> |

The District and System are participants in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code section 16429 under the oversight of the Treasurer of the State of California. They report their investment in LAIF at the market value amount provided by LAIF, which is the same as the value of the pool share.

The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF’s investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. On June 30, 20xx, these investments matured in an average of 239 days.

The System’s investments include the following investments that are highly sensitive to interest rate fluctuations to a greater degree than already indicated above:

| <u>Highly Sensitive Investments</u> | <u>Fair Value at Year End</u> |
|---|-------------------------------|
| Commercial Mortgage - Back Securities | \$x,xxx |
| Government Mortgage - Back Securities | \$x,xxx |
| Government issued Commercial Mortgage - Back Securities | \$x,xxx |

F. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical credit rating organization. Presented below is the actual rating as of June 30, 20xx, for each investment type as provided by Moody’s.

District Enterprise Funds:

| <u>Investment Type</u> | <u>Aaa</u> | <u>Aa1</u> | <u>Aa2</u> | <u>Aa3</u> | <u>Baa</u> | <u>Ba</u> | <u>Total</u> |
|----------------------------|----------------|----------------|----------------|----------------|----------------|--------------|------------------|
| Asset Back Securities | \$ xxx | \$ xxx | \$ xxx | \$ xxx | \$ xxx | \$ | \$ x, xxx |
| Equity Securities | | | | | | xxx | xxx |
| Mortgage Backed Securities | | xxx | xxx | | | | x,xxx |
| Corporate Bonds | xxx | xxx | xxx | xxx | xxx | | x,xxx |
| Government Agencies | | | | | | | xx,xxx |
| Short Term investments | | | | | | | xxx |
| Municipal Bonds | xxx | xxx | | | | | x,xxx |
| Mutual Funds | | xxx | xxx | | | | x,xxx |
| Real Estate | | | | | | | xx,xxx |
| Not rated | | | | | | | |
| Demand Deposits | | | | | | | xx,xxx |
| LAIF | | | | | | | xx,xxx |
| CAMP | | | | | | | xx,xxx |
| Cash In Banks | | | | | | | xx,xxx |
| Total Cash and Investments | <u>\$x,xxx</u> | <u>\$x,xxx</u> | <u>\$x,xxx</u> | <u>\$x,xxx</u> | <u>\$x,xxx</u> | <u>\$xxx</u> | <u>\$xxx,xxx</u> |

System Pension Trust Fund:

| Investment Type | | | | | | | US | Not | Total |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|--------------|------------------------------|------------------|------------------|
| | Aaa | Aa1 | Aa2 | Aa3 | Baa | Ba | Government Guaranteed | Rated | |
| Asset Back Securities | \$ xxx | \$ xxx | \$ xxx | \$ xxx | \$ xxx | \$ xxx | | \$ xxx | \$ x, xxx |
| Equity Securities | | | | | | | | xxx | xxx |
| Mortgage Backed Securities | | xxx | xxx | | | | | xxx | x,xxx |
| Corporate Bonds | xxx | xxx | xxx | xxx | xxx | | | xxx | x,xxx |
| Government Agencies | | | | | | | xx,xxx | | xx,xxx |
| Short Term investments | | | | | | | | xxx | xxx |
| Municipal Bonds | xxx | xxx | | | | | | | x,xxx |
| Mutual Funds | | xxx | xxx | | | | | x,xxx | x,xxx |
| Real Estate Demand Deposits | | | | | | | | xx,xxx | xx,xxx |
| LAIF | | | | | | | | xx,xxx | xx,xxx |
| CAMP | | | | | | | | xx,xxx | xx,xxx |
| Cash In Banks | | | | | | | | xx,xxx | xx,xxx |
| Total Investments | <u>\$x,xxx</u> | <u>\$x,xxx</u> | <u>\$x,xxx</u> | <u>\$x,xxx</u> | <u>\$x,xxx</u> | <u>\$xxx</u> | <u>\$xx,xxx</u> | <u>\$xxx,xxx</u> | <u>\$xxx,xxx</u> |

G. Concentration Risk

Significant District investments in the securities of any individual issuers, other than U. S. Treasury securities, LAIF, and mutual funds, are set forth below:

| District Enterprise Funds: | | | |
|-----------------------------------|---------------|---------------------------|------------------------|
| Reporting unit | Issuer | Investment Type | Reported amount |
| District- Wide: | FHLB | Federal Agency Securities | \$xx,xxx |
| | FNMA | Federal Agency Securities | \$xx,xxx |
| | FFCB | Federal Agency Securities | \$xx,xxx |

System Pension Trust Fund:

Significant System Pension Trust Fund investments are:

| <u>Nature of Investment</u> | <u>Fair Value Year End</u> |
|---|--------------------------------|
| Trustee Collective Daily Benchmark index fund | \$xx,xxx |

H. Foreign Currency Risk***System Pension Trust Fund:***

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit. Presented below in US dollars is the fair market value of the System's foreign investments at June 30, 20xx:

| <u>Foreign Currency</u> | <u>Equity Securities Investment Type</u> |
|-------------------------|--|
| Euro | \$62,140 |
| British Pound Sterling | 37,114 |
| Hong Kong Dollar | 19,960 |
| Swiss Franc | 15,726 |
| Japanese Yen | 13,744 |
| South Korean Won | 7,783 |
| Danish Krone | 5,223 |
| Canadian Dollar | 4,638 |
| Singapore Dollar | 2,858 |
| Australian Dollar | 2,830 |
| Brazilian Real | 2,307 |
| Swedish Krona | 1,792 |
| Norwegian Krone | 1,384 |
| Indonesian Rupiah | 1,251 |
| Mexican Peso | 915 |
| Thai Baht | 811 |
| Turkish Lira | 633 |
| Total | <u>\$181,109</u> |

The Fund's investment policy permits it to invest up to 20% of total investment on foreign currency-denominated investments. The Fund's current position is xx%.

I. Custodial Credit Risk

Custodial credit risk for *cash on deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, the District or System will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the District's cash on deposit, or first trust deed mortgage notes with a market value of 150% of the deposit, as collateral for these deposits. Under California Law this collateral is held in a separate investment pool by another institution in the District's name and places the District ahead of general creditors of the institution.

The District and the System invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. In order to increase security, the District and the System employ the Trust Department of a bank or trustee as the custodian of certain District and System managed investments, regardless of their form.

As of June 30, 20xx and 20xx-1, the System's brokers/dealers held \$xxx and \$xx, respectively, in cash and US government bonds exposed to custodial credit risk.

Sample 24 Receivable Note Disclosure

Receivables at June 30, 20xx for the District consist of the following amounts.

| | <u>Current</u> | <u>Noncurrent</u> | <u>Total</u> |
|---------------------------------|-----------------------|-----------------------|-----------------------|
| General | \$x,xxx | \$0 | \$x,xxx |
| interest | x,xxx | 0 | x,xxx |
| Allowance for doubtful accounts | <u>(xxx)</u> | <u>0</u> | <u>(xxx)</u> |
| Accounts Receivable, net | x,xxx | 0 | x,xxx |
| | | | |
| Grants and Contracts | x,xxx | x,xxx | x,xxx |
| Due from other agencies | <u>x,xxx</u> | <u>x,xxx</u> | <u>x,xxx</u> |
| Subtotal | x,xxx | x,xxx | x,xxx |
| | | | |
| Total Receivables | <u><u>\$x,xxx</u></u> | <u><u>\$x,xxx</u></u> | <u><u>\$x,xxx</u></u> |

Sample 25 Capital Assets Note Disclosure

A. Summary

The District capitalizes all assets with a historical cost of at least \$5 thousand and a useful life of at least three years. Contributed property is recorded at estimated fair market value at the date of donation.

The purpose of depreciation is to spread the cost of capital assets equitably among all customers over the life of these assets, so that each customer's bill includes a pro rata share of the cost of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of depreciable capital assets.

Depreciation of all capital assets in service, excluding land, is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the balance sheet as a reduction in the book value of the capital assets.

Capital assets are depreciated using the straight line method of depreciation, which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The District has assigned the useful lives listed below to capital assets:

| Utility plant: | Years |
|------------------------------------|--------|
| Source of supply | 25-100 |
| Raw water transmission and storage | 20-100 |
| Interception and outfall | 60-75 |
| Pumping | 25-75 |
| Treatment | 20-75 |
| Distribution | 25-75 |
| Power Generation | 25-75 |
| Equipment | 5-20 |
| Plant Structures | 25-75 |
| Other | 5-40 |

B. Additions and Retirements

Capital assets activity for all business-type activities for the year ended June 30, 20xx, was as follows:

| | <u>Balance at June 30, 20xx-1</u> | <u>Additions and Transfers, net</u> | <u>Retirements and Transfers, net</u> | <u>Balance at June 30, 20xx</u> |
|---|---|---|---|---|
| District: | | | | |
| Capital Assets not being depreciated: | | | | |
| Land | \$xx,xxx | \$x,xxx | (\$xx) | \$xx,xxx |
| Rights-of-way | x,xxx | xx | | x,xxx |
| Construction in Progress - Land | xxx | x,xxx | (x,xxx) | xxx |
| Construction in Progress | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>(xxx,xxx)</u> | <u>xxx,xxx</u> |
| Total capital assets not being depreciated | <u>xxx,xxx</u> | <u>xxx,xxx</u> | <u>(xxx,xxx)</u> | <u>xxx,xxx</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | xxx,xxx | x,xxx | (xxx) | xxx,xxx |
| Infrastructure and improvements | x,xxx,xxx | xxx,xxx | (xx,xxx) | x,xxx,xxx |
| Machinery and equipment | <u>xx,xxx</u> | <u>x,xxx</u> | <u>(x,xxx)</u> | <u>xx,xxx</u> |
| Total capital assets being depreciated | <u>x,xxx,xxx</u> | <u>xxx,xxx</u> | <u>(xx,xxx)</u> | <u>x,xxx,xxx</u> |
| LESS: accumulated depreciation for | | | | |
| Buildings and improvements | (xx,xxx) | (x,xxx) | xxx | (xx,xxx) |
| Infrastructure and improvements | (x,xxx,xxx) | (xx,xxx) | xxx | (x,xxx,xxx) |
| Machinery and equipment | <u>(xx,xxx)</u> | <u>(x,xxx)</u> | <u>x,xxx</u> | <u>(xx,xxx)</u> |
| Total accumulated depreciation | <u>(x,xxx,xxx)</u> | <u>(xx,xxx)</u> | <u>x,xxx</u> | <u>(x,xxx,xxx)</u> |
| Total capital assets being depreciated, net | x,xxx,xxx | xx,xxx | (xx,xxx) | x,xxx,xxx |
| | \$ | | | |
| District capital assets, net | x,xxx,xxx | \$ xxx,xxx | (\$xxx,xxx) | \$x,xxx,xxx |

C. Construction in Progress

Construction in Progress in fiscal 20xx-1-20xx comprises:

| District | <u>Expended to date</u> |
|------------------------------------|--------------------------------|
| Project A | \$ xxx,xxx |
| Project B | xxx,xxx |
| Project D | xx,xxx |
| Project xyz | xx,xxx |
| Adm Bldg Modifications | xx,xxx |
| Main Facility Rehab/Maintenance | xx,xxx |
| Summit Improve | xx,xxx |
| SRVProgram | x,xxx |
| Equipment | <u>x,xxx</u> |
| Total Construction in Progress | \$xxx,xxx |

At June 30, 20xx, the District's remaining current major project commitments are estimated to be \$xx,xxx.

Sample 26 Payables and Accrued Expenses Note Disclosure

Accounts payable and accrued expenses at June 30, 20xx and 20xx-1 consist of:

| | June 30 | June 30 |
|------------------|----------------------|----------------------|
| | 20XX | 20XX-4 |
| | <hr/> | <hr/> |
| Accounts Payable | \$xx,xxx | \$xx,xxx |
| Accrued Salaries | xx,xxx | xx,xxx |
| Accrued Absences | xx,xxx | xx,xxx |
| Other | <hr/> xx,xxx | <hr/> xx,xxx |
| Total | <hr/> <hr/> \$xx,xxx | <hr/> <hr/> \$xx,xxx |

Sample 27 Long-term Liabilities Note Disclosure

NOTE 5 – EXTENDABLE COMMERCIAL PAPER NOTES

The District's Board of Directors has authorized a short-term commercial paper borrowing program of up to the lesser of either (1) the average of the total annual revenue for the three preceding years or (2) 25% of the District's total outstanding bonds. As of June 30, 20xx, the District had \$xxx million authorized for this program. The proceeds from the issuance of commercial paper are restricted as to use. Under this program, which must be authorized by the Board of Directors every seven years and is subject to the right of referendum, the District may issue commercial paper and bank notes at prevailing interest rates for periods of not more than 270 days from the date of issuance. The program was last authorized on March 10, 2xxx.

The District replaced the commercial paper program with an extendable commercial paper program in March 2xxx. Under the extendable commercial paper program, no liquidity support agreement (line of credit) with a commercial bank is needed. Instead, the District limits the term of the extendable commercial paper to 120 days, and the investor agrees to extend the maturity of their investment by 150 days at a higher interest rate in the event of a failed remarketing, giving the District sufficient time to find a replacement investor or refund the extendable commercial paper with a different form of debt (e.g. fixed or variable rate revenue bonds) to repay the investor.

As of June 30, 20xx, \$xxx million commercial paper notes were outstanding under this program. The Water Series included terms of 68 to 120 days and interest rates ranging from 0.0x% to 0.xx% as of June 30, 20xx, and terms of 50 to 119 days and interest rates ranging from 0.0x% to 0.xx% as of June 30, 20xx-1.

NOTE 6 – LONG-TERM DEBT

A. Composition and Changes

The District generally incurs long-term debt to finance projects or purchase assets that will have useful lives equal to or greater than the related debt. The District’s debt issues and transactions are summarized below and discussed in detail thereafter.

| | Original Issue Amount | Balance June 30, 2014 | Additions | Retirements | Balance June 30, 2015 | Amount due within one year |
|---|--------------------------|-----------------------------|--------------------|--------------------|-----------------------------|-------------------------------|
| <i>Revenue Bonds</i> | | | | | | |
| 20xx | | | | | | |
| 2.51%, due 1/1/xx | \$ x,xxx,xxx | \$xxx,xxx | | \$xxx | \$xxx,xxx | \$xxx |
| 20xx-1 | | | | | | |
| 2.40%, due 4/1/28 | xxx,xxx | xxx,xxx | | xxx | xxx,xxx | xxx |
| Long-Term Bonds | | x,xxx,xxx | | xxx | x,xxx,xxx | xxx |
| Loans | xxx,xxx | xx,xxx | | xxx | xx,xxx | xx |
| Commercial Paper (see Note 5) | | xxx,xxx | x,xxx,xxx | x,xxx,xxx | xxx,xxx | xxx,xxx |
| Amount due within one year | | (xx,xxx) | (xx,xxx) | | (xx,xxx) | |
| Add: Unamortized premium, net | | xxx,xxx | xxx,xxx | xx,xxx | xxx,xxx | |
| Total long-term liabilities, net | | <u>\$x,xxx,xxx</u> | <u>\$x,xxx,xxx</u> | <u>\$x,xxx,xxx</u> | <u>\$x,xxx,xxx</u> | <u>\$xx,xxx</u> |

B. Description of the District’s Long-Term Debt Issues

General obligation and revenue bonds are generally callable at future dates. The general obligation bonds are repaid from property taxes levied on property within the District.

Revenue-supported debt can be authorized by the District’s Board of Directors, subject to a referendum process.

The net revenues of the District are pledged toward the repayment of the Revenue Bonds and the Water Resources Control Board Parity Loans.

The District is subject to certain revenue bond covenants on outstanding debt that require the setting of rates and charges to yield net revenues equal to at least 110% of the current annual debt service requirements for all revenue bonds and other parity obligations. The District has designated \$xx million of operating reserves as a rate stabilization fund, which is available to satisfy the coverage requirements for debt service in future years. There have never been any draws for this purpose.

Debt Issuance During the Year

20xx Revenue Refunding Bonds, Series 20xx – The District issued \$xxx million principal amount of Series 20xx Bonds on March 3, 20xx, to provide funds, together with certain other available monies, to refund \$xx million principal amount of the District’s Subordinated Revenue Bonds Series 20x5, and \$xxx million principal amount of the District’s Subordinated Revenue Bonds Series 20x7A to fund the costs of terminating certain interest rate swap agreements relating to the District’s outstanding variable rate Revenue Bonds to be refunded, and to pay the costs of issuance in connection with the Series 20x5 Bonds. The Series 20xx Bonds are special obligations of the District and are payable solely from and secured by a pledge of Subordinated Revenues. Principal payments commence on June 1, 2x23 and are payable annually on June 1 thereafter. Interest payments are payable on June 1st and December 1st of each year, commencing June 1, 2x15.

The refunding of Revenue Bonds, Series 20xx created an economic gain of \$xx.x million.

C. Debt Service Requirements

Annual debt service requirements, including the swap payments discussed in F., are shown below for the above debt issues:

| For the Year Ending June 30 | Principal | Interest |
|--------------------------------|----------------------------|-------------------------|
| 2016 | \$xx,xxx | \$ x,xxx |
| 2017 | xx,xxx | x,xxx |
| 2018 | xx,xxx | x,xxx |
| 2019 | xx,xxx | x,xxx |
| 2020 | xx,xxx | x,xxx |
| 2021 - 2025 | xxx,xxx | xx,xxx |
| 2026 - 2030 | xxx,xxx | xx,xxx |
| 2031 - 2035 | xxx,xxx | x,xxx |
| 2036 - 2038 | xx,xxx | x,xxx |
| Totals | <u><u>\$ x,xxx,xxx</u></u> | <u><u>\$xxx,xxx</u></u> |

Interest payments on debt subject to swap agreements were calculated using the variable rates at June 30, 20xx.

D. Prior-Year Defeasances

In prior years, the District Defeased certain debt issues by placing proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the Defeased debt are not included in the District's financial statements. On June 30, 20xx, \$xxx million of the bonds outstanding are considered Defeased.

E. Variable Rate Debt

The District has a number of bond issues with variable interest rates. The Series 20xx Bonds are subject to purchase on the demand of the holder with seven days prior notice at a price equal to the principal plus accrued interest. The remarketing agent is authorized to use its best efforts to sell the repurchased bonds at a price equal to 100 percent of the principal amount by adjusting the interest rate. In the event that they not sold, under Standby Bond Purchase Agreements (SBPAs) issued by banks for the above variable rate debt issues, the trustee or the remarketing agent is entitled to draw an amount sufficient to pay the purchase price of delivered bonds. The District is required to pay an annual commitment fee to the banks issuing SBPAs. Expiration dates of these SBPAs are presented below by debt issue. In addition, the remarketing agent receives an annual fee of seven basis points of the outstanding principal amount of the bonds.

Standby Purchase Agreement terms

| <u>Issue</u> | <u>Expiration Date</u> | <u>Interest Rate</u> | <u>Rate Swap Rate</u> |
|-----------------------|------------------------|----------------------|-----------------------|
| Revenue 20xx series 1 | 6/19/2x16 | Reset Weekly | See Below |
| Revenue 20xx series 2 | 7/2/2x17 | Reset Weekly | See Below |
| Revenue 20xx series 3 | 7/8/2x19 | Reset Weekly | See Below |

F. Interest Rate Swap Agreements

The District has entered into a number of matched interest rate swap contracts with providers in which the District contracted to pay a fixed rate on the nominal amount of outstanding bonds, in exchange for a floating rate payment, set monthly on the first day of each calendar month for its LIBOR based swaps. The combination of variable rate bonds and a floating-rate swap creates synthetic fixed-rate debt for the District. The synthetic fixed rate on the bonds protects the District against increases in short-term interest rates. The terms, fair value, and credit risk of each of the swap agreements are discussed below.

Term and credit risks. The terms and credit ratings of the outstanding swaps, as of June 30, 20xx, are included below. The District's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to follow scheduled reductions in the associated bonds.

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| Related Bond Issue | Notional Amount | Effective Date | Counterparty | Counterparty Credit Ratings (Moody's/S&P) | Issuer Pays | Issuer Receives | Maturity/Termination Date |
|--------------------|-----------------|----------------|--------------|---|-------------|---------------------|---------------------------|
| 20xx Refunding | xx,xxx | 6/2/2xxx | J Q Leavitt | Aa3/A+ | 3.10% | 60% of 30 day Libor | 6/1/2x30 |
| 20xx A Refunding | x,xxx | 6/1/2xxx | Bank of USA | A1/1 | 3.10% | 60% of 30 day Libor | 6/1/2x30 |
| 20xx A Refunding | xx,xxx | 6/1/2xxx | Orange Bank | Baa1/A- | 3.10% | 60% of 30 day Libor | 6/1/2x30 |

The effect of these transactions is structured to result in the approximate equivalent of the District paying a fixed rate on the bonds, since the inflow of payments from the LIBOR based swaps are anticipated to approximate the outflow of payments on the variable rate bonds. Only the net difference in interest payments to the swap providers is made under the swap contracts.

Fair value. The fair value of the swaps takes into consideration the prevailing interest rate environment, the specific terms and conditions of a given transaction and any upfront payments that may have been received. The fair value was estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the LIBOR swap yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bond due on the date of each future net settlement on the swaps.

The fair values of each swap at June 30, 20xx, are included below:

| Related Bond Issuance | Fair Value | |
|-----------------------|------------|------------|
| | 20xx | 20xx-1 |
| District | | |
| 200xx Refunding Bonds | (\$xx,xxx) | (\$xx,xxx) |
| 20xxA Refunding Bonds | - | (\$xx,xxx) |
| Total District | (\$xx,xxx) | (\$xx,xxx) |

Credit risk. As of June 30, 20xx, the District was not exposed to credit risk on its outstanding swaps because the swaps had a negative fair value of \$xx million. The District faces a maximum possible loss equivalent to the swaps' fair value. However, if interest rates increase and the fair value of the swaps were to become positive, the District would be exposed to credit risk.

The District will be exposed to interest rate risk only if the counterparty to the swap defaults or if the swap is terminated. The swap agreements contain provisions that determine if and when the District or the counterparty must provide collateral. The agreements require full collateralization of the fair value of the swap should the counterparty's credit rating fall below a certain threshold. As of June 30, 20xx, the District was not required to provide collateral to any SWAP counterparty.

Basis risk. Basis risk is the risk that the interest rate paid by the District on underlying variable rate bonds to bondholders temporarily differs from the variable swap rate received from the applicable counterparty. The District is exposed to basis risk as the District receives payments based on LIBOR rates to offset the actual variable interest rate the District pays on its bonds. The District is exposed to basis risk should the floating rate that it receives on a swap be less than the actual variable rate the District pays on the bonds. Depending on the magnitude and duration of any basis risk shortfall, the expected cost of the basis risk may vary. As of June 30, 20xx, the District has a basis difference on its swaps of a positive x basis points (the District receives more from its swap floating rate payment than it pays out on its variable rate debt).

Termination risk. The District or the counterparty may terminate if the other party fails to perform under the terms of the SWAP contract. The District will be exposed to variable rates if the providers to the swap contracts default or if the swap contracts are terminated as it will lose the hedge provided by the SWAP. A termination of the swap contracts may also result in the District’s making or receiving a termination payment based on market interest rates at the time of the termination. If at the time of termination the swap has a negative fair value, the District would be liable to the counterparty for a payment equal to the swap’s fair value.

Swap payments and associated debt. Using rates as of June 30, 2015, debt service requirements of the District’s outstanding variable-rate debt and net swap payments are as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary. These payments below are included in the Debt Service Requirements at C. above:

| For the Year Ending | Variable-Rate Bonds | | Interest Rate Swaps, Net | Total |
|---------------------|---------------------|----------|--------------------------|------------|
| | Principal | Interest | Interest | |
| June 30 | | | | |
| 2016 | - | \$ xx | \$x,xxx | \$x,xxx |
| 2017 | - | xx | x,xxx | x,xxx |
| 2018 | - | xx | x,xxx | x,xxx |
| 2019 | - | xx | x,xxx | x,xxx |
| 2020 | - | xx | x,xxx | x,xxx |
| 2021 - 2025 | - | xx | xx,xxx | xx,xxx |
| 2026 - 2030 | - | xx | xx,xxx | xx,xxx |
| 2031 - 2035 | \$xx,xxx | xx | xx,xxx | xx,xxx |
| 2036 - 2038 | xx,xxx | xx | x,xxx | xx,xxx |
| Totals | \$ xxx,xxx | \$xx | \$ xxx,xxx | \$ xxx,xxx |

Sample 28 Net Position Note Disclosure

NOTE 7 – NET POSITION

Net Position is the excess of all the District's assets and deferred outflows over all its liabilities and deferred inflows, regardless of fund. Net Position is divided into three captions. These captions apply only to Net Position and are described below:

Net Investment in Capital Assets describes the portion of Net Position that is represented by the current net book value of the District's capital assets, less the outstanding balance of any debt issued to finance these assets and any related deferred outflows and inflows.

Restricted describes the portion of Net Position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the District cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and fees charged for the provision of future water resources.

Unrestricted describes the portion of Net Position which is not restricted to use.

Sample 29 Pension and Other Postemployment Benefits Note Disclosure

NOTE 8 – EMPLOYEES’ RETIREMENT PLAN

A. Description

The Employees’ Retirement System is a single-employer, contributory, defined benefit pension plan (the Plan) which provides retirement, disability, survivorship, and post-employment healthcare benefits for eligible directors, officers, and employees of the District. The Plan is administered by a Retirement Board composed of three members appointed by the District’s Board of Directors and two members elected by and from the active membership of the Plan, and a nonvoting member elected by the retirees of the Plan. Retirement Ordinance No. xx assigns the authority to establish Plan benefit provisions to the District’s Board of Directors. A stand-alone financial report of the Employees’ Retirement System is available. Please send request to the Controller, Accounting Division, P.O. Box xxxx, City, CA xxxxx-xxxx or visit the District website at <http://www.district.com>.

All regular full-time employees of the District are members of the Plan. In accordance with the ordinance governing the Plan, eligible employees become members on the first day they are physically on the job. District-defined benefits vest in part with members after completion of five years of continuous, full-time employment.

The Plan is funded by contributions from its members and from the District. District contribution percentages are recommended by the Retirement Board; employee contribution rates are established by the Board of Directors pursuant to the Ordinance, giving consideration to actuarial recommendations and prospective changes in factors which affect funding.

B. Retirement Benefits and Allowances

There are two tiers in effect currently, the Plan A and the PEPRA Plan. Employees who became Members of the retirement system prior to January 1, 20xx, or who have reciprocal Membership are in the Plan A. Employees who became Members on or after January 1, 2013 are in the PEPRA Plan.

Plan A Members may elect voluntary reduced service retirement upon attaining the age of 54 and completing 5 years of continuous full-time employment. Members may elect voluntary unreduced service retirement upon attaining the age of 62 and completing 5 years of continuous full-time employment or age 65 without restriction. Members who continue to work upon attaining the normal retirement age of 65 continue to contribute to the Plan, and at the time they retire, computation of their retirement allowance is based upon their compensation and length of service as of the date of retirement. Service retirement allowances are computed by formulas specified in the Ordinance and are based on date of employment, length of employment, age at date of retirement, and compensation earned during employment.

PEPRA Plan Members may elect voluntary reduced service upon attaining the age of 52 and completing 5 years of continuous full-time employment. Members may elect voluntary unreduced service retirement upon attaining the age of 67, and completing 5 years of continuous full-time employment. Members who continue to work upon attaining the normal retirement age of 67 continue to contribute to the Plan, and at the time they retire, computation of their allowance is based upon their compensation and length of service as of the date of retirement. Service retirement allowances are computed by formulas specified in the Ordinance and are based on length of service, age at retirement, and compensation earned during employment.

C. *Post-employment Healthcare Cost*

In addition to retirement benefits, the District provides post-employment health benefits assistance (administered by the Employees' Retirement System) for employees who retire from the District or to their surviving spouses. As of June 30, 20xx, there were xxx participants receiving these health care benefits.

Effective July 1, 19xx, a 20-year vesting schedule for full benefits was implemented for all new participants. Effective January 1, 19xx, retired members who had separated from the District prior to their retirement and who had at least 10 years of service also became eligible for the post-employment health benefits based on the same sliding scale. The scale provides for 25% of healthcare benefits for service from 5 through 10 years, 50% of healthcare benefits for service from 10 through 15 years, 75% of healthcare benefits for service from 15 through 20 years, and 100% of healthcare benefits for service of 20 years or more. Effective July 1, 20xx, the District reimbursed, for membership of a spouse or registered domestic partner) for any health, dental, or long-term care insurance premiums paid by the retiree for themselves, current spouse, or domestic partner, or any health, dental, or long-term care insurance premiums paid by the eligible surviving spouse of a retiree. These benefits are paid from a separate post-employment healthcare benefits fund which up until June 17, 20xx, was advance funded entirely by the District on an actuarially determined basis. Cash reimbursement of these benefits totaled \$xxx in the year ended June 30, 20xx. Effective June 18, 20xx, a portion of the post-employment healthcare benefit costs is recovered through employee contributions.

Through June 30, 19xx, the medical premium subsidy was not a vested benefit and the District reserved the right to modify or terminate the benefit at any time. If the medical subsidy were terminated, assets accumulated from contributions made for the subsidy would be used to provide other pension benefits. Effective July 1, 1999, the medical premium subsidy became a vested benefit per month for retiree and a spouse or a registered domestic partner.

D. Actuarial Assumptions and Funding Policy

The Plan’s funding policy provides for periodic District contributions at actuarially determined amounts sufficient to accumulate the necessary assets to pay benefits when due as specified by ordinance. The individual entry age normal method is used to determine the normal cost for other post-employment benefits (OPEB) and service cost for pension, and the OPEB unfunded actuarial accrued liability (past service liability) is amortized as a level percentage of future payroll over 30 years open period.

District contributions for the year ended June 30, 20xx are as follows:

19xx Plan:

Pension plan:

| | |
|-----------------------------------|--------|
| Employer service cost | xx.xx% |
| Toward unfunded pension liability | xx.xx% |

Other post-employment benefits:

| | |
|--------------------------------------|-------|
| Employer normal cost | x.xx% |
| Unfunded actuarial accrued liability | x.xx% |

PEPRA:

Pension plan:

| | |
|-----------------------------------|--------|
| Employer service cost | x.xx% |
| Toward unfunded pension liability | xx.xx% |

Other post-employment benefits:

| | |
|--------------------------------------|-------|
| Employer normal cost | x.xx% |
| Unfunded actuarial accrued liability | x.xx% |

Effective June 30, 20xx, contributions for fiscal year 20xx/20xx+1 are as follows:

19xx Plan:

Pension plan:

| | |
|-----------------------------------|--------|
| Employer service cost | xx.xx% |
| Toward unfunded pension liability | xx.xx% |

Other post-employment benefits:

| | |
|--------------------------------------|-------|
| Employer normal cost | x.xx% |
| Unfunded actuarial accrued liability | x.xx% |

PEPRA:

Pension plan:

| | |
|-----------------------------------|--------|
| Employer service cost | x.xx% |
| Toward unfunded pension liability | xx.xx% |

Other post-employment benefits:

| | |
|--------------------------------------|-------|
| Employer normal cost | x.xx% |
| Unfunded actuarial accrued liability | x.xx% |

Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation and on the pattern of sharing the costs between the employer and plan members to that point.

Significant assumptions used to compute contribution requirements from the latest unaudited actuarial are as follows:

| | |
|-------------------------------------|---|
| Valuation date | June 30, 2014 |
| Actuarial cost method | Entry Age Normal Cost Method |
| Amortization method | Level percent of payroll |
| Remaining amortization period | Plan changes are amortized over separate decreasing 15-year periods; assumptions changes are amortized over separate decreasing 25-year periods; experience gains/losses are amortized over separate decreasing 20-year periods. |
| Assets valuation method | Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five year period, further adjusted, if necessary, to be within 30% of the market value. |
| Actuarial assumptions: | |
| Investment rate of return | 7.50% |
| Average projected salary increases* | Ranges from 4.00% to 9.50% based on years of service* |
| Inflation rate | 3.00% |
| Cost-of-living adjustments | 3.00% |
| Mortality | Healthy: RP-2000 Combined Healthy Mortality Table projected with scale AA to 2016, set back one year for males and set back two years for females |
| Annual healthcare costs trend rates | 6.875% reduced by increments to a rate of 5% after 10 years |

All assumptions are the same for the post-employment health care benefits except for the discount rate, assumed at a rate of x% for the funded and unfunded portions.

E. Contributions Required and Contributions Made

Contributions for the years ended June 30, based on the actuarial valuation, were as follows:

| | 20xx | | 20xx-1 | |
|------------------------|-----------|----------------------------|-----------|-----------|
| | Pension | Healthcare Benefit Plan | Totals | Totals |
| Regular Contributions: | | | | |
| District contributions | \$ xx,xxx | \$ xx,xxx | \$ xx,xxx | \$ xx,xxx |
| Member contributions | xx,xxx | xx,xxx | xx,xxx | xx,xxx |
| Subtotal | xx,xxx | xx,xxx | xx,xxx | xx,xxx |
| Other contributions: | | | | |
| Member buybacks | xx | xx | xx | xx |
| Totals | xx,xxx | xx,xxx | xx,xxx | xx,xxx |

Regular District and member contributions in fiscal year 20xx represent an aggregate of xx.xx% and x.xx% of covered payroll, respectively. The District’s contributions include amounts for post-employment healthcare benefits at a rate of x.xx% of covered payroll, determined by the actuarial dated June 30, 20xx-1. The actual payroll for the District employees covered by the Plan for the year ended June 30, 20xx, was \$xxx,xxx which was xx.xx% of the total District payroll of \$xxx,xxx. The total District contribution of \$xx,xxx as of June 30, 20xx, consisted of \$xx,xxx regular contribution (\$xx,xxx for normal cost and service cost also includes \$xx,xxx for amortization of the unfunded actuarial accrued liability and payment to reduce the net pension liability) and \$xxx interest on contribution.

Regular District and member contributions in fiscal 20xx-1 represent an aggregate of xx.xx% and x.xx% of covered payroll, respectively. The District’s contributions include amounts for post-employment healthcare benefits at a rate of x.xx% of covered payroll, determined by the actuarial dated June 30, 20xx-2. The actual payroll for the District employees covered by the Plan for the year ended June 30, 20xx-1, was \$xxx,xxx which was xx.xx% of the total District payroll of \$xxx,xxx.

The total District contribution of \$xx,xxx as of June 30, 20xx-1, consisted of \$xx,xxx regular contribution (\$xx,xxx for normal cost and service cost also includes \$xx,xxx for amortization of the unfunded actuarial accrued liability and payment to reduce the net pension liability) and \$xxx interest on contribution.

Member buyback contributions relate to prior years’ service credits for Plan participants. The Plan was amended in 19xx for limited temporary construction workers and in 20xx for intermittent employees to allow current members, who previously worked for the District in a status which did not qualify for membership in the System, to establish retirement service credit for prior service with payments over a period of two to eight years.

F. Schedule of Employer Contributions

The District’s annual OPEB costs and schedules of contributions for the past three years are as follows:

Health Insurance Benefit Plan:

| Year ended June 30 | Actual Contribution | Annual OPEB Cost | Percentage Contributed | Net OPEB Obligation |
|--------------------|---------------------|------------------|------------------------|---------------------|
| 20xx-2 | \$ xx,xxx | \$ xx,xxx | xx% | \$ xx,xxx |
| 20xx-1 | xx,xxx | xx,xxx | xx% | xx,xxx |
| 20xx | xx,xxx | xx,xxx | xx% | xx,xxx |

The annual required contributions for fiscal years ended June 30, 20xx, 20xx-1 and 20xx-2, include amounts for the pay-as-you-go amounts for post-employment healthcare benefits.

Health Insurance Benefit Plan:

During the fiscal year ended June 30, 20xx, the District made contributions to the Health Insurance Benefit Plan toward the Annual Required Contribution (ARC) amounting to \$x,xxx which represented x.x% of the \$xxx,xxx total District payroll. During the fiscal year ended June 30, 20xx-1, the District made contributions toward the ARC amounting to \$x,xxx to the plan which represented x.x% of the \$xxx,xxx total District payroll. As a result, the District has recorded the Net OPEB Obligation (NOO), representing the difference between the ARC and actual contributions, as presented below:

| | | |
|---|----------------|--------------|
| Net OPEN Obligation at June 30, 20xx-2 | | \$ xx,xxx |
| Annual required contribution (ARC) | \$ xx,xxx | |
| Interest on net OPEB Obligation | x,xxx | |
| Adjustments to the ARC | (x,xxx) | |
| Annual OPEB cost - fiscal 20xx-2 | <u>xx,xxx</u> | |
| Less contributions made during fiscal year: | | |
| Contributions to Trustee Bank | (x,xxx) | |
| Interest on Contributions to Trustee | (xxx) | |
| Contributions | <u>(x,xxx)</u> | |
| Contributions less ARC | | <u>x,xxx</u> |
| Net OPEB obligation at June 30, 20xx-1 | | \$ xx,xxx |

| | | |
|---|----------------|--------------|
| Annual required contribution (ARC) | \$ xx,xxx | |
| Interest on net OPEB Obligation | x,xxx | |
| Adjustments to the ARC | (x,xxx) | |
| Annual OPEB cost - fiscal 20xx-1 | <u>xx,xxx</u> | |
| Less contributions made during fiscal year: | | |
| Contributions to Trustee Bank | (x,xxx) | |
| Interest on Contributions to Trustee | (xxx) | |
| Contributions | <u>(x,xxx)</u> | |
| Contributions less ARC | | <u>x,xxx</u> |
| Net OPEB obligation at June 30, 20xx | | \$ xx,xxx |

A schedule of funding progress for the retirement and post-employment healthcare plans presenting multiple-year trend information as to whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time is presented immediately following the notes to basic financial statements in the Required Supplementary information section.

G. Net Pension Liability

The net pension liability (i.e., the Plan’s liability determined in accordance with GASB No. 68 less the fiduciary net position) as of June 30 is as shown below:

| | <u>20xx</u> | <u>20xx-1</u> |
|--|--------------------|--------------------|
| Total pension liability | \$x,xxx,xxx | \$x,xxx,xxx |
| Plan fiduciary net position | <u>(x,xxx,xxx)</u> | <u>(x,xxx,xxx)</u> |
| Net pension liability | <u>\$ xxx,xxx</u> | <u>\$ xxx,xxx</u> |
| Plan fiduciary net position as a percentage of total pension liability | xx.xx% | xx.xx% |
| Covered employee payroll | \$xxx,xxx | \$xxx,xxx |
| Liability as percentage of covered employee payroll | xxx.xx% | xxx.xx% |

Actuarial valuation of the ongoing System involves estimates of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Employers’ net pension liability presents multi-year trend information about whether the plan fiduciary net positions are increasing or decreasing over time relative to the total pension liability. These schedules are presented in the Required Supplementary Information section. The net pension liabilities measured as of June 30, 20xx-1 and 20xx-2 and are not adjusted or rolled forward to the June 30, 20xx and 20xx-1 reporting dates, respectively.

For the year ended June 30, 20xx, the District recognized pension expense as follows:

| | <u>District</u> |
|--|--------------------------|
| Contributions made after measurement date: | (\$xx,xxx) |
| Current year changes in the net pension liability: | |
| Service cost | xx,xxx |
| Interest on total pension liability | xxx,xxx |
| Member contributions | (xx,xxx) |
| Projected earnings on investments | (xx,xxx) |
| Difference in expected and actual earnings | (xx,xxx) |
| Other | x,xxx |
| Total current year activity | <u>xx,xxx</u> |
| Total pension expense | <u><u>(\$xx,xxx)</u></u> |

At June 30, 20xx, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Pension contributions subsequent to measurement date | \$ xx,xxx | |
| Differences between expected and actual experience | xxx | |
| Changes in assumptions | xx,xxx | |
| Change in proportion and differences between employer contributions and proportionate share of contributions | x,xxx | |
| Net difference between projected and actual earnings on pension plan investments | | <u>xx,xxx</u> |
| Total pension expense | <u><u>\$ xx,xxx</u></u> | <u><u>\$ xx,xxx</u></u> |

A total of \$xx,xxx was reported as deferred outflows of resources related to contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 20xx+1. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| Year Ended June 30 | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--------------------|--------------------------------|-------------------------------|
| 20xx+1 | \$ xx,xxx | \$ xx,xxx |
| 20xx+2 | \$ xx,xxx | \$ xx,xxx |
| 20xx+3 | \$ xx,xxx | \$ xx,xxx |
| 20xx+4 | \$ xx,xxx | \$ xx,xxx |

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and projected arithmetic real rates of return, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption for each major asset class are summarized below.

| Asset Class | Target Allocation | long-term Expected Real Rate of Return |
|--------------------------------|-------------------|--|
| Domestic Large Cap Equity | xx% | x.xx% |
| Domestic Small Cap Equity | xx% | x.xx% |
| Developed International Equity | xx% | x.xx% |
| Emerging Markets Equity | xx% | x.xx% |
| Domestic Bonds | xx% | x.xx% |
| Non-core Fixed Income | xx% | x.xx% |
| Real Estate | xx% | x.xx% |
| Covered Calls | xx% | x.xx% |
| Total | <u>100%</u> | |

The discount rates used to measure the total pension liability were x.xx% and x.xx% as of June 30, 20xx and June 30, 20xx-1, respectively. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the Pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on Pension Plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of both June 30, 20xx and June 30, 20xx-1.

In accordance with GASB 68 regarding the disclosure of the sensitivity of the net pension liability to changes in the discount rate, the following table presents the net pension liability of the Plan as of June 30, 20xx, calculated using the discount rate of x.xx%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (x.50%) or 1-percentage-point higher (x.50%) than the current rate:

| | 1% decrease 6.50% | Current Discount 7.50% | 1% increase 8.5 |
|-----------------------|------------------------------------|---|----------------------------------|
| Net Pension Liability | \$xxx,xxx | \$xxx,xxx | \$xxx,xxx |

H. Public Employees' Pension Reform Act (PEPRA)

Assembly Bill 340 (AB 340) created the Public Employees' Pension Reform Act (PEPRA) which implemented new benefit formulas and final compensation periods, as well as new contribution requirements for new employees hired on or after January 1, 2013, who meet the definition of new member under PEPRA.

The following table provides the details of the new provisions.

| | |
|---|----------------------------------|
| Benefit Formula | 2.5% at Age 67 |
| Final Compensation Period | Average of last 3 years |
| Employer Contribution Rate as a percentage payroll | 8.65% of Reportable Compensation |
| Member Contribution Rate as a percentage of payroll | 8.75% of Reportable Compensation |

The employer contribution rate listed above was in effect until June 30, 2015. In accordance with the provisions of AB 340, the member contribution rate shown above was set at 50% of the expected total normal cost rate for the benefits that will apply to new members on January 1, 2013. The total normal cost rate used for this calculation is xx.xx% of payroll for new members.

Sample 30 Risk Management Note Disclosure

NOTE 9 – RISK MANAGEMENT

The District has purchased commercial insurance for general, property, public officials’ liability and workers’ compensation. During the fiscal year ended June 30, 20xx, the District paid \$x,xxx for current year coverage.

The District’s liability, property, and workers’ compensation risks are insured by commercial insurance carriers, all of which are subject to the District’s self-insurance retentions, which vary by type of coverage.

Selected other coverages are:

| Coverage | Policy Limit | Self-insurance Retention |
|-----------------------|-----------------|--------------------------|
| Workers' Compensation | Statutory Limit | \$5,000 |
| All risk Property | \$ xxx,xxx | 500 |
| Flood | xx,xxx | 1,500 |
| Liability | xx,xxx | 10,000 |
| Crime | xx,xxx | 25 |
| Boiler and Machinery | xx,xxx | 25 |
| Facilities | xx,xxx | 25 |

Settled claims have not exceeded the District’s policy limits in any of the past five fiscal years.

Claim expenses and liabilities are recorded when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. As of June 30, 20xx, the amount of these liabilities was \$xx,xxx. This amount (which has not been discounted) has been actuarially determined and includes an estimate of incurred but not reported losses. Changes in the reported liability are as follows:

| | <u>20XX</u> | <u>20xx-1</u> |
|--------------------------------|-------------|---------------|
| Liability at beginning of year | \$xx,xxx | \$xx,xxx |
| Current claims and estimates | x,xxx | x,xxx |
| Payment of claims | (x,xxx) | (x,xxx) |
| Liability at end of year | \$xx,xxx | \$xx,xxx |
| Estimated liability: | | |
| Due within one year | \$ x,xxx | \$ x,xxx |
| Due in more than one year | xx,xxx | xx,xxx |
| Liability at end of year | \$xx,xxx | \$xx,xxx |

Sample 31 Known Environmental Matters Note Disclosure

Following is a summary of the District's known environmental matters as of June 30, 20xx, that meets the requirements of GASB Statement No. 49:

- Under a Nxxx permit issued by the Regional Water Quality Control Board, discharges from the District's facilities are prohibited. In 20xx, the District signed a Consent Decree on this matter that focuses on the excess flow entering the District's system and allows continued discharges while work to reduce them is performed. The Consent Decree requires the District and its satellite agencies to The District's cost to meet the requirements in the Consent Decree is approximately \$xM year.
- The District operates many facilities throughout Northern California that have NPDES permits, discharge requirements, and air permits. The total estimated liability for all known violations is less than \$xx thousand.

Sample 32 Contingent Liabilities Note Disclosure

NOTE 11 - CONTINGENT LIABILITIES

The District is a defendant in a number of lawsuits that have arisen in the normal course of business including challenges over certain rates and charges. The ultimate outcome of these matters is not presently determinable. In the opinion of the District, these actions when finally adjudicated will not have a material adverse effect on the financial position of the District.

Sample 33 Commitments and Contingencies Note Disclosure

Example: Central Valley Project

In December 1970, the District entered into a contract with the US Bureau of Reclamation to.... Deliveries to the District are limited to a xxx acre foot total over any three successive dry years. In years in which the District takes delivery of CVP water, the District's allocated CVP capital cost and the District's operations and maintenance deficit balance will be paid down commensurately with the quantity of water delivered. For example, if the District had to take delivery of xxx acre-feet in fiscal year 15, the District's CVP capital and deficit balances would each be reduced by approximately xx%. The balances must be paid off by 2030.

Required Supplementary Information - Pension

Sample 34 Schedule of Changes in Employer's Net Pension Liability

(1) *Pension Plan*

Schedule of Changes in Employer's Net Pension Liability (in thousands):

| | <u>20xx</u> | <u>20xx-1</u> |
|---|---------------------------|---------------------------|
| Total Pension Liability | | |
| Service Costs | \$xxx,xxx | \$xxx,xxx |
| Interest | xxx,xxx | xxx,xxx |
| Change of Benefit terms | | xxx,xxx |
| Differences between Expected and Actual Experience | xxx,xxx | xxx,xxx |
| Changes in assumptions | xxx,xxx | xxx,xxx |
| Benefit payments, including refunds of employee contributions | <u>(xx,xxx)</u> | <u>(xx,xxx)</u> |
| Net Change in total pension liability | xxx,xxx | xxx,xxx |
| Total pension liability - beginning | <u>x,xxx,xxx</u> | <u>x,xxx,xxx</u> |
| Total pension liability - ending (a) | <u><u>\$x,xxx,xxx</u></u> | <u><u>\$x,xxx,xxx</u></u> |
| Plan fiduciary net position | | |
| Contributions- employer | \$xxx,xxx | \$xxx,xxx |
| Contributions- employee | xxx,xxx | xxx,xxx |
| Net investment income | xxx,xxx | xxx,xxx |
| Benefit payments, including refunds of employee contributions | (xxx,xxx) | (xxx,xxx) |
| Administrative expense | <u>(xx,xxx)</u> | <u>(xx,xxx)</u> |
| Net Change in plan fiduciary position | xxx,xxx | xxx,xxx |
| Plan fiduciary net position - beginning | <u>x,xxx,xxx</u> | <u>x,xxx,xxx</u> |
| Plan fiduciary net position - ending (b) | <u><u>\$x,xxx,xxx</u></u> | <u><u>\$x,xxx,xxx</u></u> |
| Plan's net pension liability - ending (a) - (b) | <u><u>\$xxx,xxx</u></u> | <u><u>\$xxx,xxx</u></u> |

Sample 35 Schedule of Employer's Net Pension Liability

(2) *Pension Plan*

Schedule of Employer's Net Pension Liability (in thousands):

| | 20xx | 20xx-1 |
|--|-------------------|-------------------|
| Total pension liability | \$ x,xxx,xxx | \$ x,xxx,xxx |
| Plan fiduciary net position | (x,xxx,xxx) | (x,xxx,xxx) |
| Net pension liability | <u>\$ xxx,xxx</u> | <u>\$ xxx,xxx</u> |
| Plan fiduciary net position as a percentage of total pension liability | xx.xx% | xx.xx% |
| Covered employee payroll | \$ xxx,xxx | \$ xxx,xxx |
| Plan net pension liability as percentage of covered employee payroll | xxx.xx% | xxx.xx% |

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Sample 36 Schedule of Employer's Contribution

(3) Pension Plan

Schedule of Employer's Contributions (in thousands):

| Year ended June 30 | Actuarially determined contribution | Contributions in relation to the actuarially determined contributions | Contributions deficiency (excess) | Covered employee payroll * | UAAL as a Percentage of covered payroll ((b-a)/c) |
|-----------------------|---|--|---|----------------------------------|---|
| 6/30/20xx-9 | \$ xx,xxx | \$ xx,xxx | \$0 | \$ xxx,xxx | xx.x% |
| 6/30/20xx-8 | xx,xxx | xx,xxx | 0 | xxx,xxx | xx.x% |
| 6/30/20xx-7 | xx,xxx | xx,xxx | 0 | xxx,xxx | xx.x% |
| 6/30/20xx-6 | xx,xxx | xx,xxx | 0 | xxx,xxx | xx.x% |
| 6/30/20xx-5 | xx,xxx | xx,xxx | 0 | xxx,xxx | xx.x% |
| 6/30/20xx-4 | xx,xxx | xx,xxx | 0 | xxx,xxx | xx.x% |
| 6/30/20xx-3 | xx,xxx | xx,xxx | 0 | xxx,xxx | xx.x% |
| 6/30/20xx-2 | xx,xxx | xx,xxx | 0 | xxx,xxx | xx.x% |
| 6/30/20xx-1 | xx,xxx | xx,xxx | 0 | xxx,xxx | xx.x% |
| 6/30/20xx | xx,xxx | xx,xxx | 0 | xxx,xxx | xx.x% |

* Derived by dividing the contributions in relation to the actuarial determined contributions by the contributions as a percentage of covered employee payroll. These amounts may therefore be different from the actual payrolls of the District.

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Sample 37 Schedule of Investment Returns

(4) Pension Plan

| Schedule of Investment Returns: | <u>20xx</u> | <u>20xx-1</u> |
|---|-------------|---------------|
| Annual Money weighted rate of return, net of investment expense | x.xx% | x.xx% |

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Required Supplementary Information – Other Post Employment Benefits

Sample 38 Schedule of Funding Progress (OPEB)

(5) Post-Employment Healthcare Plan

Schedule of funding progress for the post-employment healthcare plan (in thousands)

| Actuarial valuation date | Actuarial value of assets (a) | Actuarial accrued liability (ALL) - entry age (b) | Unfunded AAL (UAAL) (b-a) | Funded ratio (a/b) | Covered payroll (C) | UAAL as a Percentage of covered payroll ((b-a)/c) |
|--------------------------|-------------------------------|---|---------------------------|--------------------|---------------------|---|
| | | | | | \$ | |
| 6/30/20xx-9 | \$ x,xxx | \$ xx,xxx | \$ xx,xxx | x.x% | xxx,xxx | xx.x% |
| 6/30/20xx-8 | x,xxx | xx,xxx | xx,xxx | x.x% | xxx,xxx | xx.x% |
| 6/30/20xx-7 | x,xxx | xx,xxx | xx,xxx | x.x% | xxx,xxx | xx.x% |
| 6/30/20xx-6 | x,xxx | xxx,xxx | xxx,xxx | xx.x% | xxx,xxx | xx.x% |
| 6/30/20xx-5 | xx,xxx | xxx,xxx | xxx,xxx | xx.x% | xxx,xxx | xx.x% |
| 6/30/20xx-4 | xx,xxx | xxx,xxx | xxx,xxx | xx.x% | xxx,xxx | xx.x% |
| 6/30/20xx-3 | xx,xxx | xxx,xxx | xxx,xxx | xx.x% | xxx,xxx | xx.x% |
| 6/30/20xx-2 | xx,xxx | xxx,xxx | xxx,xxx | xx.x% | xxx,xxx | xx.x% |
| 6/30/20xx-1 | xx,xxx | xxx,xxx | xxx,xxx | xx.x% | xxx,xxx | xx.x% |
| 6/30/20xx | xx,xxx | xxx,xxx | xxx,xxx | xx.x% | xxx,xxx | xx.x% |

Sample 39 Notes to Required Supplementary Information

(6) Notes to Required Supplementary Information

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

| | |
|-------------------------------------|---|
| Valuation date | June 30, 2014 |
| Actuarial cost method | Entry Age Normal Cost Method |
| Amortization method | Level percent of payroll |
| Remaining amortization period | Plan changes are amortized over separate decreasing 15-year periods; assumptions changes are amortized over separate decreasing 25-year periods; experience gains/losses are amortized over separate decreasing 20-year periods. |
| Assets valuation method | Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual market return and the expected return on the market value, and is recognized over a five year period, further adjusted, if necessary, to be within 30% of the market value. |
| Actuarial assumptions: | |
| Investment rate of return | 7.50% |
| Average projected salary increases* | Ranges from 4.00% to 9.50% based on years of service* |
| Inflation rate | 3.00% |
| Cost-of-living adjustments | 3.00% |
| Mortality | Healthy: RP-2000 Combined Healthy Mortality Table projected with scale AA to 2016, set back one year for males and set back two years for females |
| Annual healthcare costs trend rates | 6.875% reduced by increments to a rate of 5% after 10 years |

All assumptions are the same for the post-employment health care benefits except for the discount rate, assumed at a rate of 7.00%, for the funded and unfunded portions.

Sample 40 Modified Approach Information

ILLUSTRATION OF REQUIRED SUPPLEMENTARY INFORMATION FOR GOVERNMENTS THAT USE THE MODIFIED APPROACH FOR INFRASTRUCTURE ASSETS

District's that use the modified approach for eligible infrastructure assets are required to present information about those assets in the MD&A. An illustration of a MD&A for a bridge network is presented below:

The District manages its bridge network using its Bridge Management and Inspection Program and accounts for them using the modified approach. The bridge condition rating is a numerical condition scale ranging from 1 (impaired or load restricted) to 7 (new). A bridge is considered "deficient"—that is, needs maintenance or preservation—when its condition falls below 5. A bridge is unsafe—impaired or load restricted—when it falls below condition level 2. It is the District's policy to keep the number and square footage of deck area of unsafe bridges below 1 percent. The most recent condition assessment shows that the condition of the District's bridges is in accordance with the District's policy. Actual maintenance and preservation costs were less than estimated by approximately 12 percent. Due to an unusually mild winter in the previous year, less maintenance and preservation efforts were necessary to keep the District's bridges at or above the established condition level.

Districts should also present the information in the following schedules, derived from the asset management system, as required supplementary information for all eligible infrastructure assets that are reported using the modified approach.

**Illustration of Required Supplementary Information for
Governments That Use the Modified Approach for
Infrastructure Assets**

| | BMIP Condition Rating | Number of Bridges | | | | | |
|----------------------|-----------------------|-------------------|---------------|---------------|---------------|---------------|---------------|
| | | 2002 | | 2000 | | 1998 | |
| | | Number | % | Number | % | Number | % |
| Acceptable | 5.0–7.0 | 15,582 | 89.8% | 15,182 | 87.5% | 14,835 | 85.5% |
| Marginally deficient | 4.0–4.9 | 1,232 | 7.1 | 1,544 | 8.9 | 1,666 | 9.6 |
| Moderately deficient | 2.0–3.9 | 504 | 2.9 | 538 | 3.1 | 781 | 4.5 |
| Severely deficient | 1.0–1.9 | 33 | 0.2 | 87 | 0.5 | 69 | 0.4 |
| Total | | <u>17,351</u> | <u>100.0%</u> | <u>17,351</u> | <u>100.0%</u> | <u>17,351</u> | <u>100.0%</u> |

| | BMIP Condition Rating | Square Feet of Deck Area (1,000s of square feet) | | | | | |
|----------------------|-----------------------|--|---------------|----------------|---------------|----------------|---------------|
| | | 2002 | | 2000 | | 1998 | |
| | | Square Feet | % | Square Feet | % | Square Feet | % |
| Acceptable | 5.0–7.0 | 124,656 | 85.8% | 127,102 | 87.5% | 125,649 | 86.5% |
| Marginally deficient | 4.0–4.9 | 9,856 | 6.8 | 8,570 | 5.9 | 11,040 | 7.6 |
| Moderately deficient | 2.0–3.9 | 10,452 | 7.2 | 8,570 | 5.9 | 7,408 | 5.1 |
| Severely deficient | 1.0–1.9 | 295 | 0.2 | 1,017 | 0.7 | 1,162 | 0.8 |
| Total | | <u>145,259</u> | <u>100.0%</u> | <u>145,259</u> | <u>100.0%</u> | <u>145,259</u> | <u>100.0%</u> |

Comparison of Estimated-to-Actual Maintenance/Preservation (In Thousands)

| | <u>2002</u> | <u>2001</u> | <u>2000</u> | <u>1999</u> | <u>1998</u> |
|-----------|-------------|-------------|-------------|-------------|-------------|
| Estimated | \$2,650 | \$2,798 | \$2,541 | \$2,487 | \$2,301 |
| Actual | 2,322 | 2,623 | 2,765 | 2,245 | 2,105 |

The condition of the District’s bridges is determined using its Bridge Management and Inspection Program (BMIP). The bridge condition rating, which is a weighted average of an assessment of the ability of individual components to function structurally, uses a numerical condition scale ranging from 1.0 (impaired or load restricted) to 7.0 (new). It is the District’s policy to keep the number and square footage of deck area of bridges with a condition rating of 1.0 to 1.9 below 1 percent. All bridges are inspected every two years.

Required Supplementary Information - Supplemental Information

Sample 41 Combining Statements

Combining Balance Sheet

| District Employee Retirement System trust Fund Combining Balance Sheet For Year Ended June 30, 20xx (with summarized comparative financial information as of June 30, 20xx-1) (Dollars in thousands) | | | | |
|---|-----------------------------|---|------------|-----------------|
| | 20xx | | | |
| | Pension plan benefits | Post- Employment healthcare benefits | Total | 20xx-1 Total |
| | | | | |
| Assets: | | | | |
| Cash and cash equivalents, at fair value | \$ xx,xxx | \$ x,xxx | \$ xx,xxx | \$ xx,xxx |
| Invested securities lending collateral | xx,xxx | x,xxx | xx,xxx | xx,xxx |
| Receivables: | | | | |
| Brokers, securities sold | x,xxx | x,xxx | x,xxx | x,xxx |
| Employer | x,xxx | x,xxx | x,xxx | x,xxx |
| Plan members | x,xxx | x,xxx | x,xxx | x,xxx |
| Interest and dividends | x,xxx | x,xxx | x,xxx | x,xxx |
| Others | x,xxx | x,xxx | x,xxx | x,xxx |
| Prepaid expenses | | | | |
| Investments, at fair value: (Note x) | | | | |
| U.S. Government obligations | xx,xxx,xxx | xx,xxx | xx,xxx,xxx | xx,xxx,xxx |
| Municipal Bond | xx,xxx,xxx | xx,xxx | xx,xxx,xxx | xx,xxx,xxx |
| Domestic corporate bonds | xx,xxx,xxx | xx,xxx | xx,xxx,xxx | xx,xxx,xxx |
| International bonds | xx,xxx,xxx | xx,xxx | xx,xxx,xxx | xx,xxx,xxx |
| Domestic stocks | xx,xxx,xxx | xx,xxx | xx,xxx,xxx | xx,xxx,xxx |
| International stocks | xx,xxx,xxx | xx,xxx | xx,xxx,xxx | xx,xxx,xxx |
| Real estate | xx,xxx | xx,xxx | xx,xxx | xx,xxx |
| Total investments | xxx,xxx | xx,xxx | xxx,xxx | xxx,xxx |
| Total assets | x,xxx,xxx | xx,xxx | x,xxx,xxx | x,xxx,xxx |

Chapter 17: Financial Reports

Liabilities:

| | | | | |
|---------------------------------------|----------------|---------------|----------------|----------------|
| Accounts payable and accrued expenses | x,xxx | x,xxx | x,xxx | x,xxx |
| Retirement System Liabilities | x,xxx | x,xxx | x,xxx | x,xxx |
| Securities lending collateral | <u>xxx,xxx</u> | <u>xx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> |
| Total liabilities | <u>xxx,xxx</u> | <u>xx,xxx</u> | <u>xxx,xxx</u> | <u>xxx,xxx</u> |

Net Position:

| | | | | |
|--|--------------------|-------------------|--------------------|--------------------|
| Net assets held in trust for pension benefits and post-employment health care benefits | <u>\$x,xxx,xxx</u> | <u>\$ xxx,xxx</u> | <u>\$x,xxx,xxx</u> | <u>\$x,xxx,xxx</u> |
|--|--------------------|-------------------|--------------------|--------------------|

See accompanying notes to financial statements.

Combining Statement of Changes in Net Position

District
Employee Retirement System Trust Fund
Combining Statement of Changes in Net Position
For Year Ended June 30, 20xx
(with summarized comparative financial information as of June 30, 20xx-1)
(Dollars in thousands)

| | 20xx | | | 20xx-1 Total |
|--|-----------------------------|---|-----------|-----------------|
| | Pension plan benefits | Post- Employment healthcare benefits | Total | |
| Additions: | | | | |
| Contributions | | | | |
| Employer | \$ xx,xxx | \$ xx,xxx | \$ xx,xxx | \$ xx,xxx |
| Plan Members | xx,xxx | xx,xxx | xx,xxx | xx,xxx |
| Total contributions | xx,xxx | xx,xxx | xx,xxx | xx,xxx |
| Investment income: | | | | |
| Net appreciation (depreciation) in fair value of investments | | | | |
| investments: | | | | |
| Traded securities | xx,xxx | xx,xxx | xx,xxx | xx,xxx |
| Real estate | x,xxx | x,xxx | x,xxx | x,xxx |
| Interest | x,xxx | x,xxx | x,xxx | x,xxx |
| Dividends | xx,xxx | xx,xxx | xx,xxx | xx,xxx |
| Real estate operating income, net | xx,xxx | xx,xxx | xx,xxx | xx,xxx |
| Total investment income | xxx,xxx | xx,xxx | xxx,xxx | xxx,xxx |
| Less: | | | | |
| Investment Expense | (x,xxx) | (x,xxx) | (x,xxx) | (x,xxx) |
| Borrowers' rebates and other agent fees on securities lending transactions | (x,xxx) | (x,xxx) | (x,xxx) | (x,xxx) |
| Net Investment Income | xx,xxx | xx,xxx | xx,xxx | xx,xxx |
| Total Additions, net | xxx,xxx | xx,xxx | xxx,xxx | xxx,xxx |
| Deductions: | | | | |
| Benefits paid | x,xxx | x,xxx | x,xxx | x,xxx |
| Refunds of contributions | xx,xxx | xx,xxx | xx,xxx | xx,xxx |
| Administrative expenses | xx,xxx | xx,xxx | xx,xxx | xx,xxx |
| Total deductions | xxx,xxx | xx,xxx | xxx,xxx | xxx,xxx |
| Change in Net Position | xx,xxx | xx,xxx | xx,xxx | xx,xxx |

Net Position:

Beginning of year

x,xxx,xxx xxx,xxx x,xxx,xxx x,xxx,xxx

End of Year

\$ x,xxx,xxx \$xxx,xxx \$x,xxx,xxx \$x,xxx,xxx

Examples by Type of Enterprise Districts

Sample 42 Statement—Other Districts

GENERAL DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 20xx AND 20xx-1
(DOLLARS IN THOUSANDS)

| | District | |
|--|------------------|--------------------|
| | June 30, 20xx | June 30, 20xx-1 |
| Operating revenue: | | |
| Charges for Services | \$xxx,xxx | \$xxx,xxx |
| Governmental Aid | xx,xxx | xx,xxx |
| Miscellaneous | x,xxx | x,xxx |
| | <hr/> | <hr/> |
| Total operating revenue | xxx,xxx | xxx,xxx |
| Operating expense: | | |
| Personal Services, including annual net pension fund expense | xx,xxx | xx,xxx |
| Material | xx,xxx | xx,xxx |
| Professional Services | xx,xxx | xx,xxx |
| Utilities | xx,xxx | xx,xxx |
| Fuel | xx,xxx | xx,xxx |
| Repairs and Maintenance | xx,xxx | xx,xxx |
| Other Service and Supplies | xx,xxx | xx,xxx |
| Insurance Expense | (xx,xxx) | (xx,xxx) |
| Depreciation on utility plant and vehicle | xx,xxx | xx,xxx |
| | <hr/> | <hr/> |
| Total operating expense | xxx,xxx | xxx,xxx |
| Net operating income | x,xxx | x,xxx |
| Nonoperating income (expense): | | |
| Investment income | x,xxx | x,xxx |
| Taxes and subventions | xx,xxx | xx,xxx |
| Interest and amortization of bond expenses, net of capitalized interest of \$x,xxx and \$x,xxx for the Water System in 2015 and 2014, respectively | (xx,xxx) | (xx,xxx) |
| Revenue from service concession arrangement x,xxx | x,xxx | x,xxx |
| | <hr/> | <hr/> |
| Total nonoperating income (expense), net | xx,xxx | xx,xxx |
| Income (loss) before capital contributions | xx,xxx | xx,xxx |
| Capital contributions | <hr/> | <hr/> |
| Change in net position | xx,xxx | xx,xxx |
| Total net position - beginning | x,xxx,xxx | x,xxx,xxx |
| Prior period adjustment per implementation of GASB 68 (Note 1R) | (xxx,xxx) | (xxx,xxx) |
| Total net position - ending | <hr/> <hr/> | <hr/> <hr/> |
| | \$ x,xxx,xxx | \$ x,xxx,xxx |

See accompanying notes to financial statements

Sample 43 Statement—Water Utility District

WATER DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 20xx AND 20xx-1
(DOLLARS IN THOUSANDS)

| | Water District | |
|--|---------------------|---------------------|
| | June 30, 20xx | June 30, 20xx-1 |
| Operating revenue: | | |
| Water | \$xxx,xxx | \$xxx,xxx |
| Power | x,xxx | x,xxx |
| | <hr/> | <hr/> |
| Total operating revenue | xxx,xxx | xxx,xxx |
| Operating expense: | | |
| Raw water and water purchases | xx,xxx | xx,xxx |
| Water treatment and distribution | xx,xxx | xx,xxx |
| Recreation areas, net | xx,xxx | xx,xxx |
| Customer accounting and collecting | xx,xxx | xx,xxx |
| Financial and risk management | xx,xxx | xx,xxx |
| Facilities management | xx,xxx | xx,xxx |
| General administration | xx,xxx | xx,xxx |
| Pension expense (Note 8G) | (xx,xxx) | (xx,xxx) |
| Depreciation on utility plant and vehicle | xx,xxx | xx,xxx |
| | <hr/> | <hr/> |
| Total operating expense | xxx,xxx | xxx,xxx |
| Net operating income | x,xxx | x,xxx |
| Nonoperating income (expense): | | |
| Investment income | x,xxx | x,xxx |
| Taxes and subventions | xx,xxx | xx,xxx |
| Interest and amortization of bond expenses, net of capitalized interest of \$x,xxx and \$x,xxx for the Water System in 2015 and 2014, respectively | (xx,xxx) | (xx,xxx) |
| Increase (decrease) of equity in JPA partnership fund | (x,xxx) | (x,xxx) |
| Other income | xx,xxx | xx,xxx |
| | <hr/> | <hr/> |
| Total nonoperating income (expense), net | xx,xxx | xx,xxx |
| Income (loss) before capital contributions | xx,xxx | xx,xxx |
| Capital contributions | xx,xxx | xx,xxx |
| Change in net position | xx,xxx | xx,xxx |
| Total net position - beginning | x,xxx,xxx | x,xxx,xxx |
| Prior period adjustment per implementation of GASB 68 (Note 1R) | (xxx,xxx) | (xxx,xxx) |
| Total net position - ending | <u>\$ x,xxx,xxx</u> | <u>\$ x,xxx,xxx</u> |

See accompanying notes to financial statements

Sample 44 Statement—Harbor and Port

HARBOR AND PORT DISTRICT
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 FOR THE YEARS ENDED JUNE 30, 20xx AND 20xx-1
 (DOLLARS IN THOUSANDS)

| | Harbor and Port | |
|--|---------------------|---------------------|
| | June 30, 20xx | June 30, 20xx-1 |
| Operating revenue: | | |
| Marine | \$xxx,xxx | \$xxx,xxx |
| Harbor | x,xxx | x,xxx |
| Other Sales | xxx | xxx |
| Total operating revenue | <u>xxx,xxx</u> | <u>xxx,xxx</u> |
| Operating expense: | | |
| Operating and Security | xx,xxx | xx,xxx |
| Maintenance | xx,xxx | xx,xxx |
| Customer accounting and collecting | xx,xxx | xx,xxx |
| Financial and risk management | xx,xxx | xx,xxx |
| Facilities management | xx,xxx | xx,xxx |
| General administration | xx,xxx | xx,xxx |
| Pension expense (Note 8G) | (xx,xxx) | (xx,xxx) |
| Depreciation on utility plant and vehicle | xx,xxx | xx,xxx |
| Total operating expense | <u>xxx,xxx</u> | <u>xxx,xxx</u> |
| Net operating income | <u>x,xxx</u> | <u>x,xxx</u> |
| Nonoperating income (expense): | | |
| Investment income | x,xxx | x,xxx |
| Taxes and subventions | xx,xxx | xx,xxx |
| Interest and amortization of bond expenses, net of capitalized interest of \$x,xxx and \$x,xxx for the Water System in 2015 and 2014, respectively | (xx,xxx) | (xx,xxx) |
| Increase (decrease) of equity in JPA partnership fund | (x,xxx) | (x,xxx) |
| Other income | xx,xxx | xx,xxx |
| Total nonoperating income (expense), net | <u>xx,xxx</u> | <u>xx,xxx</u> |
| Income (loss) before capital contributions | xx,xxx | xx,xxx |
| Capital contributions | <u>xx,xxx</u> | <u>xx,xxx</u> |
| Change in net position | xx,xxx | xx,xxx |
| Total net position - beginning | x,xxx,xxx | x,xxx,xxx |
| Prior period adjustment per implementation of GASB 68 (Note 1R) | <u>(xxx,xxx)</u> | <u>(xxx,xxx)</u> |
| Total net position - ending | <u>\$ x,xxx,xxx</u> | <u>\$ x,xxx,xxx</u> |

See accompanying notes to financial statements

Sample 45 Statement—Airport

AIRPORT DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 20xx AND 20xx-1
(DOLLARS IN THOUSANDS)

| | Airport | |
|--|---------------------|---------------------|
| | June 30, 20xx | June 30, 20xx-1 |
| Operating revenue: | | |
| Landing Fees | \$xxx,xxx | \$xxx,xxx |
| Aircraft Storage Fees | x,xxx | x,xxx |
| Fuel Flowage Fees | x,xxx | x,xxx |
| Concessions | x,xxx | x,xxx |
| Other Sales | xxx | xxx |
| Total operating revenue | <u>xxx,xxx</u> | <u>xxx,xxx</u> |
| Operating expense: | | |
| Landing Areas | xx,xxx | xx,xxx |
| Terminal Building and Areas | xx,xxx | xx,xxx |
| General Shops and Equipment | xx,xxx | xx,xxx |
| Taxes | | |
| Financial and risk management | xx,xxx | xx,xxx |
| Other Operating Expenses | xx,xxx | xx,xxx |
| General administration | xx,xxx | xx,xxx |
| Pension expense (Note 8G) | (xx,xxx) | (xx,xxx) |
| Depreciation on utility plant and vehicle | xx,xxx | xx,xxx |
| Total operating expense | <u>xxx,xxx</u> | <u>xxx,xxx</u> |
| Net operating income | <u>x,xxx</u> | <u>x,xxx</u> |
| Nonoperating income (expense): | | |
| Investment income | x,xxx | x,xxx |
| Taxes and subventions | xx,xxx | xx,xxx |
| Interest and amortization of bond expenses, net of capitalized interest of \$x,xxx and \$x,xxx for the Water System in 2015 and 2014, respectively | (xx,xxx) | (xx,xxx) |
| Other income | xx,xxx | xx,xxx |
| Total nonoperating income (expense), net | <u>xx,xxx</u> | <u>xx,xxx</u> |
| Income (loss) before capital contributions | xx,xxx | xx,xxx |
| Capital contributions | <u>xx,xxx</u> | <u>xx,xxx</u> |
| Change in net position | xx,xxx | xx,xxx |
| Total net position - beginning | x,xxx,xxx | x,xxx,xxx |
| Prior period adjustment per implementation of GASB 68 (Note 1R) | <u>(xxx,xxx)</u> | <u>(xxx,xxx)</u> |
| Total net position - ending | <u>\$ x,xxx,xxx</u> | <u>\$ x,xxx,xxx</u> |

See accompanying notes to financial statements

Sample 46 Statement—Transit

TRANSIT DISTRICT
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 FOR THE YEARS ENDED JUNE 30, 20xx AND 20xx-1
 (DOLLARS IN THOUSANDS)

| | Transit | |
|--|---------------------|---------------------|
| | June 30, 20xx | June 30, 20xx-1 |
| Operating revenue: | | |
| Passanger Fairs | \$xxx,xxx | \$xxx,xxx |
| Special Transit Fairs | x,xxx | x,xxx |
| School Bus Revenues | x,xxx | x,xxx |
| Freight Tariffs | x,xxx | x,xxx |
| Charter Service | xxx | xxx |
| Total operating revenue | <u>xxx,xxx</u> | <u>xxx,xxx</u> |
| Operating expense: | | |
| Labor | xx,xxx | xx,xxx |
| Fringe Benefits | xx,xxx | xx,xxx |
| Services | xx,xxx | xx,xxx |
| Materials and Supplies | xx,xxx | xx,xxx |
| Utilities | xx,xxx | xx,xxx |
| Causalty and Liability | xx,xxx | xx,xxx |
| Taxes | xx,xxx | xx,xxx |
| Service Purchased | xx,xxx | xx,xxx |
| Memberships and Travel | xx,xxx | xx,xxx |
| Expense Transfer | xx,xxx | xx,xxx |
| Lease and Rentals | xx,xxx | xx,xxx |
| Pension expense (Note 8G) | (xx,xxx) | (xx,xxx) |
| Depreciation on utility plant and vehicle | xx,xxx | xx,xxx |
| Total operating expense | <u>xxx,xxx</u> | <u>xxx,xxx</u> |
| Net operating income | <u>x,xxx</u> | <u>x,xxx</u> |
| Nonoperating income (expense): | | |
| Investment income | x,xxx | x,xxx |
| Taxes and subventions | xx,xxx | xx,xxx |
| Interest and amortization of bond expenses, net of capitalized interest of \$x,xxx and \$x,xxx for the Water System in 2015 and 2014, respectively | (xx,xxx) | (xx,xxx) |
| Other income including gain and loss on disposal of assets | xx,xxx | xx,xxx |
| Total nonoperating income (expense), net | <u>xx,xxx</u> | <u>xx,xxx</u> |
| Income (loss) before capital contributions | xx,xxx | xx,xxx |
| Capital contributions | <u>xx,xxx</u> | <u>xx,xxx</u> |
| Change in net position | xx,xxx | xx,xxx |
| Total net position - beginning | x,xxx,xxx | x,xxx,xxx |
| Prior period adjustment per implementation of GASB 68 (Note 1R) | (xxx,xxx) | (xxx,xxx) |
| Total net position - ending | <u>\$ x,xxx,xxx</u> | <u>\$ x,xxx,xxx</u> |

See accompanying notes to financial statements

Sample 47 Statement—Sacramento Electric Utility

ELECTRIC DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 20xx AND 20xx-1
(DOLLARS IN THOUSANDS)

| | Electric | |
|--|---------------------|---------------------|
| | June 30, 20xx | June 30, 20xx-1 |
| Operating revenue: | | |
| Sales of Electricity | \$xxx,xxx | \$xxx,xxx |
| Other Revenues | x,xxx | x,xxx |
| | <hr/> | <hr/> |
| Total operating revenue | xxx,xxx | xxx,xxx |
| Operating expense: | | |
| Production Steam Power Generation | xx,xxx | xx,xxx |
| Production Nuclear Power Generation | xx,xxx | xx,xxx |
| Production Hydraulic Power Generation | xx,xxx | xx,xxx |
| Production Other Power Generation | xx,xxx | xx,xxx |
| Purchased Power | xx,xxx | xx,xxx |
| Customer Services | xx,xxx | xx,xxx |
| General administration | xx,xxx | xx,xxx |
| Pension expense (Note 8G) | (xx,xxx) | (xx,xxx) |
| Depreciation on utility plant and vehicle | xx,xxx | xx,xxx |
| | <hr/> | <hr/> |
| Total operating expense | xxx,xxx | xxx,xxx |
| Net operating income | x,xxx | x,xxx |
| Nonoperating income (expense): | | |
| Investment income | x,xxx | x,xxx |
| Taxes and subventions | xx,xxx | xx,xxx |
| Interest and amortization of bond expenses, net of capitalized interest of \$x,xxx and \$x,xxx for the Water System in 2015 and 2014, respectively | (xx,xxx) | (xx,xxx) |
| Increase (decrease) of equity in JPA partnership fund | (x,xxx) | (x,xxx) |
| Other income | xx,xxx | xx,xxx |
| | <hr/> | <hr/> |
| Total nonoperating income (expense), net | xx,xxx | xx,xxx |
| Income (loss) before capital contributions | xx,xxx | xx,xxx |
| Capital contributions | xx,xxx | xx,xxx |
| Change in net position | xx,xxx | xx,xxx |
| Total net position - beginning | x,xxx,xxx | x,xxx,xxx |
| Prior period adjustment per implementation of GASB 68 (Note 1R) | (xxx,xxx) | (xxx,xxx) |
| Total net position - ending | <u>\$ x,xxx,xxx</u> | <u>\$ x,xxx,xxx</u> |

See accompanying notes to financial statements

Sample 48 Statement—Waste Disposal

WASTE DISPOSAL DISTRICT
 STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 FOR THE YEARS ENDED JUNE 30, 20xx AND 20xx-1
 (DOLLARS IN THOUSANDS)

| | Waste Disposal | |
|--|---------------------|---------------------|
| | June 30, 20xx | June 30, 20xx-1 |
| Operating revenue: | | |
| Service Charges | \$xxx,xxx | \$xxx,xxx |
| Power | x,xxx | x,xxx |
| | <hr/> | <hr/> |
| Total operating revenue | xxx,xxx | xxx,xxx |
| Operating expense: | | |
| Waste - Collection | xx,xxx | xx,xxx |
| Waste - Treatment | xx,xxx | xx,xxx |
| Waste - Disposal | xx,xxx | xx,xxx |
| Customer accounting and collecting | xx,xxx | xx,xxx |
| Financial and risk management | xx,xxx | xx,xxx |
| Facilities management | xx,xxx | xx,xxx |
| General administration | xx,xxx | xx,xxx |
| Pension expense (Note 8G) | (xx,xxx) | (xx,xxx) |
| Depreciation on utility plant and vehicle | xx,xxx | xx,xxx |
| | <hr/> | <hr/> |
| Total operating expense | xxx,xxx | xxx,xxx |
| Net operating income | x,xxx | x,xxx |
| Nonoperating income (expense): | | |
| Investment income | x,xxx | x,xxx |
| Taxes and subventions | xx,xxx | xx,xxx |
| Interest and amortization of bond expenses, net of capitalized interest of \$x,xxx and \$x,xxx for the Water System in 2015 and 2014, respectively | (xx,xxx) | (xx,xxx) |
| Increase (decrease) of equity in JPA partnership fund | (x,xxx) | (x,xxx) |
| Other income | xx,xxx | xx,xxx |
| | <hr/> | <hr/> |
| Total nonoperating income (expense), net | xx,xxx | xx,xxx |
| Income (loss) before capital contributions | xx,xxx | xx,xxx |
| Capital contributions | xx,xxx | xx,xxx |
| Change in net position | xx,xxx | xx,xxx |
| Total net position - beginning | x,xxx,xxx | x,xxx,xxx |
| Prior period adjustment per implementation of GASB 68 (Note 1R) | (xxx,xxx) | (xxx,xxx) |
| Total net position - ending | <u>\$ x,xxx,xxx</u> | <u>\$ x,xxx,xxx</u> |

See accompanying notes to financial statements

Sample 49 Statement—Multiple Enterprise Districts

DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014
(DOLLARS IN THOUSANDS)

| | Water System | | Sewer System | | Total | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 | June 30, 2015 | June 30, 2014 |
| Operating revenue: | | | | | | |
| Water | \$ xxx,xxx | \$ xxx,xxx | - | - | \$ xxx,xxx | \$ xxx,xxx |
| Sewer | - | - | \$xx,xxx | \$xx,xxx | \$xx,xxx | \$xx,xxx |
| Power | x,xxx | x,xxx | x,xxx | x,xxx | xx,xxx | xx,xxx |
| Other facilities charges | - | - | xx,xxx | xx,xxx | xx,xxx | xx,xxx |
| Total operating revenue | xxx,xxx | xxx,xxx | xx,xxx | xx,xxx | xxx,xxx | xxx,xxx |
| Operating expense: | | | | | | |
| Raw water and water purchases | xx,xxx | xx,xxx | - | - | xx,xxx | xx,xxx |
| Water treatment and distribution | xxx,xxx | xxx,xxx | - | - | xxx,xxx | xxx,xxx |
| Recreation areas, net | x,xxx | x,xxx | - | - | x,xxx | x,xxx |
| Sewer lines and pumping | - | - | xx,xxx | xx,xxx | xx,xxx | xx,xxx |
| Sewer treatment plant operations | - | - | xx,xxx | xx,xxx | xx,xxx | xx,xxx |
| Customer accounting and collecting | xx,xxx | xx,xxx | x,xxx | x,xxx | xx,xxx | xx,xxx |
| Financial and risk management | xx,xxx | xx,xxx | xxx | xxx | xx,xxx | xx,xxx |
| Facilities management | x,xxx | x,xxx | - | - | x,xxx | x,xxx |
| General administration | xx,xxx | xx,xxx | x,xxx | x,xxx | xx,xxx | xx,xxx |
| Pension expense (Note 8G) | (xx,xxx) | - | (x,xxx) | - | (xx,xxx) | - |
| Depreciation on utility plant and vehicle | xx,xxx | xx,xxx | xx,xxx | xx,xxx | xxx,xxx | xxx,xxx |
| Total operating expense | xxx,xxx | xxx,xxx | xx,xxx | xx,xxx | xxx,xxx | xxx,xxx |
| Net operating income | xx,xxx | xx,xxx | x,xxx | x,xxx | xx,xxx | xx,xxx |
| Nonoperating income (expense): | | | | | | |
| Investment income | x,xxx | x,xxx | x,xxx | x,xxx | x,xxx | x,xxx |
| Taxes and subventions | xx,xxx | xx,xxx | xx,xxx | xx,xxx | xx,xxx | xx,xxx |
| Interest and amortization of bond expenses, net of capitalized interest of \$x,xxx and \$x,xxx for the Water System and \$x,xxx and \$x,xxx for the Wastewater System in 20xx and 20xx-1, respectively | (xx,xxx) | (xx,xxx) | (xx,xxx) | (xx,xxx) | (xx,xxx) | (xx,xxx) |
| Increase (decrease) of equity in JPA partnership fund | (xxx) | (xxx) | (xxx) | (xxx) | (xxx) | (xxx) |
| Other income | xx,xxx | xx,xxx | xx,xxx | xx,xxx | xx,xxx | xx,xxx |
| Total nonoperating income (expense), net | (xx,xxx) | (xx,xxx) | (xx,xxx) | (xx,xxx) | (xx,xxx) | (xx,xxx) |
| Income (loss) before capital contributions | xx,xxx | xx,xxx | xx,xxx | xx,xxx | xx,xxx | xx,xxx |
| Capital contributions | xx,xxx | xx,xxx | x,xxx | x,xxx | xx,xxx | xx,xxx |
| Change in net position | xx,xxx | xx,xxx | xx,xxx | xx,xxx | xx,xxx | xx,xxx |
| Total net position - beginning | x,xxx,xxx | x,xxx,xxx | xxx,xxx | xxx,xxx | x,xxx,xxx | x,xxx,xxx |
| Prior period adjustment per implementation of GASB 68 (Note 1R) | (xxx,xxx) | - | (xx,xxx) | - | (xxx,xxx) | - |
| Total net position - ending | \$x,xxx,xxx | \$x,xxx,xxx | \$xxx,xxx | \$xxx,xxx | \$x,xxx,xxx | \$x,xxx,xxx |

See accompanying notes to financial statements

Chapter 18: Regulatory Accounting Framework

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Chapter 18: Regulatory Accounting Framework

Introduction

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

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

Districts That May Follow Other Uniform Systems of Accounts

18.01 Public Utility Districts

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

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

To review accounting guidance prescribed by the CPUC, refer to the following website at <http://www.cpuc.ca.gov>.

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

18.02 Transit Districts

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

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

18.03 Hospital Districts

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

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

18.04 Municipal Utility District Act California Law

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

Appendix A: Glossary

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Appendix A: Glossary

This glossary is a practical and easy-to-use guide for terms used in the *Special District Uniform Accounting and Reporting Procedures* (SPD) manual. While every effort has been made to present accurate and up-to-date definitions, this glossary should only be used as a resource, not as an authority. Whenever a definition is specifically applicable to special districts, this icon ([SPD]) will show up next to the term.

The following acronyms are used throughout the SPD manual:

| | |
|-------|--|
| AICPA | American Institute of Certified Public Accountants |
| AcSEC | Accounting Standards Executive Committee |
| APB | Accounting Principles Board |
| CAFR | Comprehensive Annual Financial Report |
| CDFA | Catalogue of Federal Domestic Assistance |
| CPA | Certified Practicing Accountant |
| EDP | Electronic Data Processing |
| GAAP | Generally Accepted Accounting Principles |
| GAAS | Generally Accepted Auditing Standards |
| GAGAS | Generally Accepted Government Auditing Standards |
| GAO | General Accountability Office |
| GASB | Governmental Accounting Standards Board |
| GFOA | Government Finance Officers Association |
| GNMA | Government National Mortgage Association |
| IGAS | Interpretation of Governmental Accounting |
| LAFCo | Local Agency Formation Commission |
| NCGA | National Council on Governmental Accounting |
| OPEB | Other Postemployment Benefits |
| SEC | Securities and Exchange Commission |
| SGAC | Statement of Governmental Accounting Concepts |
| SGAS | Statement of Governmental Accounting Standards |
| TB | Technical Bulletin |

Appendix A: Glossary

A

Abatement. A complete or partial cancelation of a levy imposed by a government. Abatements usually apply to tax levies, special assessments, and service charges.

[SPD] Accountability. Term used by GASB to describe a government’s duty to justify the raising and spending of public resources. GASB identified accountability as the “paramount objective” of financial reporting “from which all objectives” flow.

Account. A record of a type of monetary transaction maintained in a ledger. Also sometimes referred to as object (for example, objects of expenditures or revenues). See Object.

[SPD] Accounting Change. A change in 1) an accounting principle, 2) an accounting estimate, or 3) the reporting entity. The correction of an error in previously issued financial statements is not an accounting change.

Account Number. See Coding.

Accounting Period. See Fiscal Period.

[SPD] Accounting Principle. The standards, rules, guidelines and industry-specific requirements for financial reporting.

Accounting Principles Board (APB). The authoritative private-sector standard-setting body that preceded the Financial Accounting Standards Board. The APB issued guidance in the form of opinions.

Accounting Procedures. All processes that discover, record, classify, and summarize financial information to produce financial reports and to provide internal control.

Accounting Standards Executive Committee (AcSEC). AICPA committee authorized to issue Practice Bulletins.

Accounting System. The methods and records established to identify, assemble, analyze, classify, record and report a government’s transactions and to maintain accountability for the related assets and liabilities.

Accounts Payable. A short-term (or current liability) liability account reflecting amounts owed to private persons or organizations for goods and services received by a government (but not including amounts due to other funds of the same government).

Accounts Receivable. A current asset account reflecting amounts due from private persons or organizations for goods and services furnished by a government (but not including amounts due from other funds or other governments).

Accreted Value. A valuation basis for certain investments and debt instruments that report on the balance sheet only that portion of their face value that reflects principal and interest accrued to date.

Accrual Basis. The method of accounting that recognized the financial effect of transactions, events, and inter-fund activity when they occur, regardless of the timing of related cash flows.

Accrued Expenses. Expenses incurred but not paid.

Accrued Interest Payable. A liability account reflecting interest costs incurred but not due until a later date.

Accrued Revenue. Revenues earned but not received. See Modified Accrual Basis.

Accrued Taxes Payable. A liability account reflecting taxes incurred but not due until a later date.

Accrued Salaries and Wages Payable. A liability account reflecting salaries and wages earned by employees but not due until a later date.

Accumulated Depreciation. The amount of a long-term asset's cost that has been allocated to depreciation expense since a time the asset is put into service. A contra-asset account to report the accumulation of periodic credits (depreciation expense) made to reflect the expiration of the estimated service life of capital assets.

[SPD] Acquisition Costs. The costs incurred by the acquiring government to effect a government acquiring a new contract or renewing an existing contract. Acquisition costs include, but are not limited to, fees for legal, accounting, valuation, professional, or consulting services.

[SPD] Acquisition Value. The price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date, or the amount at which liability could be liquidated with the counterparty at the acquisition date. Acquisition value is also referred to as "acquisition costs: adjusted for discounts, incentives, closing costs and other expenditures but before sales tax.

[SPD] Active Employees. Individuals employed at the end of the reporting or measurement period, as applicable.

Activity. Specific and distinguishable service performed by one or more organizational components of a government to accomplish a function for which the government is responsible. (Police is an activity within the public safety function.)

Activity Classification. Expenditure classification according to the specific lines of work performed by organization units. For example, "sewage treatment and disposal," "garbage collection," "garbage disposal," and "street cleaning" are activities performed in carrying out the function of "sanitation." The segregation of the expenditures made for each of these activities constitutes an activity classification.

Actual Accounts. Accounts that show actual financial position and results of operations, such as actual assets, liabilities, fund balances, revenues, expenditures, and expenses, as distinguished from budgetary accounts. See Budgetary Accounts.

[SPD] Actual Contributions. In the context of defined benefit pension and OPEB plans, cash contributions recognized as additions to a pension plan's fiduciary net position.

Actuarial Accrued Liability. In the context of defined benefit pension and OPEB plans, it is the present value of benefits already earned by employees.

Actuarial Assumptions. In the context of defined benefit pension and OPEB plans, the assumptions as to the occurrence of future events affecting pension costs, such as mortality, withdrawal, disablement and retirement; changes in compensation and government provided pension benefits; rates or depreciation; procedures used to determine future entrants for Open Group Actuarial Cost Methods; and other relevant items.

Actuarial Cost Method. A procedure for determining the Actuarial Present Value of pension plan benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of a Normal Cost and Actuarial Accrued Liability.

[SPD] Actuarial Method. Any of several techniques that actuaries use to determine the amounts and timing of contributions needed to finance claims liabilities so that the total contributions plus compounded earnings on them will equal the amounts needed to satisfy claims liabilities. It may or may not include a provision for anticipated catastrophe losses.

Actuarial Section. One of the five sections of a public employee retirement system's CAFR.

[SPD] Actuarial Valuation. In the context of defined benefit pension and OPEB plans, the determination, as of a point in time (the actuarial valuation date), of the service cost, total pension or OPEB liability, and related actuarial present value of projected benefit payments for pensions performed in conformity with Actuarial Standards of Practice unless otherwise specified by the GASB.

[SPD] Actuarial Valuation Date. The date as of which an actuarial valuation is performed.

Actuarial Value of Assets. The value of cash, investments, and other property belonging to a pension plan, as used by the actuary for the purpose of an Actuarial Valuation.

Additions. A term used to describe increases in the net position of fiduciary funds.

Administration Cost. Includes only those direct costs for administration, data processing, collection, and appeal that are incurred by a special district.

Adopted Budget. The budget document formally approved by the board of supervisors after the required public hearings and deliberations on the recommended budget. See Final Budget and Recommended Budget.

Ad Valorem Property Tax. Any assessment imposed on the basis of the value of the real property, including any special ad valorem assessment.

Ad valorem property taxation. Any source of revenue derived from applying a property tax rate to the assessed value of the property.

Advance From _____ Fund. A liability account used to record noncurrent portions of long-term debt owed by one fund to another fund within the same reporting entity. See Due From _____ Fund and Inter-Fund Receivable/Payable.

Advance Refunding. Transaction in which new debt is issued to refinance existing debt (old debt), but the proceeds must be placed in escrow pending call date or maturity (refunding in advance of redemption).

[SPD] Advance Refunding (of Bonds). In an advance refunding transactions, new debt is issued to provide money to pay interest on old, outstanding debt as it becomes due, and to pay the principal on the old debt either as it matures or at an earlier call date. An advance refunding occurs before the maturity or call date of the old debt, and the proceeds of the new debt are invested until the maturity or call date of the old debt. Most advance refunds result in defeasance of debt. Defeasance of debt can be either legal or in substance.

Advance To _____ Fund. An asset account used to record noncurrent portions of a long-term loan from one fund to another fund within the same reporting entity. See Due To _____ Fund and Inter-fund Receivable/Payable.

Adverse Opinion. An opinion stating the auditor's view that the financial statements do not present the financial position fairly, results of operations, or changes in financial position, in conformity with generally accepted accounting principles.

Agency Funds. Use to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, a private organization, or other governments. See Fiduciary funds.

[SPD] Agent Employer. In the context of defined benefit pension and OPEB plans, an employer whose employees are provided with pensions or OPEB through an agent multiple-employer defined benefit pension or OPEB plan.

[SPD] Agent Fees. Amounts paid by a lender to its securities lending agent as compensation for managing its securities lending transactions.

Agent Multiple-Employer Defined Benefit Pension or OPEB Plan. A multiple-employer defined benefit pension (or OPEB) plan in which pension plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.

Allocate. To divide a lump-sum appropriation into parts which are classified as expenditure by specific organization units and/or for specific purposes, activities, or objects.

Allocation. A part of a lump-sum appropriation that is classified as an expenditure by specific organization units and for special purposes, activities, or objects.

Allowance for Uncollectibles. A contra-asset valuation account used to indicate the portion of a receivable not expected to be collected.

Amortization. (1) The portion of the cost of a limited-life or intangible asset charged as an expense during a particular period. (2) The reduction of debt by regular payments of principal and interest sufficient to retire the debt by maturity.

Amortization Schedule. A schedule of debt service payments separating the portions of payments attributable to principal and interest.

Analytical Review. A term used by auditors to describe the process of attempting to determine the reasonableness of financial data by comparisons made with other financial and nonfinancial data

[SPD] Annexation. Changes in the territorial boundaries of governments. An annexation may also be known as reorganization. In a government annexation arrangement, one government extends the bounds of its geographic footprint to include newly incorporated or unincorporated areas. Often, annexations result only in changes in boundaries, and the annexed governments generally do not give up assets or gain relief from liabilities. However, in annexations in which assets, deferred outflows of resources, liabilities, and deferred inflows of resources comprising an operation are transferred, those items are required to be recognized at the carrying amounts reported by the transferring government.

Annual Budget. A budget applicable to a single fiscal year. See Budget and Operating Budget.

Annual Covered Payroll. In the context of defined benefit pension and OPEB plans, all element of annual compensation paid to active employees on which contributions to a plan are based.

Annual Financial Report. A financial report applicable to a single fiscal year.

Annual Operating Budget. See Operating Budget.

[SPD] Annual OPEB Cost. An accrual-basis measure of the periodic cost of an employer's participation in a defined benefit OPEB plan.

Annual Required Contribution of the Employer(s) (ARC). In the context of OPEB, the employer's periodic required contributions to a defined benefit OPEB plan, calculated in accordance with the parameters.

Annuities Payable. A liability account reflecting the amount of annuities due and payable to retired employees in a public employee retirement system.

Annuity. A series of equal payments made or received at equal intervals over a specified period of time.

APB. See Accounting Principles Board.

[SPD] Application Development Stage. In the context of internally generated computer software, the stage of development that includes the design of the chosen path, including software configuration and software interfaces, coding, installation to hardware, and testing, including the parallel processing phase.

[SPD] Appoint. To select members of a governing body, as long as the ability to do so is not severely limited by a nomination process, or to confirm appointments made by others, provided the confirmation is more than a formality or part of a ministerial responsibility.

Apportionment. Division and sharing carried out according to a plan or formula.

Appraise. To estimate the value, particularly the value of property. If the property is valued for purposes of taxation, the narrower term *assess* is substituted.

[SPD] Appropriated Fund Balance. A portion of existing fund balance that is incorporated into the subsequent year's budget to "balance" expected expenditures in excess of expected revenues.

Appropriation. A line item giving spending authority in a budget.

Appropriation Expenditure. An expenditure chargeable to an appropriation. As virtually all expenditures of governments are chargeable to appropriations, the term *expenditures* by itself is widely and properly used.

Arbitrage. In the context of government finance, the reinvestment of the proceeds of tax-exempt securities in materially higher-yielding taxable securities.

Assess. To establish an official property value for taxation. See Appraise.

Assessed Value. One hundred percent of full value for the 1981-82 fiscal year and the following fiscal years. For 1980-81 and prior fiscal years, the assessed value was 25% of the full value.

Assesse. The person to whom the property tax is assessed.

Assessment. (1) The process of making the official valuation of property for taxation. (2) The valuation placed on property as a result of this process. See Special Assessment.

Asset. Resources with present service capacity that the government presently controls.

[SPD] Asset Impairment. A significant, unexpected decline in the service utility of a capital asset.

Assigned Fund Balance. Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by 1) the governing body itself, or 2) a body (a budget or finance committee, for examples) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.

[SPD] Assignment. In the context of hedge accounting, an assignment occurs when a swap agreement is amended to replace an original swap counterparty, or the swap counterparty's credit support provider, but all the other terms of the swap agreement remain unchanged.

Audit. A methodical examination of the use of resources. An audit concludes in a written report of its findings. An audit is a test of management's accounting system to determine the extent to which internal accounting controls are both available and being used. See also Internal Auditing, Independent Audit, Financial Audit, Program Compliance Audit, Single Audit, and Performance Auditing.

Audit Committee. A group of individuals charged by the governing body with overseeing how management fulfills its responsibility for internal control and financial reporting.

Audit Finding. In the context of a financial audit, a weakness in internal controls or an instance of noncompliance with applicable laws and regulations that are presented in the audit report in conformity with GAGAS. A typical audit finding is composed of a statement of the condition (i.e., weakness or instance of noncompliance) and the criterion or criteria used to define it, an explanation of the cause of the condition, a discussion of its results, and recommendations for improvement. Findings ordinarily are presented together with a response from management stating management's concurrence or disagreement with each finding and its plan for corrective action.

Audit Guides. Series of AICPA publications, typically regarded as Nonauthoritative literature according to the GAAP hierarchy. In the public sector, a commonly referenced publication is the *State and Local Governments – Audit and Accounting Guide*.

Audit Program. A detailed outline of work to be performed and procedures to be followed in any given audit.

Auditor's Report. In the context of a financial audit, a statement by the auditor describing the scope of the audit and the auditing standards applied in the examination and setting forth the auditor's opinion on the fairness of presentation of the financial information in conformity with GAAP or some other comprehensive basis of accounting.

Audit Scope. In the context of a financial statement audit, the specific contents of a financial report for which the independent auditor offers an opinion.

Auditor. See Internal Auditor and Independent Auditor.

Auditor-Controller. If the office of the controller is established by the county, then the county auditor is the ex-officio controller, charged with the additional duties of auditing and statistical and financial reporting. See County Auditor or Director of Finance.

Auditor's Opinion. An expression in the audit report of the auditor's position on whether the financial information of the entity is presented fairly, in all material respects, in conformity with generally accepted accounting principles (or with other specified accounting principles applicable to the auditee).

Authority. A government or public agency created to perform a single function or a restricted group of related activities. Usually, such units are financed from service charges, fees, and tolls, but in some instances they also have taxing powers. An authority may be completely independent of other governments or partially dependent on other governments for its financing or the exercise of certain powers. See Special District.

Available Financing. In governmental fund types, the sum of the components that are available to meet the financing requirements for the accounting period involved. Available Financing includes unassigned fund balance, decreases in other fund balance classifications (non-spendable, restricted, committed and assigned), revenues, other financing sources, and transfers in. This is a conventional term and should not be used in the financial statement presentation.

Available Fund Balance. For budgetary presentation purposes, that portion of the governmental type fund balance which is available for financing the budget requirements for the accounting period involved. This is a conventional term, which is synonymous with the accepted term *unassigned fund balance*, of the general fund, and for other governmental fund types, the portion of the assigned fund balance being used to finance budget requirements.

Availability Criterion. The requirement under the modified accrual basis of accounting that revenues be recognized only if they are collected or collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Availability Period. The designated period immediately following the close of the fiscal year by the end of which cash must be collected for related revenue to be recognized under the modified accrual basis of accounting.

[SPD] Available Revenue. Money that is available for spending and saving. Also referred to as Disposable Income.

B

Balance sheet. Report of information about the current financial resources (assets, liabilities, and fund balances) of each major governmental fund and for nonmajor governmental funds in the aggregate and totaled as of the reporting date.

Bank Balance. In the context of GASB Statement No. 3, Deposits With Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements, the amount credited by a financial institution to the government's account as opposed to the government's own ledger balance for the account (e.g., if checks have been written against an account but have not yet cleared the bank, the ledger balance would be lower than the bank balance).

Basic Financial Statements (BFS). The core required financial statements of a government, including management's discussion and analysis, government-wide financial statements, fund financial statements, notes to the financial statements and required supplementary information other than the management's discussion and analysis. See [Financial Statements](#).

Basis of Accounting. The timing of recognition for financial reporting purposes when the effects of transactions or events should be recognized in financial statements.

Basis of Budgeting. Method used to determine when revenues and expenditures are recognized for budgetary purposes.

Betterment. Addition made to, or change made in, a capital asset, other than maintenance, to prolong its life or to increase its efficiency or capacity. The cost of the addition or change normally is added to the book value of the asset. The term improvement is preferred.

Bill. A term used to denote a law or statute introduced by certain legislative bodies. A bill has greater legal formality and standing than a resolution. See [Appropriation Bill](#), [Ordinance](#), [Resolution](#), and [Order](#).

Blending (Blended). The method of reporting the financial data of a component unit that presents the component unit's balances and transactions in a manner similar to the presentation of the balances and transactions of the primary government.

Bond. A written promise to pay a specified sum of money, called the *face value* or *principal amount*, at a specified date or dates in the future, called the *maturity date(s)*, together with periodic interest at a specified rate. Sometimes, however, all or a substantial portion of the interest is included in the face value of the security. The difference between a note and a bond is that the latter is issued for a longer period and requires greater legal formality.

Bond Anticipation Note (BAN). Short-term, interest-bearing note issued by a government in anticipation of bond proceeds to be received at a later date. The note is retired from proceeds of the bonds to which it is related.

Bond Covenant. A legally enforceable promise made by an issuer of bonds to the bondholders, normally contained in the bond resolution or indenture (e.g., pledged revenues).

Bond Discount. The difference between the present value and the face amount of bonds when the former is less than the latter. In common usage, the term also often includes issuance costs withheld from the bond proceeds by the underwriter.

Bonds Issued. Bonds sold by the government.

Bonds Payable. Generally, the face value of bonds issued and unpaid. In the case of deep-discount and zero-coupon bonds, however, only the accreted value of the security is reported as bonds payable on the balance sheet.

Book Entry. A system that eliminates the need for physically transferring bearer-form paper or registering securities by using a central depository facility.

Book Value. Value as shown by books of account. In the case of assets that are subject to reduction by valuation allowances, “book value” refers to cost or stated value less the appropriate allowance. Sometimes a distinction is made between “gross book value” and “net book value,” the former designating value before deduction of related allowances and the latter the value after their deduction. In the absence of any modifiers, however, the term book value is understood to be synonymous with net book value.

[SPD] Borrower. A broker-dealer or other entity that transfers collateral to a governmental entity in a securities lending transaction.

Budget. A plan of financial operation embodying an estimate of proposed expenditures for a given period and the proposed means of financing them. Used without any modifier, the term usually indicates a financial plan for a single fiscal year. The term *budget* is used in two senses in practice. Sometimes it designates the financial plan presented to the board of supervisors for adoption and sometimes the plan finally approved by that body. See Annual Budget, Capital Budget, Capital Program, Long-term Budget, Operating Budget, Performance Budget, Program Budget and Traditional Budget.

Budget Document. (1) The instrument used by the budget-making authority to present a comprehensive financial program to the appropriating body. The budget document usually consists of three parts. The first part contains a message from the budget-making authority, together with a summary of the proposed expenditures and the means of financing them. The second consists of schedules supporting the summary. These schedules show in detail past years’ actual revenues, expenditures, and other data used in making the estimates. The third part is composed of drafts of the appropriation, revenue, and borrowing measures necessary to put the budget into effect. (2) The instrument used to present the plan of financial operations of the county and of the special district whose affairs and finances are under the supervision and control of the board of supervisors.

Budgetary Accounts. Special accounts used to achieve budgetary integration that is not reported in the financial statements. By convention, ALL CAPS commonly are used to designate budgetary accounts. The most common budgetary accounts are Estimated Revenues, Appropriations, and Encumbrances.

Budgetary Basis of Accounting. The method used to determine when revenues and expenditures are recognized for budgetary purposes.

Budgetary Comparison. Schedules presented as required supplementary information for the general fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedule should present both 1) the original and 2) the final appropriated budgets for the reporting period, as well as 3) actual inflows, outflows, and budgetary basis. A separate column to report variances between the final budget and actual amounts is encouraged but not required. Governments may also report the variance between original and final budget amounts.

Budgetary Control. The control or management of a government or enterprise in accordance with an approved budget to keep expenditures within the limitations of available appropriations and available revenues.

Budgetary Reporting. In the context of financial reporting, the requirement to present budgetary comparisons in connection with general purpose external financial reporting. Budgetary reporting is required in connection with the basic financial statements for both the general fund and individual major special revenue funds with annual (or biennial) appropriated budgets. Budgetary reporting also is required within the CAFR to demonstrate compliance at the legal level of control for all governmental funds with annual (or biennial) appropriated budgets.

Buildings and Improvements. A capital asset account reflecting the acquisition cost of permanent structures owned or held by a government, and improvements thereon.

Business-Type Activities. Activities financed in whole or in part by fees charged to external parties for goods and services.

C

Calendar year. The yearly period from the first day of January to the last day of December, inclusive, for which the tax is imposed.

[SPD] California Special Districts Association (CSDA). The not-for-profit association that assists in providing services for all independent special districts throughout California.

[SPD] Call Option. An option that gives its holder the right but not the obligation to purchase a financial instrument or commodity at a certain price for a period of time.

Callable bond. A type of bond with a feature that permits the issuer to pay the obligation before the stated maturity date by giving notice of redemption in a manner specified in the bond contract.

Capital and Related Financing Activities. The 1) acquisition and disposal of capital assets used in providing services or producing goods, 2) borrowing money for acquiring, constructing, or improving capital assets and repaying the amounts borrowed, including interest, and 3) paying for capital assets obtained from vendors on credit.

Capital Assets. Assets including land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

Capital Budget. A plan of proposed capital outlays and the means of financing them. See [Capital Program](#).

Capital Expenditures. Expenditures are resulting in the acquisition of or addition to the government's general capital assets.

Capital Lease. An agreement that conveys the right to use property, plant or equipment, usually for a stated period of time, that meets one or more of the criteria set forth in SFAS No. 13 for lease capitalization.

Capital Program. A plan for capital expenditures to be incurred each year over a fixed period of years to meet capital needs arising from the long-term work program or other capital needs. A capital program sets forth each project or other contemplated expenditure in which the government is to have a part and specifies the resources estimated to be available to finance the projected expenditures.

Capital Projects Funds. Funds used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Capitalization Policy. The criteria used by a government to determine which outlays should be reported as capital assets.

Capitalization Threshold. Dollar value at which a government elects to capitalize tangible or intangible assets that are used in operations than that have initial useful lives extending beyond a single reporting period. Generally, capitalization thresholds are applied to individual items rather than groups of items unless the result would be to exclude items that in aggregate would clearly be material to the financial statements.

Carrying Amount (Book Value). The amount at which assets and liabilities are reported in the financial statements. See Book Value.

Cash. In the context of cash flows reporting, not only currency on hand but also demand deposits with banks or other financial institutions. Cash also includes deposits in other kinds of accounts or cash management pools that have the general characteristics of demand deposit accounts.

Cash Basis of Accounting. The basis of accounting that recognizes transactions or events when related cash amounts are received or disbursed.

[SPD] Cash Conduit. A grantee that transmits grantor-supplied monies to sub-recipients without having administrative or direct financial involvement in the program.

Cash Discount. An allowance received or given if payment of an account is completed within a stated period of time.

Cash Equivalent. Cash equivalents are defined as short-term, highly liquid investments that are both 1) readily convertible to known amounts of cash, and 2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

[SPD] Catastrophe. A fire, earthquake, windstorm, explosion, or similar event resulting in substantial losses or an unusually large number of unrelated and unexpected losses occurring in a single period.

Certificates of Participation (COP). Certificates issued for the financing of capital assets. COPs represent undivided interests in the rental payments under a tax-exempt lease.

Certified Public Accountant (CPA). An accountant who has met all the statutory and licensing requirements of a given state for use of that designation. All U.S. states require accountants, at a minimum, to complete successfully a uniform national examination before being allowed to designate themselves as CPAs.

[SPD] Change in Accounting Estimate. Changes in estimates used in accounting are necessary consequences of periodic presentations of financial statements. Preparing financial statements requires estimating the effects of future events. Accounting estimates change as new events occur, as more experience is acquired or as additional information is obtained.

[SPD] Change in Accounting Principle. Adoption of a generally accepted accounting principle different from the one used previously for reporting purposes.

Change in Ownership. A transfer of a percent interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee interest.

[SPD] Chapter 9 (U.S. Bankruptcy Code). Section of the Uniform Commercial Code (UCC) intended to protect a financially distressed government from its creditors while it develops and negotiates a plan for adjusting its debts. Chapter 9 must be approved by a state prior to usage by a government.

[SPD] Charges for Services. The term used for a broad category of program revenues that arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services. Revenues in this category include fees charged for specific services such as water use or garbage collection; licenses and permits, such as dog licenses, liquor licenses, and building permits; operating special assessments, such as for street cleaning or special street lighting; and any other amounts charged to service recipients. Fines and forfeitures are also included in this category because they result from direct charges to those who are otherwise directly affected by a program or service, even though they receive no benefit. Payments from other governments for goods or services—for example, when special district A reimburses special district B for borrowing special district A equipment—also should be reported in this category.

Check. A bill of exchange drawn on a bank and payable on demand; a written order on a bank to pay on demand a specified sum of money to a named person, to his or her order, or to the bearer out of money on deposit to the credit of the maker. A check differs from a warrant in that the latter is not necessarily payable on demand and may not be negotiable. A check differs from a voucher in that the latter is not an order to pay. A voucher-check combines the distinguishing characteristics of a voucher and a check; it shows the propriety of a payment and is an order to pay.

Claim. (1) Potential losses that can arise from a) employment (e.g., workers' compensation and unemployment), b) contractual actions (e.g., delays or inadequate specifications), c) actions of government personnel (e.g., medical malpractice, damage to privately owned vehicles by government-owned vehicles, improper police arrest), and d) governmental properties (e.g., personal injuries, property damage). (2) In the context of insurance, demand payment of a policy benefit because of the occurrence of an insured event, such as the destruction or damage of property and related deaths or injuries.

[SPD] Closed Period. A specific number of years that is counted from one date and declines to zero with the passage of time. For example, if the recognition period initially is five years on a closed basis, four years remain after the first year, three years after the second year, and so forth.

Code. See Coding.

Coding. A system of numbering or otherwise designating accounts, entries, invoices, vouchers, etc., in such a manner that the symbol used reveals quickly certain required information. To illustrate the coding of accounts, numbers in the 400 range could be used for expenditures, numbers between 420 and 430 for expenditures within the public safety function, and the number 421 for expenditures incurred in connection with the police activity classification. Within the police activity classification, the number 421.5 could be used for support services, and the number 421.51 for communications support services. Accordingly, expenditure for police radios would be classified as 421.51 (i.e., expenditures for communications services, within support services, within the police activity classification, within the public safety function).

Collateral. The cash, securities, or letters of credit received by the lender from the borrower as protection against the borrower's failure to return the underlying securities.

Combining Financial Statements. Financial statements that report separate columns for individual funds or component units. Combining financial statements normally are required in a CAFR to support each column in the basic financial statements that aggregate information from more than one fund or component unit.

[SPD] Commitment Fees (Lending Activities). Fees charged for entering into an agreement that obligates the government to make or acquire a loan or to satisfy an obligation of the other party under a specified condition. May include fees for letters of credit and obligation to purchase a loan or group of loans.

Committed Fund Balance. Amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority should be reported as committed fund balance. Those committed amounts cannot be used for any other purpose unless the government removed or changes the specified use by taking the same type of action (for example, internal resolution and/or ordinance) it employed to commit previously those amounts. The authorization specifying the purposes for which amounts can be used should have the consent of both the legislative and executive branches of the government, if applicable. Committed fund balance also should incorporate the contractual obligation to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Commitments. In the context of note disclosure, contingent obligations at the balance sheet date, arising from the terms of executory contracts.

Committee on Accounting Procedure (CAP). The authoritative private-sector standard-setting body that preceded the Accounting Principles Board and the FASB. The CAP issued guidance in the form of Accounting Research Bulletins.

Comparability. The principle according to which differences between financial reports should reflect substantive differences in the underlying transactions or the governmental structure rather than the selection of different alternatives in accounting procedures or practices.

Comparative Data. Information from one or more prior fiscal periods that is provided to enhance the analysis of financial data of the current fiscal period.

Comparative Financial Statements. When a statement of net position and the flows statement are presented for one or more preceding periods, as well as the current period, along with notes to the financial statements for the preceding periods that are repeated to the extent that they continue to be of significance.

Compensated Absences. Accrued vacation and sick leave (and similar entitlements) that will be paid in accordance with the terms and conditions of laws, regulations, and contracts. Compensated absence is earned on the basis of services already performed by employees.

Component Units. Legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, a component unit can be another organization for which the nature and significance of its relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Comprehensive Annual Financial Report (CAFR). Financial report that contains, at a minimum three sections: 1) introductory, 2) financial, and 3) statistical, and whose financial section provides information on each individual fund and component unit.

Condensed Financial Statements. Abbreviated financial statements (condensed in one page) sometimes required by GAAP to be presented within the notes to the financial statements in connection with component units, external investment pools, and segments. In addition, GAAP prescribes the presentation of condensed financial information for the prior fiscal year as part of management's discussion and analysis.

Conduit Debt. Certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing capital financing for a specific third party that is not a part of the issuer's financial reporting entity. Although conduit debt obligations bear the name of the governmental issuer, the issuer has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf they are issued.

Connection Fees. Fees charged to join or to extend an existing utility system. Often referred to as tap fees or system development fees.

Consistency. The notion that once an accounting principle or reporting method is adopted, it will be used for all similar transactions and events.

Construction/Development in Progress. A capital asset account reflecting the cost of construction or development work for projects not yet completed. The terms Construction in Progress and Development in Progress are used when recognizing project expenditures in the capital assets accounting system for the construction of capital assets, such as building and improvements, infrastructure or the development of internally generated intangible assets.

Consumption Method. The method under which inventories are recorded as expenditures/expenses when used. See Purchases Method.

[SPD] Contingency. An existing condition, situation, or set of circumstances involving uncertainty as to possible gain (referred to as a gain contingency) or loss (referred to as a loss contingency) to a government that will ultimately be resolved when one or more future events occur or fail to occur. Resolution of the uncertainty may confirm the acquisition of an asset or the reduction of liability or the loss or impairment of an asset or the incurrence of liability.

Contingency Appropriation. See Appropriation for Contingencies.

Contingent Liabilities. Items may become liabilities as a result of conditions undetermined at a given date, such as guarantees, pending lawsuits, judgments under appeal, unsettled disputed claims, unfilled purchase orders, and uncompleted contracts. Contingent liabilities should be disclosed in the financial statements (including the notes) when there is a reasonable possibility that a loss may have been incurred. Guarantees, however, should be disclosed even though the possibility of loss may be remote.

Continuing Appropriation. An appropriation that, once established, is automatically renewed without further legislative action, period after period, until altered or revoked. The term should not be confused with Indeterminate Appropriation.

[SPD] Contributions. In the context of defined benefit pension and OPEB plans, contributions are additions to a pension or OPEB plan's fiduciary net position for amounts from employers, nonemployer contributing entities (for example, state government contributions to a local government pension or OPEB plan), or employees.

Control Account. An account in the general ledger where there is recorded the aggregate of debit and credit postings to a number of related accounts called *subsidiary accounts*. For example, Taxes Receivable is a control account supported by the aggregate of individual balances in individual property taxpayers' subsidiary accounts. See General Ledger and Subsidiary Account.

Controller. See Auditor-Controller.

[SPD] Correction of an Error. Changes to previously issued financial statements after discovering mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time the financial statements were prepared.

Cost. The amount of money or other consideration exchanged for property or services.

Cost Accounting. The method of accounting that provides for the assembling and recording of all of the elements of cost incurred to accomplish a purpose, carry on an activity or operation, or complete a unit of work or a specific job.

Cost Ledger. A subsidiary record wherein each project, job production center, process, operation, product, or service is given a separate account to which all items entering into its cost are posted in the required detail. Such accounts should be arranged and kept such that the results shown in them may be reconciled with and verified by a control account or accounts in the general books.

[SPD] Cost of Living Adjustments. Postemployment benefit changes intended to adjust benefit payments for the effects of inflation.

Cost Records. All ledgers, supporting records, schedules, reports, invoices, vouchers, and other records and documents reflecting the cost of projects, jobs, production centers, processes, operations, products, or services, or the cost of any of the component parts thereof.

Cost Reimbursement Basis. Setting of charges so that costs are systematically recovered on a break-even basis over time.

Cost-Sharing Multiple-Employer Defined Benefit Pension or OPEB plan. A multiple-employer defined benefit pension or OPEB plan that is administered through an irrevocable trust and in which the pensions or OPEB obligations to the employees of more than one employer are pooled and pensions or OPEB assets can be used to pay the benefits of pensions or OPEB through the pension or OPEB plan.

Cost Unit. A term used in cost accounting to designate the unit of product or service whose cost is computed. These units are selected for the purpose of comparing the actual cost with a standard cost or with actual costs of units produced under different circumstances or at different places and times. See Unit Cost and Work Unit.

Counterparty. The party that pledges collateral or repurchase agreement securities to the government or that sells investments to or buys them for the government.

[SPD]Credit Risk. The risk that an issuer or counterparty to an investment will not fulfill its obligations.

Current. As applied to budgeting and accounting, the operations of the present fiscal period, as opposed to past or future periods. *Current* usually connotes items likely to be used up or converted into cash within one year.

Current Assets. Resources expected to be realized or consumed within an entity's operating cycle. For more information refer GASB Statement No. 62 (pars. 30 and 31).

Current Costs. In connection with municipal solid-waste landfills and pollution remediation obligations, the amount that would be paid if all equipment, facilities, and services included in the estimate of the obligation were acquired during the current period.

Current Financial Resources Measurement Focus. Measurement focus where the aim of a set of financial statements is to report the near-term (current) inflows, outflows, and balances of expendable financial resources. The current financial resources measurement focus is unique to accounting and financial reporting for state and local governments and is used solely for reporting the financial position and results of operations of governmental funds.

Current Liabilities. Those items that will be liquidated through the use of current assets. For more information on current liabilities, refer to GASB Statement No. 62 (pars. 34 and 35).

Current Refunding. Refunding transaction when the issuance of new debt immediately replaces previously outstanding issued debt.

Current Resources. Resources available to meet current obligations and expenditures. Examples: current assets, estimated revenues of a particular period not yet realized, transfers from other funds authorized but not received, and, in the case of certain funds, bonds authorized and unissued.

[SPD] Current Value. The amount that would be paid if all equipment, facilities, and services included in the estimate were acquired during the current period.

Customer Deposits. A liability account used in an Enterprise Fund to reflect deposits made by customers as a prerequisite to receiving services and/or goods provided by the fund.

D

Data Processing. (Information Systems) (1) The preparation and handling of information and data from source media through prescribed procedures to obtain such end results as classification, problem solution, summarization, and reports. (2) Preparation and handling of financial information wholly or partially by mechanical or electronic means. See Electronic Data Processing (EDP).

Debt. An obligation resulting from the borrowing of money or from the purchase of goods and services. Debts of governments include bonds, time warrants, and notes. See Accounts Payable, Bonds, Note Payable, and General Long-Term Debt.

Debt Extinguishments. See Advance Refunding Bonds, Defeasance, and In-Substance Defeasance of Debt.

Debt Limit. The maximum amount of outstanding gross or net debt legally permitted.

Debt Proceeds. The difference between the face amount of debt and the issuance discount or the sum of the face amount and the issuance premium. Debt proceeds differ from cash receipts to the extent issuance costs, such as underwriters' fees, are withheld by the underwriter.

Debt Ratios. Comparative statistics illustrating the relation between the issuer's outstanding debt and such factors as its tax base, income, or population. These ratios often are used as part of the process of determining the credit rating of an issue, especially with general obligation bonds.

Debt Service. Appropriations required to pay the cost of interest and redemption charges, including the funding of any reserve or sinking fund requirements on indebtedness existing or legally authorized as of January 1, 1979, or on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity, voting in an election for such purpose.

Debt Service Fund. Governmental Fund used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should be used to report resources if doing so is legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in debt service funds.

Debt Service Fund Requirements. The resources that must be provided for a debt service fund so that all principal and interest payments can be made in full and on schedule.

Debt Service Requirements. The amount of money required to pay interest on outstanding debt, serial maturities of principal for serial bonds, and required contributions to accumulate money for future retirement of term bonds.

Deduction. A term used to describe decreases in the net position of fiduciary funds.

Defaulted Taxes. Delinquent secured property taxes that become subject to redemption penalties and fees as of July 1st. Property, by operation of law, becomes subject to the Tax Collector's power to sell five years after becoming tax defaulted.

Defeasance. In the context of financial reporting, netting of outstanding liabilities and related assets on the statement of financial position. Most refundings result in the defeasance of the refunded debt. Defeasance also is sometimes encountered in conjunction with annuity contracts purchased in connection with lottery prizes and settlements of claims and judgments.

Deferred Inflow(s) of Resources. An acquisition of net assets by the government that is applicable to a future reporting period. A deferred inflow of resources has a negative effect on net position, similar to liabilities.

Deferred Outflow(s) or Resources. A consumption of net assets by the government that is applicable to a future reporting period. A deferred outflow of resources has a positive effect on net position, similar to assets.

[SPD] Deferred Retirement Option Program (DROP). An optional program that permits an employee to elect a calculation of benefit payments based on service credits and salary, as applicable, as of the DROP entry date. The employee continues to provide service by the employer after the DROP entry date; however, the pensions that would have been paid to the employee (if the employee had retired and not entered the DROP) are credited to an individual employee plan until the end of the DROP period.

Deficiency. A general term indicating the amount by which anything falls short of some requirement or expectation. For example, a special districts net assets maybe insufficient to meet its net liabilities. The term should not be used without qualification.

Deficit. (1) The excess of the liabilities of a fund over its assets. (2) The excess of expenditures over revenues during an accounting period; or, in the case of proprietary funds, the excess of expenses over revenues during an accounting period.

Defined Benefit Pension Plan (or OPEB). Pension or OPEB plans that are used to provide defined benefit pensions or OPEB.

Defined Benefit Pensions (or OPEB). Pensions or OPEB for which the income or other benefits that the employee will receive at or after separation from employment are defined by the benefit terms. The pensions or OPEB may be stated as a specified dollar amount or as an amount that is calculated based on one or more factors such as age, years of service, and compensation.

Defined Contribution Pensions (or OPEB) Plan. Pensions or OPEB having terms that 1) provide an individual account for each employee; 2) define the contributions that an employer is required to make (or the credits that it is required to provide) to an active employee's account for period in which that employee renders service; and 3) provide that the pensions an employee will receive will depend only on the contributions (or credits) to the employee's account, actual earnings on investments of those contributions (or credits), and the effects of forfeitures of contributions (or credits) made for other employees, as well as pension plan administrative costs, that are allocated to the employee's account.

Delinquent (Special) Assessments. Special assessments remaining unpaid on and after the date to which a penalty for nonpayment is attached.

Delinquent Taxes. Taxes remaining unpaid on and after the date a penalty for nonpayment is attached. Even though the penalty may be subsequently waived and a portion of the taxes may be abated or canceled, the unpaid balances continue to be delinquent taxes until abated, canceled, paid, or converted into tax liens.

Demand Bonds. Long-term debt issuances with demand ("put") provisions that require the issuer to repurchase the bonds upon notice from the bondholder at a price equal to the principal plus accrued interest. To ensure the ability to redeem the bonds, issuers of demand bonds frequently enter into short-term standby liquidity agreements and long-term "takeout" agreements.

[SPD] Dependent Special District. A special district that has a legislative body that consists, in whole or part, of ex officio members who are officers of a county or city or who are appointees of those officers and not appointed to a fixed term.

Depletion. The allocation of the cost of wasting assets (e.g., timber, oil, coal) to the periods benefited by their use.

Deposit. Money placed with a banking or other institution or with a person, sometimes for a specific purpose.

Depreciation. (1) Expiration in the service life of capital assets, other than wasting assets, attributable to wear and tear, deterioration, the action of the physical elements, inadequacy, and obsolescence. (2) The portion of the cost of a capital asset, other than a wasting asset, charged as an expense during a particular period. In accounting for depreciation, the cost of a capital asset, less any salvage value, is prorated over the estimated service life of such an asset, and each period is charged with a portion of such cost. Through this process, the entire cost of the asset is ultimately charged off as an expense.

Depreciation schedule. A schedule listing the annual allocation of the cost of capital assets to future periods, using one of the depreciation methods acceptable under GAAP.

Derivative. A contract whose value depends on, or derives from, the value of an underlying asset, reference rate, or index. The term also is applied to similar transactions, such as structured financial instruments (for example, mortgage-backed securities).

[SPD] Derivative Instrument. A financial instrument or arrangement, often complex in nature, whereby two parties agree to make payments to each other under different obligation scenarios (e.g., an interest rate swap).

Developer fees. Fees charged to developers to cover, in whole or in part, the anticipated cost of improvements that will be necessary as a result of the development (e.g., parks, sidewalks).

Direct Charges. See Direct Expenses.

Direct Costs. See Direct Expenses.

Direct Costing. Use of actual source data (invoices) to establish the historical cost of a capital asset.

Direct Expenses. An expense that is specifically associated with a service, program, or department and, thus, is clearly identifiable with a particular function.

Direct Labor. The cost of labor directly expended in the production of specific goods or rendition of specific services.

Direct Materials. The cost of materials that become an integral part of a specific manufactured product or which are consumed in the performance of a specific service.

Director of Finance. In the context of government, an office, created by the voters, with the power and duties of the auditor-controller, treasurer, and tax collector, and such other duties as prescribed by the board of supervisors.

Disallowed Costs. Claims for grantor resources that have been rejected by the grantor.

Disclaimer. In the context of an independent auditors report, a report stating that the auditor does not express an opinion on the financial statements. The disclaimer of opinion is appropriate when the auditor has not performed an examination sufficient in scope to enable him or her to form an opinion on the financial statements. A disclaimer of opinion should not be expressed because the auditor believes, on the basis of the examination, that there are material departures from GAAP. In such circumstances, an adverse opinion would be appropriate. See Adverse Opinion and Qualified Opinion.

Discount. In the context of bonds payable and investments, the amount by which par value exceeds the price paid for security. The discount generally represents the difference between the nominal interest rate and the actual or effective rate of return to the investor.

Discount Rate. The rate used to adjust a series of future payments to reflect the time value of money. For the purpose of calculating the pension benefit obligation defined by GASB, this rate is equal to the estimated long-term rate of return on current and future investments of the pension plan. For capitalized leases, the discount rate used by the lessee is the lessee's incremental borrowing rate unless the lessee is aware of the lessor's implicit rate and that rate is less than the lessee's incremental borrowing rate.

[SPD] Discounting. A method used to determine the present value of a future cash payment or series of payments that takes into consideration the time value of money.

Discounted Present Value. See Present Value.

Discrete Presentation (Component Units). Method of reporting financial data of component units separately from financial data of the primary government.

[SPD] Discrete Presentation (Discretely Presented). The method of reporting financial data of component units in a column(s) separate from the financial data of the primary government. An integral part of this method of presentation is that individual component unit supporting information is required to be provided within condensed financial statements within the notes to the reporting entity's basic financial statements or in combining statements in basic financial statements.

Double Entry. A system of bookkeeping requiring that, for every entry made on the debit side of an account or accounts, entry or entries be made in an equal amount to the credit side of another account or accounts.

Due from _____ Fund. An asset account used to indicate amounts owed to a particular fund by another fund for goods sold or services rendered. This account includes only short-term obligations on open account, not inter-fund loans. See Advance from _____ Fund and Inter-fund Receivable/Payable.

Due from _____ Government. An asset account reflecting amounts due to the reporting government from another government. These amounts may represent grants-in-aid, shared taxes, taxes collected by another unit, loans, and charges for services rendered by a reporting unit for another government.

Due Process. Procedures followed by the GASB to ensure that the views of all interested parties are solicited and considered prior to issuing an authoritative pronouncement. At a minimum, due process requires that all statements and interpretations be preceded by an exposure draft.

Due to Fiscal Agent. A liability account reflecting amounts due to fiscal agents, such as commercial banks, for servicing a government's maturing interest and principal payments on indebtedness.

Due to _____ Fund. A liability account reflecting amounts owed by a particular fund to another fund for goods sold or service rendered. These amounts include only short-term obligations on open account and not inter-fund loans. See Advance to _____ Fund and Inter-fund Receivable/Payable.

[SPD] Duration. A measure of a debt investment's exposure to fair value changes arising from changes interest rates. Duration uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price.

E

Earnings. See Income and Revenues.

Economic Gain/Loss. In the context of an advance refunding, the difference between the present value of the old debt service requirements and the present value of the new debt service requirements discounted at the effective interest rate and adjusted for additional cash paid.

Economic Resources Measurement Focus. A measurement focus under which the aim of a set of financial statements is to report all inflows, outflows, and balances affecting or reflecting an entity's net assets. The economic resources measurement focus is used for proprietary and fiduciary funds, as well as for government-wide financial reporting. It also is used by business enterprises and not-for-profit organizations in the private sector.

Education Revenue Augmentation Fund (ERAF). The fund established for the deposit of money (property tax dollars) deducted and transferred from the county, cities, and special districts for subsequent distribution to non-basic aid schools.

Effective Interest Rate (Yield). The rate of earnings on a bond investment, based on the actual price paid for the bond, the coupon rate, the maturity date, and the length of time between interest dates, in contrast with the nominal interest rate.

Effectiveness. A term used in connection with the evaluation of internal controls and performance measurement. The degree to which an entity, program, or procedure is successful at achieving its goals and objectives.

Efficiency. A term used in connection with the evaluation of internal controls and performance measurement. The degree to which an entity, program, or procedure is successful at achieving its goals and objectives with the least use of scarce resources.

Electronic Data Processing (EDP). Data processing by means of high-speed electronic equipment. See [Data Processing](#).

Eligibility Requirements. A term used in connection with government-mandated and voluntary nonexchange transactions. Conditions established by the provider of resources stipulating matters such as the qualifying characteristics of recipients, time requirements, allowable costs, and other contingencies.

Eminent Domain. The power of a government to acquire private property for public purposes. Eminent domain is frequently used to obtain real property that cannot be purchased from owners in a voluntary transaction. When the power of eminent domain is exercised, owners are compensated by the government in an amount determined by the courts.

[SPD] Employer Entity. The entity that employs the individuals for whom a paying entity makes on-behalf payments for fringe benefits and salaries. The employer entity may be governmental or nongovernmental.

[SPD] Employer's Contributions. In the context of defined benefit pensions and OPEB plans, contributions made in relation to the annual required contributions of the employer (ARC). An employer has made a contribution in relation to the ARC if the employer has (1) made payments on benefits directly to or on behalf of a retiree or beneficiary, (2) made premium payments to an insurer, or (3) an equivalent arrangement in which plan assets are dedicated to providing benefits to retirees and their beneficiaries in accordance with the terms of the plan and are legally protected from creditor of the employer(s) or plan administrator.

Enabling Legislation. Authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that a government can be compelled by an external party—such as citizens, public interest groups, or the judiciary—to use resources created by enabling legislation only for the purposes specified by the legislation.

Encumbrances. Commitments related to unperformed (executory) contracts for goods or services. Used in budgeting, encumbrances are not GAAP expenditures or liabilities but represent the estimated amount of expenditures ultimately to result if unperformed contracts in process are completed.

Any encumbrances remaining at fiscal year-end must be classified as restricted, committed or assigned fund balance in the governmental fund balance sheet.

Endowment. Funds or property donated with either a temporary or permanent restriction as to their use. Endowments with the stipulation that the principal balance not be disbursed are often accounted for in permanent funds. See Permanent Fund.

[SPD] Enterprise District. A special district operated as a business enterprise, charging customers for services.

Enterprise Fund. Used to report any activity for which a fee is charged to external users for goods or services.

Entitlement. The amount of payment to which a state or local government is entitled, pursuant to an allocation formula contained in applicable statutes.

Entity. The basic unit upon which accounting and/or financial reporting activities focus. The basic governmental legal and accounting entity is prescribed by GAAP to be the reporting entity for financial statement reporting purposes and it alone may issue CAFRs and BFS.

Entity Differences. A difference between the budgetary basis of accounting and GAAP, arising because the appropriated budget either includes or excludes organizations, programs, activities, and functions which may or may not be compatible with the criteria defining the governmental reporting entity.

Entry. The record of a financial transaction in the appropriate book of account.

Equipment. See Machinery and Equipment.

Escheat (Abandoned Property). The reversion of property to a government entity in the absence of legal claimants or heirs. The laws of many governmental entities provide that a rightful owner or heir can reclaim escheated property into perpetuity, provided the claimant can establish his or her right to the property. This does not necessarily mean that governments hold all escheated property into perpetuity. Because large portions of escheated property are never reclaimed, most governments use some of the property to help finance with either their general or specific operations.

Estimated Life. The expected economic useful life of an asset, from the date placed in service to the projected retirement date.

Estimated Revenue. The amount of revenue estimated to accrue or to be collected during a fiscal period.

[SPD] Excess Insurance. The transfer of risk of loss from one party (the insured) to another (the excess insurer) in which the excess insurer provides insurances (as defined in this glossary) in excess of a certain, typically large amount. For example, an insurance to transfer risk of aggregate losses above \$5 million by its pool participants.

Exchange (Exchange Transaction). A reciprocal transfer between a government and another entity that results in the government acquiring assets or services or satisfying liabilities by surrendering other assets or services or incurring other obligations.

Exchange-Like Transaction. Transactions between a government and another party (or parties) where the values may not be quite equal or the direct benefits of the exchange may not be exclusive to the parties to the exchange. These tend to be licenses or permits and similar.

[SPD] Exit Price. The price that would be received to sell an asset or paid to transfer a liability.

Expenditures. Decreases in net financial resources. Expenditures include current operating expenses that require the present or future use of net current assets, debt service and capital outlays, and intergovernmental grants, entitlements, and shared revenues.

Expenses. Outflows or other using up of assets or incurrences of liabilities (or a combination of both) from delivering or producing goods, rendering services, or carrying out other activities that constitute the entity's ongoing major or central operations.

External Auditor. Independent auditor(s) typically engaged to conduct the audit of a government's financial statements.

External Financing Sources. In governmental fund types, includes revenues, other financing sources, and transfers in. This is a conventional term and should not be used in the financial statement presentation.

[SPD] External Investment Pool. An arrangement that commingles (pools) the money of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio; one or more of the participants is not part of the sponsor's reporting entity. An external investment pool can be sponsored by an individual government, jointly by more than one government, or by a nongovernmental entity. An investment pool that is sponsored by an individual state or local government is an external investment pool if it includes participation by a legally separate entity that is not part of the same reporting entity as the sponsoring government. If a government-sponsored pool includes only the primary government and its component units, it is an internal investment pool and not an external investment pool.

[SPD] Extinguishment of Debt. Using financial resources that did not arise from debt proceeds, the debtor pays the creditor and is relieved of all its obligations with respect to the debt. This includes the debtor's reacquisition of its outstanding debt securities in the public securities markets, regardless of whether the securities are canceled or held as so-called treasury bonds. The debtor is legally released from being the primary obligor under the debt, either judicially or by the creditor, and it is probable that the debtor will not be required to make future payments with respect to that debt under any guarantees.

[SPD] Extraordinary Items. Transactions or other events that are both unusual in nature and infrequent in occurrence. These items are reported separately in the Statement of Activities.

F

Face Value. As applied to securities, the amount of the issuer's liability stated in the security document. See Par Value.

Fair Value. The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date or described as an exit price (GASB 72).

Federal Award. Federal financial assistance and federal cost-reimbursement contracts that nonfederal entities receive directly from federal awarding agencies or indirectly from pass-through entities.

Final Budget. The original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year, whenever signed into law or otherwise legally authorized.

Financial Accountability. The level of accountability that exists if a primary government appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. Accountability for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the primary government.

Financial Accounting Standards Board (FASB). The authoritative accounting and financial reporting standard-setting body for business enterprises and not-for-profit organizations. FASB is the direct successor of the Committee on Accounting Procedure and the Accounting Principles Board. GASB and its predecessors have elected to apply a number of FASB's standards, as well as those of its predecessors, to state and local government.

Financial Audit. An audit made to determine whether the financial statements of a government are presented fairly, in conformity with GAAP/GASB and conducted in accordance with government auditing standards.

[SPD] Financial Instrument. A financial instrument is cash, evidence of an ownership interest in an entity, or a contract that both: 1) imposes on one entity a contractual obligation to deliver cash or another financial instrument to a second entity or exchange other financial instruments on potentially unfavorable terms with the second entity (for example, an option), and 2) conveys to that second entity a contractual right to receive cash or another financial instrument from the first entity or to exchange other financial instruments on potentially favorable terms with the first entity (for example, an option).

Financial Reporting Entity. A primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. However, a governmental organization other than a primary government (such as a component unit, a joint venture, a jointly governed organization, or other stand-alone government) serves as the nucleus for its own reporting entity when it issues separate financial statements.

Financing Requirements. In governmental fund types, the total financing needs for the accounting period involved. This is a conventional term and should not be used in the financial presentation.

Financial Resources. Cash and other assets that, in the normal course of operations, will become cash.

Financial Resources Measurement Focus. A measurement focus according to which the aim of a set of financial statements is to report the near-term (current) inflows, outflows, and balances of expendable (spendable) financial resources. The current financial resources measurement focus is unique to accounting and financial reporting for state and local governments and is used solely for reporting the financial position and results of operations of governmental funds.

Financial Section. One of the three basic sections of a CAFR. The financial section is used to present the independent auditor's report on the financial statements, the basic financial statements (including the notes to the financial statements), required supplementary information, combining statements, individual fund statements and schedules, and supplementary information, as needed.

Financial Statements. A tabulation of amounts, derived from accounting records and expressed in words and dollars, that displays either 1) the financial position of the reporting unit at a moment in time or 2) inflows and outflows of resources from transactions or other events during a period of time.

Financial Uses. In governmental fund types, decreases, excluding expenditure refunds, in the net current assets of a fund. "Financing uses" includes expenditures, other financing uses, and transfers out.

Finding. In the context of financial statement audits, published communication of an internal control weakness or instance of noncompliance in connection with an audit.

Fiscal Period. Any period at the end of which a government determines its financial position and the results of its operations. Often referred to as an Accounting Period.

Fiscal Year. For financial reporting purposes, any 12-month period to which the annual operating budget applies and at the end of which a government determines its financial position and the results of its operations. For budgetary purposes, the current 12 month period to which the annual operating budget applies and at the end of which a government determines its position and the results of its operations.

Fixed Budget. A budget setting forth dollar amounts that are not subject to change based on the volume of goods or services to be provided. See Flexible Budget.

Fixtures. Attachments to buildings that are not intended to be removed and cannot be removed without damage to the buildings. Those fixtures with a useful life presumed to be as long as that of the building itself are considered a part of the building; all others are classified as equipment.

Flow of Current Financial Resources. See Current Financial Resources Measurement Focus.

Flow of Economic Resources. See Economic Resources Measurement Focus.

Force Account. A method employed in the construction and/or maintenance of capital assets whereby a government's own personnel are used instead of an outside contractor. This method also calls for the purchase of materials by the government and the possible use of its own equipment, but the distinguishing characteristic of the force account method is the use of the government's own personnel.

Foreclosure. The seizure of property as payment for delinquent tax or special assessment obligations. Ordinarily, property foreclosed upon is resold to liquidate delinquent tax or special assessment obligations, but on occasion governments retain possession for their own needs.

[SPD] Foreign Currency Risk. The risk that changes in the exchange rate will adversely affect the cash flows or fair value of a transaction.

[SPD] Foreign Currency Transactions. Transactions whose terms are denominated in a currency other than the U.S. dollar. Foreign currency transactions arise when a government 1) buys or sells on credit goods or services whose prices are denominated in a foreign currency; 2) borrows or lends resources, and the amounts payable or receivable are denominated in a foreign currency; or 3) for other reasons acquires or disposes of assets, or incurs or settles liabilities denominated in a foreign currency.

Forfeiture. The automatic loss of cash or other property as a punishment for not complying with legal provisions and as compensation for the resulting damages or losses. This term should not be confused with confiscation. The latter term designates the actual taking over of the forfeited property by the government. Even after the property has been forfeited, it cannot be said to be confiscated until the government claims it.

Franchise. A special privilege granted by a government permitting the continued use of public property, such as city streets, and usually involving the elements of monopoly and regulation.

Function. A group of related activities aimed at accomplishing a major service or regulatory program for which a government is responsible. For example, public health is a function.

Fund. A fiscal and accounting entity with a self-balancing set of accounts in which cash and other financial resources, all related liabilities and equities or balances, and changes therein, are recorded and segregated to carry on specific activities or attain certain objectives in accordance with special regulations, restrictions or limitations.

Fund Balance. In a governmental fund, the residual of assets, less liabilities and deferred inflows of resources (if applicable). Fund balance has five components: non-spendable, restricted, committed, assigned, and unassigned.

Fund Balance Classifications. Financial statements for governmental funds may report up to five components of fund balance: non-spendable, restricted, committed, assigned and unassigned. The General Fund is the only governmental fund with a positive unassigned amount.

Fund Balance Sheet. A balance sheet for a single fund. See Fund and Balance sheet.

Fund Capital Assets. Capital assets that are associated with proprietary or trust funds.

Fund Classifications. One of the three categories (governmental, proprietary, and fiduciary) used to classify fund types.

Fund Financial Statements. Display of information about major funds individually and nonmajor funds in the aggregate for governmental and enterprise funds. Fiduciary statements should include financial information for fiduciary funds and similar component units. Each of the three fund categories should be reported using the measurement focus and basis of accounting required for that category.

Fund Type. Any one of 11 categories into which all funds are classified in governmental accounting. The governmental fund types are General, Special Revenue, Debt Service, Capital Projects, and Permanent. The proprietary fund types are Enterprise and Internal Service. The fiduciary fund types are Pension (and Other Employee Benefit) Trust, Investment Trust, Private-Purpose Trust, and Agency.

G

GAAP Hierarchy. In the context of current governmental financial reporting environment, GAAP hierarchy is the hierarchy of general accepted accounting principles that are used to by governments when preparing their financial statements.

Generally Accepted Accounting Principles (GAAP). Uniform minimum standards and guidelines for financial accounting and reporting. They govern the form and content of the financial statements of an entity. GAAP encompasses the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. The principles include not only broad guidelines of general application, but also detailed practices and procedures. GAAP provides a standard by which to measure financial presentations. The primary authoritative body on the application of GAAP to state and local governments is GASB.

Generally Accepted Auditing Standards (GAAS). Standards established by AICPA for the conduct and reporting of financial audits. There are 10 basic standards classed into three broad categories: general standards, standards of field work, and standards of reporting. The Auditing Standards Board of AICPA publishes *Statements on Auditing Standards (SAS)* to comment and expand upon these basic standards. SAS, together with the ten basic standards, constitute Generally Accepted Auditing Standards (GAAS). GAAS sets forth the objectives of the audit and establishes measures that can be applied to judge the quality of its performance.

Generally Accepted Government Auditing Standards (GAGAS). Standards established by the GAO in its publication, *Government Auditing Standards (GAS)*, commonly known as the “Yellow Book” for the conduct and reporting of both financial and performance audits. GAGAS sets forth general standards applicable to both types of audits and separate standards of field work and reporting for financial and performance audits. The GAGAS standards of field work and reporting for financial audits incorporate and build upon GAAS.

General Capital Assets. Capital assets that are not assets of any fund, but of the government unit as a whole. Most often these assets arise from the expenditure of the financial resources of governmental funds.

General Fund. The primary operating fund of a government. The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

General Journal. A journal in which are recorded all entries not recorded in special journals. See [Journal](#) and [Special Journal](#).

General Ledger. A record containing the accounts needed to reflect the financial position and the results of operations of a government. In double-entry bookkeeping, the debits and credits in the general ledger are equal (i.e., the debit balances equal the credit balances). See Subsidiary Ledger, Control Account, and Subsidiary Account.

General Long-Term Debt. Long-term debt expected to be repaid from governmental funds. See Long-Term Debt.

[SPD] **General Obligation Debt.** Debt paid by and secured by general taxation, generally income or property taxation. The full faith and credit of the government secure the debt.

[SPD] **General Purpose Government.** States, counties, cities, towns and villages, and special districts (and similar).

General Revenues. All revenues are general revenues unless they are required to be reported as program revenues. All taxes, even those that are levied for a specific purpose, are general revenues and should be reported by type of tax—for example, sales tax, property tax, franchise tax, and income tax. All other nontax revenues (including interest, grants, and contributions) that do not meet the criteria to be reported as program revenues should also be reported as general revenues. General revenues should be reported after total net expense of the government’s functions.

[SPD] **Going Concern.** Significant information that is available raising doubts as to whether a legally separate entity can continue to meet its obligations as they become due without a substantial disposal of assets outside the ordinary course of business, restructuring of operations and debts, oversight of a financial assistance, or oversight or review board or similar.

Government Accountability Office (GAO). The investigative arm of the U.S. Congress charged with improving the performance and accountability of the federal government. The GAO issues the publication *Government Auditing Standards (GAS)*, commonly known as the “Yellow Book,” which sets generally accepted government auditing standards (GAGAS).

[SPD] **Government Acquisitions.** A government combination in which a government acquires another entity, or the operations of another entity, in exchange for significant consideration. The consideration provided should be significant in relation to the asset and liabilities acquired. The acquired entity or operation becomes part of the acquiring government’s legally separate entity.

[SPD] **Government Combinations.** A variety of arrangements, including mergers and acquisitions. Government combinations also include transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchange. Transfers of operations may be present in shared service arrangements, reorganization, redistricting, annexations, and arrangements in which an operation is transferred to a new government created to provide those services.

Government Finance Officers Association (GFOA). Formerly the Municipal Finance Officers Association. An organization comprised of accounting and finance professionals from throughout the United States and Canada. The GFOA has played a major role in the development and promotion of GAAP for state and local government and sponsored the Certificate of Achievement for Excellence in Financial Reporting Program. Publishes *Governmental Accounting, Auditing, and Financial Reporting (GAAFR)*, commonly known as the “Blue Book.”

[SPD] Government Mergers. A government merger is a government combination of legally separate entities in which no significant consideration is exchanged and either 1) two or more governments (or one or more government and one or more nongovernmental entities) cease to exist as legally separate entities and are combined to form one or more new governments, or 2) one or more legally separate government or nongovernmental separate entities cease to exist and their operation is absorbed into, and provided by, one or more continuing governments.

[SPD] Government National Mortgage Association (GNMA). GNMA is a U.S. governmental agency that guarantees certain types of securities (mortgage-backed securities) and provides resources for and administers certain types of low-income housing assistance programs.

Governmental Accounting. The composite activity of analyzing, recording, summarizing, reporting, and interpreting the financial transactions of governments.

Governmental Accounting Standards Advisory Council (GASAC). An advisory body established to assist GASB. The membership of GASAC represents all major groups with an interest in accounting and financial reporting for state and local governments.

Governmental Accounting Standards Board (GASB). The authoritative accounting and financial reporting standard-setting body for government entities.

Governmental Accounting, Auditing and Financial Reporting (GAAFR). Published by the GFOA and is also known as the “Blue Book.” Provides detailed guidance to the application of principles to the accounting and financial reporting activities of state and local governments.

Governmental Activities. Those activities of a government that are carried out primarily to provide services to citizens and that are financed primarily through taxes and intergovernmental grants.

[SPD] Governmental Capital Assets. Assets that directly or indirectly are used in providing services that are not directly associated with fees or other revenues. Examples include roads, bridges, schools, and equipment used for fire protection.

Governmental External Investment Pool. An arrangement that commingles (pools) the money of more than one legally separate entity and invests, on the participants’ behalf, in an investment portfolio. In this arrangement, one or more of the participants is not part of the sponsor’s reporting entity. In California counties, it is typical for external pools to be used; the participants that are not typically part of the county’s reporting entity and may include school districts and local-board-governed special districts.

Governmental Entity. For accounting and financial reporting purposes, an entity subject to the hierarchy of GAAP applicable to state and local governmental units. The criteria used to distinguish governmental entities from nongovernmental entities are set forth in the AICPA’s *Audits of State and Local Governmental Units* publication.

Governmental Funds. Funds (emphasizing major funds) consisting of the General Fund, Special Revenue Funds, Capital Projects Funds, Debit Service Funds, and Permanent Funds, as applicable. The funds focus primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation.

Government-Mandated Nonexchange Transactions. When a government at one level provides resources to a government at another level and requires the recipient to use the resources for a specific purpose (for example, federal programs that state or local governments are mandated to perform.)

Government-Wide Financial Statements. Display of information about the reporting government as a whole, except for its fiduciary activities. The statement as a whole, except for its fiduciary activities. The statements should include separate columns for the governmental and business-type activities of the primary government as well as for its component units. Government-wide financials statements should be prepared using the economic resources measurement focus and the accrual basis of accounting. They consist of a statement of net position and a statement of activities.

Grants. Contributions or gifts of cash or other assets from another government to be used or expended for a specified purpose, activity or facility. See Capital Grants and Operating Grants.

[SPD] Gross. Gross amount of income, profit, or interest, without deduction of tax or other contributions; total.

H

Historical Cost. The price paid to acquire an asset or the amount received pursuant to the incurrence of a liability in an actual exchange transaction. See Cost.

I

Implementation Guides. Guidance on the proper implementation of authoritative accounting and financial reporting standards issued by the staff of GASB.

Imposed Nonexchange Revenues. Assessments imposed on nongovernmental entities, including individuals, other than assessments on exchange transactions (for example, property taxes and fines).

Imprest Account. An account into which a fixed amount of money is placed for the purpose of minor disbursements or disbursements for a specific purpose (e.g., payroll). When a disbursement is made, a voucher is completed to record its date, amount, nature, and purpose. From time to time, a report with substantiating vouchers is prepared; the account is replenished for the exact amount of the disbursements and appropriate general ledger accounts are charged.

The total of cash plus substantiating vouchers always should equal the total fixed amount of money set aside in the imprest account. See Petty Cash.

Improvements. Buildings, other structures, and other attachments or annexations to land that are intended to remain so attached or annexed, such as sidewalks, trees, drives, tunnels, drains, and sewers. Sidewalks, curbing, sewers, and highways are sometimes referred to as “betterments,” but the term “improvements” is preferred. See Buildings and Improvements.

Improvements other than Buildings. Attachments or annexations to land that are intended to remain so attached or annexed, such as sidewalks, trees, drives, tunnels, drains and sewers. Sidewalks, curbing, sewers and highways are sometimes referred to as betterments, but the term improvements is preferred.

[SPD] Inactive Employees. Individuals no longer employed by an employer in the pension or OPEB plan or the beneficiaries of those individuals. Inactive employees include individuals who have accumulated benefits under the terms of a pension or OPEB plan but are not yet receiving benefits and individuals currently receiving benefits.

[SPD] Inactive Plan Members. Employees no longer in active service (or their beneficiaries) who have accumulated benefits under the terms of an OPEB plan.

[SPD] Inception of the Lease. The date of the lease agreement or commitment, if earlier. For purposes of this definition, a commitment should be in writing, signed by the parties in interest to the transaction, and should specifically set forth the principal provisions of the transaction. If negotiated, such a preliminary agreement or commitment does not qualify for purposes of this definition.

Income. A term used in proprietary fund type accounting to represent 1) revenues or 2) the excess of revenues over expenses. See Operating Income, Income Before Transfers, and Net Income.

[SPD] Income Distributions. Interest, dividends, stock splits, and other distributions made by an issuer of securities. Income distributions on underlying securities are payable from the borrower to the lender, and income disruption on collateral securities are payable from the lender to the borrower.

Independent Auditor. An auditor(s) who is independent, both in fact and appearance, of the entities he or she audits. Both GAAS and GAGAS set specific criteria that must be met for an auditor to be considered independent.

[SPD] Independent District. A special district that is governed by an independent board of directors elected by the districts' voters, or landowners within the district, or appointed to a fixed term of office by either the city council, board of trustees, or board of supervisors.

Individual Investment (Accounts). An investment service provided by a governmental entity for other, legally separate entities that are not part of the same reporting entity. With individual investment accounts, specific investments are acquired for individual entities and the income from and changes in the value of those investments affect only the entity for which they were acquired.

Inflows of Resources. An acquisition of net position by the government that is applicable to the reporting period (revenues).

Information Systems. See Data Processing.

Infrastructure (or Infrastructure Assets). Long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructures assets include roads, bridges, tunnels, drainage system, water and sewer systems, dams, and lighting systems. Buildings, except those that are not ancillary part of a network or infrastructure assets, should not be considered infrastructure assets.

[SPD] Initial Direct Costs. In the context of lease accounting, only those costs incurred by the lessor that are 1) costs to originate a lease incurred in transactions with independent third parties that (a) result directly from and are essential to acquire that lease and (b) would not have been incurred had that leasing transaction not occurred and 2) certain costs directly related to specified activities performed by the lessor for that lease. Those activities are evaluating the prospective lessee's financial condition, evaluating and recording guarantees, negotiating lease terms, preparing and processing lease documents, and closing the transaction. The costs directly related to those activities should include only that portion of the employees' total compensation and payroll-related fringe benefits directly related to time spent performing those activities for that lease and other costs related to those activities that would not have been incurred but for that lease. Initial direct costs should not include costs related to activities performed by lessees, servicing existing leases, and other ancillary activities related to establishing and monitoring credit policies, supervision, and administration. Initial direct costs should not include administrative costs, rent, depreciation, any other occupancy and equipment costs and employee's compensation and fringe benefits related to activities described in the previous sentence, unsuccessful origination efforts, and idle time.

Insurance. The transfer of risk of loss from one party (the insured) to another party (the insurer) in which the insurer promises (usually specified in a written contract) to pay the insured or others on the insured's behalf an amount of money or services, or both, for economic losses sustained from an unexpected (accidental) event during a period of time for which the insured makes a premium payment to the insurer.

Intangible Assets. An asset that possesses all of the following characteristics. 1) Lack of physical substance. An asset may be contained in or on an item with physical substance, for example, a compact disc in the case of computer software. An asset also may be closely associated with another item that has physical substance, for example, the underlying land in the case of a right-of-way easement. These modes of containment and associated items should not be considered when determining whether or not an asset lacks physical substance. 2) Nonfinancial in nature. In the context of this manual, an asset with a nonfinancial nature is one that is not in a monetary form similar to cash and investments securities, and it represent neither a claim or right to assets in a monetary form similar to receivables, nor a prepayment for goods or services. 3) An initial useful life extending beyond a single reporting period. See Capital Assets.

[SPD] Interest Rate Risk. The risk that changes in interest rates will adversely affect the fair values of a government's financial instruments or a government's cash flows.

[SPD] Interest Rate Swap. A swap that has a variable payment based on the price of an underlying interest rate or index.

Interest Receivable on Investments. An asset account reflecting the amount of interest receivable on investments.

Interfund Activity. Activity between funds of the primary government, including blended component units. Interfund activities are divided into two broad categories, reciprocal and nonreciprocal. Reciprocal interfund activity comprises interfund loans and inter-fund services provided and used. Nonreciprocal interfund activity comprises interfund transfers and inter-fund reimbursements.

Interfund Loans. Loans made by one fund to another, where both funds are included in the primary government's reporting unit. See Interfund Activity and Internal Balances.

Interfund Receivable/Payable. Short-term loans made by one fund to another, or the current position of an advance to or from another fund, where both funds are included in the primary government's reporting unit. See Interfund Activity.

Interfund Reimbursements. Repayments made by one fund to another, where both funds are included in the primary government's reporting unit. See Interfund Activity.

Interfund Services Provided and Used. Sales and purchases of goods and services by one fund to/from another at a price approximating their external exchange value, where both funds are included in the primary government's reporting unit. See Interfund Activity.

Interfund Transaction. Transactions between funds of the same government reporting entity. See Interfund Activity and Internal Activities.

Interfund Transfers. Transfer of assets (cash, goods) between funds of the primary government reporting entity. See Interfund activity.

Intergovernmental Payable. A liability account reflecting amounts owed by the reporting government to another government.

Intergovernmental Receivable. An asset account reflecting amounts due to the reporting government from another government. These amounts may represent grants-in-aid, shared taxes, taxes collected by another unit, loans, and charges for services rendered by the government for another government.

Intergovernmental Revenues. Revenues from other governments in the form of grants, entitlements, shared revenues, or payments in lieu of taxes.

Interim Borrowing. 1) Short-term loans to be repaid from general revenues during the course of a fiscal year. 2) Short-term loans in anticipation of tax collections, grants, or bond issuance. See Bond Anticipation Notes, Grant Anticipation Notes and Tax Anticipation Notes.

Interim Financial Statements. Financial statements prepared as of a date or for a period during the fiscal year and including only financial transactions during the current year to date.

Internal Activities (Inter-Fund Transactions). Transfers between funds or activities of a government during a period.

Internal Balances (Inter-Fund Loans). Receivables or payables between funds or activities of a government that exist at the reporting date.

Internal Financial Reporting. Financial reporting specifically designed to meet the needs of management.

Internal Service Fund (ISF). Used to report any activity that provides goods or services to other funds, departments, or agencies of the primary governments, on a cost-reimbursement basis. Internal service funds should be used only if the reporting government is the predominant participant in the activity. Otherwise, the activity should be reported as an enterprise fund.

[SPD] Internally Generated Intangible Asset. An intangible asset that is created or produced by the government or an entity contracted by the government, or if it is acquired from a third party but requires more than minimal incremental effort on the part of the government to begin to achieve its expected level of service capacity. Computer software is a common type of internally generated intangible asset.

[SPD] Intra-Entity Activity. Resource flows between a primary government and blended component units during a period. Should be reclassified as internal activities and treated as interfund activity.

Introductory Section. The first of three essential components of any CAFR. The introductory section typically provides general information on a government's structure and personnel, as well as information useful in assessing the government's economic condition. The contents of the introductory section normally fall outside the scope of the independent audit of the financial statements. The key element of the introductory section is the letter of transmittal. It includes items such as table of contents, letter of transmittal, and other material deemed appropriate by management.

Inventory. The aggregate of those items of tangible personal property that 1) are held for sale in the ordinary course of operations, 2) are in process of production for such sale, or 3) are to be currently consumed in the production of goods or services to be available for sale. Operating materials and supplies (for example, property held for installation or use in the provision of services) or certain business-type activities usually are treated as inventory.

Investment. A security or other asset that 1) a government holds primarily for the purpose of income or profit and 2) has presented service capacity based solely on its ability to generate cash or to be sold to generate cash.

Investment Section. One of four sections of a CAFR for an investment pool and one of five sections of a CAFR of a public employee retirement system.

Investment Trust Fund. Used to report the external portion of investment pools reported by the sponsoring government.

Issuer. An issuer is the entity that has the authority to distribute a security or other investment. A bond issuer is the entity that is legally obligated to make principal and interest payments to bond holders. In the case of mutual funds, external investment pools, and other pooled investments, issuer refers to the entity invested in, not the investment company manager or pool sponsor.

J

Job Account. An account pertaining either to an operation that occurs regularly (a "standing order") or to a specific piece of work ("job order") showing all charges for material and labor used and other costs incurred, together with any allowances or other credits.

Joint Venture. A legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain 1) an ongoing financial interest or 2) an ongoing financial responsibility.

Jointly Governed Organization. A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that create the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility.

Journal. A book of original entry. See General Journal, Special Journal, and Register.

Journal Voucher. A standard form provided for the recording of certain transactions or information in place of, or supplementary to, the journals or registers. The journal voucher usually contains an entry or entries, explanations, references to documentary evidence supporting the entry or entries, and the signature or initials of one or more properly authorized officials.

Judgment. An amount to be paid or collected by a government as the result of a court decision, including a condemnation award in payment for private property taken for public use.

Jurisdiction. A particular geographic area containing a defined legal authority. Examples include special districts, school districts, community college districts, or county superintendents of schools.

Jurisdictional Change. Any changes to the boundaries of a jurisdiction, including formations, consolidations, and dissolutions.

K

NONE

L

Landfill Closure and Postclosure Costs. Costs incurred to provide for the protection of the environment that occur near or after the date that a municipal solid-waste landfill stops accepting solid waste and during the postclosure period. Closure and postclosure care costs include the cost of equipment and facilities (e.g., leachate collection systems and final cover) as well as the cost of services (e.g., postclosure maintenance and monitoring costs).

Lapse. As applied to appropriations, the automatic termination of an appropriation. Except for indeterminate appropriations and continuing appropriations, an appropriation is made for a certain period of time. At the end of this period, any unexpended or unencumbered balance thereof lapses, unless otherwise provided by law. Also referred to as the *lapse period*.

[SPD] Lease Term. The fixed noncancelable term of the lease.

Ledger. A group of accounts in which are recorded the financial transactions of an entry. See General Ledger and Subsidiary Ledger.

[SPD] Legal Enforceability. When a government can be compelled by an external party—such as citizens, public interest groups, or the judiciary—to use resources created by enabling legislation only for the purposes specified by the legislation.

Lender. A governmental entity that transfers its securities to a broker-dealer or other entity in a securities-lending transaction.

[SPD] Lessee’s Incremental Borrowing Rate. The rate that, at the inception of the lease, the lessee would have incurred to borrow over a similar term the resources necessary to purchase the leased asset.

Letter of Credit. A financial institution’s written guarantee of a customer’s drafts, up to a specified amount, for a certain period of time.

Level (1-4) Guidance. In the context of the hierarchy of GAAP for state and local governments, a reference to the relative authority of a given source of GAAP guidance.

[SPD] Leverage. Using debt to control more assets. Generally the asset obtained outweighs the cost of the borrowed money.

Levy. (1) To impose taxes, special assessments, or service charges for the support of government activities. (2) The total amount of taxes, special assessments, or service charges imposed by government.

Liabilities. Present obligations to sacrifice resources that the government has little to no discretion to avoid.

Lien. An enforceable legal claim by a government. The date of the lien may be known as a *lien date* or an *assessment date*.

Liquidity. The ability to convert assets to cash quickly without significant losses.

Local Agency. Any city, county, special district, or local government authority.

[SPD] Local Agency Formation Commission (LAFCo). LAFCO’s are formed under the California law (refer to Gov. Code §56300 et seq.) and typically oversee boundary changes of cities and special districts, and formation of new agencies, which includes incorporation, consolidation, or reorganization of special districts or cities.

Local Improvement Tax. See Special Assessment.

Long-Term Budget. A budget prepared for a period longer than a fiscal year or, in some state governments, a budget prepared for a period longer than a biennium. Long-term budgets concerned with capital outlay plans and capital improvement programs are referred to as *capital budgets*.

Long-Term Debt. See General Long-Term Debt.

Long-Term Obligations. Obligations scheduled to mature beyond one year from the date of a government’s financial statements.

M

Machinery and Equipment. Property that does not lose its identity when removed from its location and is not changed materially or consumed immediately—within one year—by use.

Maintenance. The act of keeping capital assets in a state of good repair. It includes preventive maintenance; normal periodic repairs; replacement of parts, structural components, and so forth; and other activities needed to maintain the asset so that it continues to provide normal services and achieves its optimum life.

Major Fund. The general fund or its equivalent and any other fund where: 1) total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total (assets, liabilities, and so forth) for all funds of that category or type (that is, total governmental or total enterprise funds, and 2) total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined. In addition, to funds that meet the major fund criteria, any other governmental or enterprise criteria, any other governmental or enterprise fund that the government's officials believe is particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a major fund.

Management. Persons who are responsible for achieving the objectives of the government and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management normally includes the chief executive officer (for example, city manager), directors or secretaries in charge of principal government departments or functions (such as service provision administration or finance), and other persons who perform similar policymaking functions. Persons without formal titles also may be members of management.

Management Letter. A term used in connection with the independent audit of the financial statements. A formal communication by the auditor to management that focuses on internal control weaknesses discovered in the course of the audit of the financial statements. The management letter should be distinguished from the management representation letter, which is a communication by management to the independent auditor in which management takes formal responsibility for the fair presentation of the financial statements and makes certain specific representations regarding their contents.

Management's Discussion and Analysis (MD&A). Management's discussion and analysis is an introduction to the financial statements that provide readers with a brief, objective, and easily readable analysis of the government's financial performance for the year and its financial position at year-end.

Market Value. See Full Cash Value.

Matching Requirement. A requirement that a grant recipient contributes resources to a program that equal or exceed a predetermined percentage of amounts provided by the grantor.

Material Weakness. A deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Materiality. In the context of financial reporting, an error of omission or misstatement of significant accounting information that could impair the judgement of a reasonable person relying on the information presented in the financial statements.

Matured Bonds Payable. A liability account reflecting unpaid principal on bonds that have reached or passed their maturity date.

Matured Interest Payable. A liability account reflecting unpaid interest on bonds that have reached or passed their maturity date.

[SPD] Measurement Date. The date on which the fair value of an asset or liability is determined.

Measurement Focus. The accounting convention that determines 1) which assets and which liabilities are included on a government's balance sheet, and where they are reported there, and 2) whether an operating statement presents information on the flow of financial resources (revenues and expenditures) or information on the flow of economic resources (revenues and expenses).

[SPD] Measurement Period. The period between the prior and the current measurement dates.

[SPD] Minimum Lease Payments (Lessee). From the standpoint of the lessee, the payments that the lessee is obligated to make or can be required to make in connection with the leased property. Refer to GASB Statement No. 62 for more information on minimum lease payments.

[SPD] Minimum Lease Payments (Lessor). From the standpoint of the lessor, the payments described in Minimum Lease Payments (Lessee) plus any guarantee of the residual value or of rental payments beyond the lease term by a third party unrelated to either the lessee or the lessor, provided the third party is financially capable of discharging the obligations that may arise from the guarantee.

Modified Accrual Basis of Accounting. The accrual basis of accounting adapted to the current financial resources measurement focus. Under it, revenues and other financial resource increments (e.g., bond issue proceeds) are recognized when they become susceptible to accrual, which is when they become both "measurable" and "available to finance expenditures of the current period."

Modified Approach. The election not to depreciate infrastructure assets that are part of a network or subsystem of a network that meet two specific requirements. First, the government manages the eligible infrastructure assets using an asset management system that has certain specified characteristics; second, the government documents that the eligible infrastructure assets are being preserved approximately at (or above) a condition level established and disclosed by the government.

[SPD] Multi-Function District. A special district that provides two or more services.

[SPD] Multiple Employer Defined Benefit Pension or OPEB Plan. A defined benefit pension or OPEB plan that is used to provide pensions or OPEB to the employees of more than one employer.

Municipal. Denotes the state and all subordinate units of government. In a more restricted sense, it denotes a city or village, as opposed to other local governments.

Municipal Bond. A bond issued by a state or local government.

Municipal Corporation. A political and corporate body established pursuant to state statutes to provide government services and regulations for its inhabitants. A municipal corporation has defined boundaries and a population, and is usually organized with the consent of its residents. It usually has a seal and may sue and be sued. Cities and villages are examples of municipal corporations. See Quasi-Municipal Corporation.

Municipal Finance Officers Association. See Government Finance Officers Association.

N

National Advisory Council on State and Local Budgeting (NACSLB). A working group created by eight public-sector organizations to establish a comprehensive framework for public-sector budgeting that could be used by state and local governments as an ideal against which to measure and improve the quality of their own budget practices. The Government Finance Officers Association (GFOA) has formally recommended NACSLB guidelines to its members.

National Committee on Governmental Accounting (NCGA). A committee of the Municipal Finance Officers Association that served as the authoritative accounting and financial reporting standard-setting body for local governments from 1946 until the establishment of the National Council on Governmental Accounting (NCGA) in the 1970s.

National Committee on Municipal Accounting (NCMA). A committee of the Municipal Finance Officers Association that served as the authoritative accounting and financial reporting standard-setting body for local governments prior to 1946. NCMA was one of the predecessors of GASB.

National Council on Governmental Accounting (NCGA). An organization established through the sponsorship of the Government Finance Officers Association to develop, promulgate, and interpret principals of accounting, financial reporting, and related financial management activities for the state and local governments in the United States and Canada. Immediate predecessor of the GASB.

Negotiable Certificates of Deposit. Transferable certificates of deposit. Because they are transferable, negotiable certificates of deposit are subject to custodial credit risk.

[SPD] Net. The net amount is the final amount that remains after all the other amounts have been subtracted from gross. See Gross.

Net Book Value. See Book Value.

[SPD] Net Carrying Amount. In an extinguishment of debt, the amount due at maturity, adjusted for unamortized premium, discount, and cost of issuance.

Net Cost. A term used in the context of the government-wide statement of activities. The difference between functional expenses and program revenues.

Net Income. The proprietary fund excess of operating revenues, nonoperating revenues, and transfers-in over operating expenses, nonoperating expenses, and transfers out.

[SPD] Net Investment in Capital Assets. Capital assets, net of accumulated depreciations, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount should not be included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources should be included in the same net position component (restricted or unrestricted) as the unspent amount.

Net OPEB Liability. The liability of employers and nonemployer contributing entities to plan members for benefits provided through a defined benefit OPEB plan that is administered through an irrevocable trust.

Net Pension Liability. The liability of employers and nonemployer contributing entities to employees for benefits provided through a defined benefit pension plan.

Net Pension/OPEB Obligation. A term used in connection with defined benefit pension plans. The cumulative difference between annual pension cost and the employer's contributions to the plan, including the pension liability (asset) at transition, and excluding 1) short-term differences and 2) unpaid contributions that have been converted to pension-related debt.

Net Position. The residual of assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources. Fiduciary activities net to fiduciary net position. Net position is displayed in three components: net investment in capital assets, restricted (distinguishing between major categories or restrictions), and unrestricted.

Net Profit. See Net Income.

Net Revenues. See Net Income and Net Revenues Available for Debt Service.

[SPD] Nonemployer Contributing Entities. Entities (nonemployer) legally required make contributions to a pension or OPEB plan that is used to provide pensions or OPEB to the employees of other entities. Employees are not considered nonemployer contributing entities. For arrangements in which pensions are provided through a pension plan that is not administered through a trust, entities that make defined benefit payments directly as pensions come due for employees of other entities, including using the entity's assets held by others for the purpose of providing benefits. Employees are not considered nonemployer contributing entities.

[SPD] Nonenterprise District. A special district that generally does not charge users for services provided, but rather relies on property tax revenues.

[SPD] Nonexchange Financial Guarantee. A nonexchange financial guarantee is a guarantee of an obligation of a legally separate entity or individual, including a blended or discretely presented component unit, which requires the guarantor to indemnify a third-party obligation holder under specified conditions.

Nonexchange Transaction. When a government gives (or receives) value without directly receiving (or giving) equal value in return. Four classes of nonexchange transactions are used: 1) Derived Tax Revenues, 2) Imposed Nonexchange Revenues, 3) Government-Mandated Nonexchange Transactions, and 4) Voluntary Nonexchange Transactions.

Nonfinancial Assets. A term used in connection with the current financial resources measurement focus and the modified accrual basis of accounting. Assets that are expected to be used in the provision of goods or services rather than converted to cash. Financial statement preparers have the option of treating prepaid items and inventories of supplies as either a financial asset (consumption method) or as a nonfinancial asset (purchases method).

Nonoperating Expenses. Proprietary fund expenses that are not directly related to the fund's primary activities (e.g., interest).

Nonoperating Revenues. Proprietary fund revenues incidental to or byproducts of the fund's primary activities.

Nonreciprocal Inter-Fund Activity. The internal counterpart to nonexchange transactions. This category includes both interfund transfers and interfund reimbursements.

Nonspendable Fund Balance. The nonspendable fund balance classification includes amounts that cannot be spent because they are either 1) not in spendable form or 2) legally or contractually required to be maintained intact.

Normal Cost (also known as Service Cost). That portion of the Actuarial Present Value of pension plan benefits and expenses that is allocated to a valuation year by the Actuarial Cost Method.

Normal Costing. The historical cost of an asset is estimated by taking the value of acquiring the asset new today and then discounting that amount by an appropriate inflation factor back to the date of acquisition.

Normally. A term used in connection with the application of the modified accrual basis of accounting to certain long-term liabilities. Specifically, certain accrued liabilities are recognized as expenditures in governmental funds only when they are “normally” expected to be liquidated with current available financial resources (e.g., compensated absences, claims and judgments, special termination benefits, landfill closure and postclosure care costs). For this purpose, the term “normally” should be interpreted from the perspective of the practice of state and local governments.

Note Payable. In general, an unconditional written promise signed by the maker to pay a certain sum of money on demand or at a fixed or determinable time, either to the bearer or to the order of a person designated therein. See Temporary Loans.

Notes to the Financial Statements. Presentation of information integral to the financial statements and essential to a user’s understanding of financial position and the inflows and outflows of resources.

Number of Funds Principle. The principle that only the minimum number of funds consistent with legal and operating requirements should be established, as unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.

O

Obligated in Some Manner. A term used in connection with special assessment debt and the determination of the financial reporting entity. A government is obligated in some manner for debt if 1) it is legally obligated to assume all or part of the debt in the event of default, or 2) the government may take certain actions to assume secondary liability for all or part of the debt and the government takes, or has given indications that it will take, those actions.

Obligations. Amounts a government may be legally required to meet out of its resources. Obligations include not only actual liabilities but also unliquidated encumbrances.

Obsolescence. The decrease in the value of capital assets resulting from economic, social, technological or legal changes.

Office of Management and Budget (OMB). An agency of the federal government with regulatory oversight of Single Audits. In fulfillment of this responsibility, the OMB has issued *Circular A-133, Audits of States, Local Government, and Nonprofit Organizations*.

Official Statement. A document published by a government planning to issue long-term debt that provides information on the proposed long-term debt issue, the purpose of the issue, and the means of servicing the indebtedness, as well as other information about the issuer that may be helpful in evaluating credit-worthiness.

OMB. White House Office of Management and Budget. See Office of Management and Budget (OMB).

[SPD] Ongoing Financial Responsibility. (1) A participating government is obligated in some manner for the debts of a joint venture. (2) The joint venture's existence depends on continued funding by the participating government.

OPEB Plans. Arrangements through which OPEB is determined, assets dedicated for OPEB (if any) are accumulated and managed, and benefits are paid as they come due.

Operating Activities (Cash Flows). Cash flows resulting from providing services and producing and delivering goods, including all transactions and other events that are not defined as capital and related financing, noncapital financing, or investing activities. Cash flows from operating activities generally are the cash effects of transactions and other events that enter into the determination of operating income.

Operating Budget. Plans for current expenditures and the proposed means of financing them. The operating budget (for some state governments: the biennial operating budget) is the primary means by which most of the financing, acquisition, spending, and service delivery activities of a government are controlled. The use of operating budgets is usually required by law. Even where not required by law, however, operating budgets are essential to sound financial management and should be adopted by every government. See Budget.

Operating Expenses. Expenses related directly to a fund's primary activities.

Operating Grants. Grants that are restricted by the grantor to operating purposes or that may be used for either capital or operating purposes, at the discretion of the grantee. See Capital Grants.

Operating Income. The excess of a fund's operating revenues over operating expenses.

Operating Lease. A lease agreement that does not meet the criteria for capitalization (capital lease) set forth in GAAP pronouncements.

Operating Revenues. Revenues of a fund directly related to the fund's primary activities. Operating revenues consist primarily of user charges for goods and services.

[SPD] Operation. An operation is an integrated set of activities conducted and managed for the purpose of providing identifiable services with associated assets or liabilities. For example, an operation may include the assets and liabilities specifically associated with the activities conducted and managed by the fire department in a general-purpose government. Conversely, fire engines donated to or acquired by a first department would constitute only a portion of that activity and, therefore, would not constitute an operation.

Ordinance (Order). A formal legislative enactment by the governing board of a municipality. If it is not in conflict with any higher form of law, such as a state statute or constitutional provision, it has the full force and effect of law within the boundaries of the municipality to which it applies. The difference between an ordinance and a resolution is that the latter requires less legal formality and has a lower legal status. Ordinarily, the statutes or charter will specify or imply those legislative actions that must be by ordinance and those that may be by resolution. Revenue raising measures, such as the imposition of taxes, special assessments and service charges, universally require ordinances. See [Resolution](#).

[SPD] Original Budget. The first complete adopted budget of a government. The original budget may be adjusted by reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes before the beginning of the fiscal year. The original budget should also include actual appropriation amounts automatically carried over from prior years by law. For example, a legal provision may require the automatic rolling forward of appropriations to cover prior-year encumbrances.

Other Financing Source. An increase in net position of a governmental fund that is reported separately from revenues to avoid distorting revenue trends. The use of the other financing sources category is limited to items so classified by GAAP.

Other Financing Use. A decrease in net position of a governmental fund that is reported separately from expenditures to avoid distorting expenditure trends. The use of the other financing uses category is limited to items so classified by GAAP.

Other Postemployment Benefits (OPEB). Benefits other than retirement income (such as death benefits, life insurance, disability, and long-term care) that are paid in the period after employment and that are provided separately from a pension plan, as well as the postemployment health care benefits paid in the period after employer (if any), regardless of the manner in which they are provided. Other postemployment benefits do not include termination benefits or termination payments for sick leave.

Other Sources of GAAP. Potential sources of accounting and financial reporting guidance that may be used in the absence of authoritative guidance on one of the four levels of the hierarchy of GAAP for state and local governments. Examples of other sources of GAAP for state and local governments include concept statements of GASB, pronouncements of FASB that are not authoritative for government, professional publications, textbooks, and position papers of professional organizations. GASB concept statements take precedence as another source of GAAP.

Outflows of Resources (or Outlays). A consumption of net position by the government that is applicable to the reporting period (expenses or expenditures). Synonymous with expenditures. See [Capital Expenditures](#).

Overdraft. (1) The amount by which checks, drafts, or other demands for payment on the treasury or on a bank exceed the amount of the credit against which they are drawn. (2) The amount by which requisitions, purchase orders, or audited vouchers exceed the appropriation or other credit to which they are chargeable.

Overhead. Those elements of cost necessary in the production of a good or service that are not directly traceable to the product or service. Usually these costs relate to objects of expenditure that do not become an integral part of the finished product or service, such as rent, heat, light, supplies, management and supervision (indirect costs/charges/expenses).

Oversight (Responsibility). A basic criterion for including a government department, agency, institution, commission, public authority, or other organization in a government unit's reporting entity for basic financial reports. Oversight responsibility is derived from the government unit's power and includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

P

Par Value. In the case of bonds, the amount of principal that must be paid at maturity. Par value is referred to as the face value of the security.

[SPD] Parameters. In the context of defined benefit pension and OPEB plans, parameters are the set of requirements for calculating actuarially determined OPEB information included in financial reports.

[SPD] Participation. The ability of an investment to capture market (interest rate) changes through the investment's negotiability or transferability, or redemption terms that consider market rates.

Pay-As-You-Go Basis. A method of financing a pension plan under which the contributions to the plan are generally made at about the same time in approximately the same amount as benefit payments and expenses becoming due.

Payment in Lieu of Taxes (PILOT). A payment that a property owner not subject to taxation makes to a government to compensate it for services that the property owner receives that normally are financed through property taxes.

[SPD] Penalty (Leases). Any requirement that is imposed or can be imposed on the lessee by the lease agreement or by factors outside the lease agreement to disburse cash, incur or assume a liability, perform services, surrender or transfer an asset or rights to an asset or otherwise forego an economic benefit, or suffer an economic detriment.

Pension (and OPEB) Trust Fund. Used to report resources require to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, or other employee benefit plans.

Pension Cost. A measure of the periodic cost of an employer's participation in a defined benefit pension plan.

Pension Obligation Bonds. Bonds issued by employers to finance one or more elements of their pension obligation to employees. Pension obligation bonds may be used 1) to reduce or eliminate the employer's net pension obligation, 2) to pay the employer's annual required contribution for the year, or 3) to reduce or eliminate the plan's unfunded actuarial accrued liability.

Pension Plan. Arrangements through which pensions are determined, assets dedicated for pensions are accumulated and managed, and benefits are paid as they come due.

Pension Related Debt. All long-term liabilities of an employer to a pension plan, the payment of which is not included in the annual required contributions of a sole or agent employer or the actuarially determined required contributions of a cost-sharing employer. Payments generally are made in accordance with installment contracts that usually include interest. Examples include contractually deferred contributions and amounts assessed to an employer upon joining a multiple-employer plan.

Pensions. Retirement income and, if provided through a pension plan, postemployment benefits other than retirement income (such as death benefits, life insurance, and disability benefits). Pensions do not include postemployment healthcare benefits and termination benefits.

Permanent Fund. Funds used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs—that is, for the benefit of the government or its citizenry. Permanent funds do not include private-purpose trust funds, which should be used to report situations in which the government is required to use the principal or earnings for the benefit of individuals, private organizations, or other governments.

Personal Property. Includes all property that is not real property, either tangible or intangible.

Petty Cash. A sum of money set aside on an imprest basis to make change or to pay small obligations for which the issuance of a formal voucher and check would be too expensive and time-consuming. Petty cash accounts are sometimes referred to as petty cash “funds.” However, they are not “funds” in the sense of governmental accounting. Petty cash accounts should be reported as assets of the fund of ownership. See [Imprest Account](#).

Petty Cash Voucher. A form used to record individual disbursements of petty cash.

[SPD] Plan Net Position (Plan Net Position Held in Trust for OPEB). The difference between total plan assets and total plan liabilities at the reporting date.

[SPD] Police Power. The authority for a government to regulate behavior to accomplish a public goal.

Policy. A formal written contract of insurance between an insurer and an insured describing among other things, the period and amount of risk coverage the insurer agrees to provide the insured.

Policyholder. The party to whom an insurance policy is issued and who pays a premium to an insurer for the insurer's promise to provide insurance protection.

Postemployment. The period after employment.

Postemployment Benefit Changes. Adjustments to the pension of an inactive employee (or plan member).

Postemployment Healthcare Benefits. Medical, dental, vision, and other health-related benefits paid subsequent to the termination of employment.

Posting. The act of transferring to an account in a ledger the data, either detailed or summarized, contained in a book or document of original entry.

Potential Component Unit. A separate government unit, agency, or nonprofit corporation that needs to be evaluated to determine if it is to be included with other component units and the oversight unit to constitute the reporting entity.

Premium. 1) The excess of the price of a security over its face value, excluding any amount of accrued interest bought or sold. 2) The consideration paid for an insurance contract.

Premium (Insurance). The consideration paid for an insurance contract.

Prepaid Items. Payment in advance of the receipt of goods and services in an exchange transaction. Prepaid items differ from deferred outflows in that they are spread over a shorter period of time than deferred outflows and are regularly recurring costs of operations. Examples of prepaid items are prepaid rent, prepaid interest, and unexpired insurance premiums. See Deferred Charges.

Preparer. Those who are responsible for producing financial reports that recognize relevant events in the financial statements or that disclose or present messages about such events elsewhere in the financial report.

Present Value. A valuation technique used to link future amounts (cash flows or values) to a present amount by employing a discount rate (an application of the income approach).

Primary Government. A state government or general-purpose local government. Also, a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments.

Principal. In the context of bonds other than deep-discount debt, the face value or par value of a bond or issue of bonds payable on stated dates of maturity. See Face Value and Par Value.

[SPD] Principal Act. Generic statute that applies to all special districts of that type. All principal acts are state laws.

Private-Purpose Trust Fund. Used to report escheat property or all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

[SPD] Probable. Classification of a loss contingency where the future event or events are likely to occur.

Program. Group activities, operations, or organizational units directed to attaining specific purposes or objectives.

Program Revenue. Revenues derived directly from the program itself or from parties outside the reporting government's taxpayers or citizenry, as a whole; program revenues reduce the net cost of the function to be financed from the government's general revenues. The statement of activities should separately report three categories of program revenues: 1) charges for services, 2) program-specific operating grants and contributions, and 3) program specific capital grants and contributions.

[SPD] Project Costs. Costs clearly associated with the acquisition, development, and construction of a real estate project.

Projected Benefit Payments. All benefits estimated to be payable through the pension or OPEB plan to current active and inactive employees as a result of their past service and their expected future service.

Property. “Real property” (for example land and real estate) or “Personal Property” (which is everything else and commonly referred to as *personal property*) that is capable of ownership.

Proprietary Funds. Funds consisting of enterprise funds (emphasizing major funds) and internal service funds. The funds focus on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows.

Provisions. In governmental fund types, budgeted amounts to provide for increases or decreases in fund balance classifications.

Public Authority. See Authority.

Public Corporation. See Municipal Corporation and Quasi-Municipal Corporation.

Public Employee Retirement System (PERS). A special-purpose government that administers one or more pension plans. A PERS may administer other types of employee benefit plans, including postemployment health care plans and deferred compensation plans.

Purchase Order. A document authorizing the delivery of specified merchandise or the rendering of certain services and the making of a charge for them.

Purchases Method. The method under which inventories are recorded as expenditures when acquired. See Consumption Method.

Purpose Restrictions. A term used in connection with government-mandated and voluntary nonexchange transactions. Legal limitations that specify the purpose or purposes for which resources are required to be used (as distinguished from eligibility requirements).

Q

Qualified Opinion. An opinion stating that *except for* the effect of the matter to which the qualification relates, the financial statements present fairly the financial position, results of operations, and (when applicable) cash flows in conformity with GAAP. Such an opinion is expressed when a lack of sufficient, competent, evidential matter or restrictions on the scope of the auditor’s examination have led the auditor to conclude that an unqualified opinion cannot be expressed, or when the auditor believes, on the basis of the examination, that 1) the financial statements contain a departure from GAAP, the effect of which is material; 2) there has been a material change between periods in accounting principles or in the method of their application; or 3) there are significant uncertainties affecting the financial statements, and the auditor has decided not to express an adverse opinion or to disclaim an opinion. See Adverse Opinion and Disclaimer of Opinion.

R

Real Estate or Real Property. (1) The possession of, claim to, ownership of, or right to possession of land; 2) all mines, minerals, and quarries in the land, all standing timber whether or not belonging to the owner of the land, and all rights and privileges appertaining thereto; and/or 3) improvements.

Realized Gains and Losses. The cumulative effect of appreciation and depreciation in the value of investments reported at fair value at the time those investments are sold.

Reasonable Assurance. A term used in connection with financial auditing. The principle that the goal of the independent audit of the financial statements is to ensure that financial statements are free from “material” misstatement. The principle of reasonable assurance rests on the assumption that it is not cost-beneficial to attempt to ensure that financial statements are free of immaterial misstatements.

[SPD] Recipient Government. In a pass-through grant, a governmental entity that receives grants and other financial assistance to transfer to or spend on behalf of a secondary recipient.

Reciprocal Interfund Activity. The interfund counterpart to exchange and exchange-like transactions. This category includes both interfund loans and interfund services provided and used.

Recoverable Expenditure. An expenditure that is made for or on behalf of another government, fund, or department or for a private individual, firm, or corporation and that will subsequently be recovered in cash or its equivalent.

Redemption. The realization of a right to have the title of property restored free and clear of the lien of any taxes, through payment of money.

Refunding. Issuance of new debt when proceeds are used to repay previously outstanding debt. The proceeds may be used currently (*current refunding*) or placed in escrow until a later date (*advance refunding*).

Register. A record for the consecutive entry of a certain class of events, documents, or transactions, with proper notation of all the required details. See Journal.

Reimbursements. (1) Repayments of amounts remitted on behalf of another party. (2) Interfund transactions that constitute reimbursements of a fund for expenditures or expenses initially made from it that properly apply to another fund (e.g., an expenditure properly chargeable to a Special Revenue Fund is initially made from the General Fund and is subsequently reimbursed). These transactions are recorded as expenditures or expenses, as appropriate, in the reimbursing fund and as reductions of the expenditure or expense in the fund that is reimbursed.

Related Organization. An organization for which a primary government is not financially accountable because it does not impose will or have a financial benefit or burden relationship, even though the primary government appoints a voting majority of the organization’s governing board.

Related Parties. A government's related organizations, joint ventures, and jointly governed organizations, elected and appointed officials of the government; its management; members of the immediate families of elected or appointed officials of the government and its management; and other parties with which the government may deal if management or operate policies of the other might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the management or operate policies of the transacting parties (for example, through imposition of will) or if it has an ownership interest in one of the transacting parties and extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

Related Party Transaction. A transaction that an informed observer might reasonably believe reflects considerations other than economic self-interest based upon the relationship that exists between the parties to the transaction. The term often is used in contrast to an arm's length transaction.

Relevance. The principle that there should be a close logical relationship between the financial information provided and the purpose for which it is needed. Information is relevant if it is capable of making a difference in a user's assessment of a problem, condition, or event.

Reliability. The principle that financial information should be verifiable and free from bias, and should faithfully represent what it purports to represent.

[SPD] Remote. Classification of a loss contingency where the change of the future event or events occurring is slight.

Report. A statement or description and/or process of communicating information.

Reporting Entity. The oversight unit and all of its related component units, if any, that are combined in the CAFR/BFS.

[SPD] Reporting Date. The date of the financial statements. Generally the *reporting date* is the last day of the fiscal year.

Repurchase Agreement. A generic term for an agreement in which a government entity (buyer-lender) transfers cash to a broker-dealer or financial institution (seller-borrower); the broker-dealer or financial institution transfers securities to the entity and promises to repay the cash plus interest in exchange for the same securities or for different securities.

Required Supplementary Information (RSI). Schedules, statistical data, and other information that are an essential part of financial reporting and should be presented with, but are not part of, the basic financial statements of a governmental entity. RSI is required by GAAP.

Requisition. A written demand or request, usually from one department to the purchasing officer or to another department, for specified articles or services.

Resolution. A special or temporary order of a legislative body; an order requiring less legal formality than an ordinance of statute. See Ordinance.

Resource. An element of the means available to a government to carry out its functions and activities. This includes money, property, equipment, manpower and other assets both tangible and intangible.

Restricted Assets. Assets whose use is subject to constraints that are either 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation.

Restricted Fund Balance. Fund balance should be classified as restricted when constraints placed on the use of resources are either 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation.

Restricted Fund Balance - Debt Service. An account used to segregate a portion of the fund balance for resources legally restricted to the payment of general long-term debt principal and interest maturing in future years.

Restricted Net Assets. A component of net assets calculated by reducing the carrying value of restricted assets by the amount of any related debt outstanding.

Restricted Net Position. Restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability, or if the liability will be liquidated with the restricted assets reported.

Retained Earnings. An equity account reflecting the accumulated earnings of a commercial business in the private sector. The term is not used in governmental accounting, where a *net assets* concept is used instead.

Retention. A liability account reflecting amounts due on construction contracts not paid pending final inspection of the project or the lapse of a specified period, or both. The unpaid amount is usually a stated percentage of the contract price.

Retirement Allowances. Amounts paid to government employees who have retired from active service or to their survivors.

Retirement Fund. See Pension (and other employee benefits) Trust Fund.

Revenues. (1) Increases in the net current assets of a governmental fund type from other than expenditure refunds and transfers. General long-term debt proceeds and transfers in are classified as other financing sources rather than as revenues. (2) Increases in the net total assets of a proprietary fund type, net total assets from other than expense refunds, capital contributions, and transfers. Transfers-in are classified separately from revenues.

Reverse Repurchase Agreement. An agreement in which a broker-dealer or financial institution (buyer-lender) transfers cash to a government entity (seller-borrower); the entity transfers securities to the broker-dealer or financial institution and promises to repay the cash plus interest in exchange for the same securities or different securities.

Revolving Fund. An imprest account that is accounted for as an asset of a fund.

[SPD] Risk. Defined variously as uncertainty of loss, change of loss, or the variance of actual from expected results. Also, the subject matter of an insurance contract.

[SPD] Risk Management. The process of managing an organization’s activities to minimize the adverse effects of certain types of losses. The main elements of risk management are *risk control* to minimize the losses that strike a special district, and *risk financing* to obtain finances to restore the economic damages of those losses.

S

Salvage Value. The estimated value that will be realized upon sale of an asset at the end of its useful life.

Schedules. See [Supporting Schedules](#).

School District or Entity. Any school district, community college district, or county superintendent of schools.

Scrap Value. The value that will be realized upon sale of an asset if sold for its materials.

Security. A negotiable or nonnegotiable instrument that signifies an ownership interest, the right to an ownership interest, or creditor status.

[SPD] Security. A transferrable financial instrument that evidences ownership or creditor-ship, whether in physical or book entry form.

Service Assessments. Special assessment projects for operating activities that do not result in the purchase or construction of capital assets. Often such service assessments are for services that are normally provided to the public as general government functions and that would otherwise be financed by the general fund or a special revenue fund. Those services include street lighting, street cleaning and snow plowing. Financing for these routine services typically comes from general revenues. However, when routine services are extended to property owners outside the normal service area of the government or are provided at a higher level or at more frequent intervals than that provided the general public, special assessments are sometimes levied. Only the affected property owners are charged for the additional services.

[SPD] Service Concession Arrangement. An arrangement between a transferor (a *government*) and an operator (*governmental* or *nongovernment entity*) in which 1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a *facility*) in exchange for significant consideration, and 2) the operator collects and is compensated by fees from third parties.

[SPD] Service Cost(s). The portion(s) of the actuarial present value of projected benefit payments that are attributed to valuation years.

Shared Revenues. Revenues levied by one government but shared on a predetermined basis—often in proportion to the amount collected at the local level—with another government or class of governments.

Short-Term Debt. Debt with a maturity of one year or less after the date of issuance. Short-term debt usually includes variable-rate debt, bond anticipation notes, tax anticipation notes, and revenue anticipation notes.

[SPD] Short-Term Obligations. Obligations that are scheduled to mature within one year after the date of government’s financial statements.

Single Audit. An audit designed to meet the needs of all federal grantor agencies and performed in accordance with the Single Audit Act of 1984 (as amended) and OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. The Single Audit Act allows or requires governments (depending on the amount of federal assistance received) to have one audit performed.

[SPD] **Single Employer.** An employer whose employees are provided with pensions or OPEB through a single-employer defined benefit pension or OPEB plan.

[SPD] **Single Employer Defined Benefit Pension/OPEB Plan.** A defined benefit pension or OPEB plan that is used to provide pensions or OPEB to employees of only one employer.

[SPD] **Single Function District.** A special district that delivers one service such as water, sewage, or fire protection.

Sinking Fund. See [Debt Service Fund](#).

[SPD] **Special Act.** Special district created by the Legislature tailored to the unique needs of a specific area. Special District Acts include districts that are regional in nature, have unusual governing board requirements, provide unique services, or need special financing.

Special Assessment. Capital improvements or services provided by special districts are intended primarily to benefit a particular property owner or group of property owners rather than the general citizenry. The benefitting owners pay a regular assessment to the special district through a lien assessed properties secure the debt which may or may not be also backed by the full faith and credit of the special district as additional security.

Special Assessment Bonds. Bonds payable from the proceeds of special assessments. If the bonds are payable only from the collections of special assessments, they are known as *special assessment bonds*. If, in addition to the assessments, the full faith and credit of the government are pledged, they are known as *general-obligation special assessment bonds*.

Special Assessment Receivable. Claims a government has upon properties until special assessments levied against them have been paid. The term normally applies to those delinquent special assessments the government has taken legal action to collect through the filing of claims.

[SPD] **Special District.** A dependent/independent unit of local government organized to perform a single government function or a restricted number of related functions. Special districts usually have the power to incur debt and levy taxes; however, certain types of special districts are entirely dependent upon enterprise earnings and cannot impose taxes. Examples of special districts are water districts, drainage districts, flood control districts, hospital districts, fire protection districts, transit authorities, port authorities, and electric power authorities. Dependent special districts are usually under the governance of either county or city.

Special Funding Situations. A term used in connection with pensions. A situation in which a governmental entity is legally responsible for contributions to pension or OPEB plans that cover the employees of another governmental entity or entities. For example, a state government may be legally responsible for the annual “employer” contributions to a pension plan that covers employees of school districts within the state.

Special Items. Significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.

Special Journal. Journals other than the general journal. A journal in which are entered all entries of a particular type (e.g., cash receipts journals, cash disbursement journals, and purchases journals). See Journal and General Journal.

Special Revenue Fund. A governmental fund used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. Special revenue funds should not be used to account for resources held in trust for individuals, private organizations, or other governments.

Stabilization Arrangements. These represent formal arrangements to maintain amounts for budget or revenue stabilization, working capital needs, contingencies or emergencies, and other similarly titled purposes. The authority to set aside these amounts generally comes from statute, ordinance, resolution, charter, or constitution. Stabilization amounts may be expended only when certain specific circumstances exist and those circumstances should be such that they would not be expected to occur routinely.

Stabilization funds can be classified as either restricted or committed fund balance if they meet the criteria. If the criteria is not met, then stabilization agreements should be reported as unassigned.

Standard Cost. The predetermined cost of performing an operation or producing a product when labor, materials, and equipment are used efficiently under reasonable and normal conditions. Normal conditions exist when there is an absence of special or extraordinary factors affecting the quality or quantity of the work performed or the time or method of performing it.

State Controller. The elected California State fiscal officer prescribed by the constitution with such additional powers, duties, and functions as the Legislature may confer or impose upon the office.

[SPD] Statement of Activities. Report of the results of operations of the reporting government presented in a format that reports the net (*expense*) revenue of its individual functions.

[SPD] Statement of Cash Flows. Required statement for proprietary funds, nonexpendable trust funds, and governmental entities that use proprietary fund accounting, directly showing the cash inflows and outflows of a period and reconciling operating cash flows to operating income.

[SPD] Statement of Net Position. Report of all financial and capital resources. Special districts are encouraged to present the statement in a format that displays assets plus deferred outflows of resources less liabilities plus deferred inflows of resources equal net position, although the traditional balance sheet format (assets plus deferred outflows of resources equal liabilities plus deferred inflows of resources plus net position) may be used.

[SPD] Statement of Revenues, Expenditures, and Changes in Fund Balance. A report of information about the inflows, outflows, and balances of current financial resources of each major governmental fund and for the nonmajor governmental funds in aggregate. A total column should be presented as of the period ended by the reporting date.

[SPD] Statement of Revenues, Expenses, and Changes in Net Position. The operating statement for proprietary funds or fiduciary funds.

Statistical Section. The third of three essential components of any CAFR. The statistical section provides a broad range of trend data covering key financial indicators from the past 10 fiscal years (e.g., general government revenues and expenditures, property tax collections, debt burden). It also contains demographic and miscellaneous data useful in assessing a government's financial condition. The contents of the statistical section normally fall outside the scope of the independent audit of the financial statements.

Statute. A written law enacted by a duly organized and constituted legislative body. See Ordinance, Resolution, and Order.

Straight Serial Bonds. Serial bonds in which the annual installments of bond principal are equal or nearly equal.

[SPD] Subsequent Event. Events or transactions that affect the financial statements after the reporting date. Recognized events require adjustments to the financial statements as they existed prior to the reporting date. Nonrecognized events may require disclosure.

Subsidiary Account. One of a group of related accounts supporting in detail the debit and credit summaries recorded in a control account (e.g., the individual property taxpayers' accounts for the taxes receivable control account in the general ledger). See Control Account.

Subsidiary Ledger. A group of subsidiary accounts, the sum of the balances of which should equal the balance of the related control account (or general ledger account). See General Ledger.

Summary of Significant Accounting Policies (SSAP). A disclosure of accounting policies, required by GAAP, that should identify and describe the accounting principles followed by the reporting entity and the methods of applying those principles that materially affect the determination of financial position, cash flows, or results of operations. In general, the disclosure should encompass important judgments as to the appropriateness of principles relating to the recognition of revenue and the allocation of asset costs to current and future periods; in particular, it should encompass those accounting principles and methods that involve any of the following: 1) a selection from existing acceptable alternatives, 2) principles and methods peculiar to government, and 3) unusual or innovative applications of accounting principles, including those peculiar to government.

Supplementary Information (SI). Supporting information that is useful for placing basic financial statements and notes to basic financial statements in an appropriate operational, economic, or historical context. SI is presented with the basic financial statements, notes to basic financial statements, and RSI in a government's general purpose external financial report.

Supporting Schedules. Financial presentations used: 1) to demonstrate compliance with finance-related legal and contractual provisions; 2) to aggregate and present in greater detail information spread throughout the financial statements (e.g., cash balances, investments, current and delinquent taxes); 3) to present in greater detail information reported in the financial statements (e.g., additional revenue sources detail, changes in general capital assets by function); and 4) to present information not disclosed in GAAP basic financial statements (e.g., cash receipts and disbursements, changes in Agency Fund assets and liabilities).

Susceptible to Accrual. Revenues of governmental funds that are collected or collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Suspense Account. An account that carries charges or credits temporarily, pending the determination of the proper account or accounts to which they are to be posted.

[SPD] Swap. A type of derivative instrument in which there is an agreement to exchange future cash flows. These cash flows may be either fixed or variable and may be either received or paid. Variable cash flows depend on the reference rate.

T

Tax Rate. The amount of tax stated in terms of a unit of the tax base (e.g., 25 mills per dollar of assessed valuation of taxable property).

Tax Roll. The official list showing the amount of taxes levied against each taxpayer or property. Frequently, the tax roll and the assessment roll are combined, but even in these cases the two can be distinguished.

Taxes. Compulsory charges levied by a government to finance services performed for the common benefit. This term does not include specific charges made against particular persons or property for current or permanent benefits, such as special assessments. Neither does the term include charges for services rendered only to those paying such charges (e.g., sewer service charges).

Taxes Levied An asset account reflecting taxes that are levied by the reporting government for other governments that, when collected, are to be paid over to those governments.

[SPD] Tax Power. The authority for a special district to raise money to pay for projects and services.

Taxes Receivable - Current. Account for the uncollected portion of taxes that a government has levied, that are due within one year, and that are not considered delinquent.

Technical Bulletin. In context of GASB pronouncements, a document issued by the staff of GASB to provide guidance for applying GASB statements and interpretations and resolving accounting issues not directly addressed by them. The Accounting Standards and Procedures Committee of the County Auditor's Association of California issues similar documents that relate to specific accounting issues and their related treatments that are unique to California counties.

Term Bonds. Bonds that mature, in total, on one date.

[SPD] Termination Benefits. Inducements offered by employers to active employees to hasten the termination of services, or payments made in consequence of the early termination of services. Termination benefits include early-retirement incentives, severance benefits, and other termination related benefits.

Timeliness. The principle that financial statements must be issued soon enough after the reported events to affect decisions.

[SPD] Time Requirements. Specification of 1) the period when resources are required to be used (sold, disbursed, or consumed) or when use may begin (for example, operating or capital grants for a specific period), or 2) that the resources are required to be maintained intact in perpetuity or until a specified date or event has occurred (for example, permanent endowments, term endowments, and similar agreements). Time requirements affect the timing of recognition of nonexchange transactions.

Timing Differences. In the context of budgetary accounting, differences between the budgetary basis of accounting and GAAP that occur when the period used for budgeting differs from the period used for GAAP reporting (e.g., a special revenue fund that uses a grant-year budget rather than a fiscal-year budget).

[SPD] Total OPEB Liability. The portion of the actuarial present value of projected benefit payments that is attributed to past periods of member service in conformity with the requirements of GAAP. The total OPEB liability is the liability of employers and nonemployer contributing entities to plan members for benefits provided through a defined benefit OPEB plan that is not administered through a trust.

[SPD] Total Pension Liability. The portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service.

[SPD] Transaction Costs. The costs to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability that 1) are directly attributable to the disposal of the asset or the transfer of the liability, and 2) meet both of the following criteria: they result directly from and are essential to that transaction, and they would not have been incurred by the entity had the decision to sell the asset or transfer the liability not been made.

[SPD] Transaction Date. The date on which a transaction is recorded in accounting records in conformity with GAAP. A long-term commitment may have more than one transaction date.

Transfers. See [Inter-Fund Transfers](#) and [Intra-Fund Transfers](#).

[SPD] Transfers of Operations. A transfer of operations is a government combination involving the operations of a government or nongovernmental entity, rather than a combination of legally separate entities, in which no significant consideration is exchanged. Operations may be transferred to another existing entity or to a new entity.

[SPD] Transportation Costs. The costs that would be incurred to transport an asset from its current location to its principal or most advantageous market.

Trial Balance. A list of the balances of the accounts in a ledger kept by double entry with the debit and credit balances shown in separate columns. If the totals of the debit and credit columns are equal or their net balance agrees with a control account, the ledger from which the figures are taken is said to be “in balance.”

Trust Funds. See [Fiduciary Fund](#).

Trustee. A fiduciary holding property on behalf of another.

U

[SPD] Unassigned Fund Balance. The residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

Unavailable Fund Balance. That portion of the governmental-type fund balance that is unavailable for financing the budget requirements for the accounting period involved. This is a conventional term, which identifies the nonspendable, restricted, committed and assigned portion of the fund balance, and should not be used in a GAAP financial presentation.

Underlying Securities. The securities lent by the lender to the borrower.

Understandability. The principle that information in financial reports should be expressed as simply as possible.

Underwriter. In the context of bonds, a dealer who purchases a new issue for resale.

Underwriting. The process of selecting, classifying, evaluating, rating, and assuming risks.

Unearned Revenue. A type of deferred inflow accounts used in connection with resources that have not yet been earned.

Unit Cost. In the context of cost accounting, the cost of producing a unit of product or rendering a unit of service (e.g., the cost of treating and purifying 1,000 gallons of sewage).

[SPD] Unit of Account. The level at which an asset or a liability is aggregated or disaggregated for recognition or disclosure purposes.

Unqualified Opinion. An opinion rendered without reservation by the independent auditor that financial statements are fairly presented.

Unrealized Gains and Losses. A term used in connection with the valuation of investments. Cumulative change in the market value of investments prior to their disposition.

Unrealized Revenues. A term used in connection with budgeting. The difference between estimated revenues and actual revenues.

Unrestricted Net Assets. That portion of net assets that is neither restricted nor invested in capital assets (net of related debt).

[SPD] Unrestricted Net Position. The net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

V

Value. As used in governmental accounting, 1) the act of describing anything in terms of money, or 2) to measure in terms of money. The term should not be used without further qualification. See Book Value and Face Value.

[SPD] Valuation Technique. A specific method or combination of methods used to determine the fair value of an asset or liability.

Variable Interest Rate. A rate of interest subject to adjustment (e.g., the rate of interest specified may be a percentage of the prime rate on certain set dates).

Vesting Method. An estimate of accrued sick leave liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such payments. To calculate the liability, these accumulations should be reduced to the maximum amount allowed as a termination payment. Accruals for those employees who are expected to become eligible in the future should be based on assumptions concerning the probability that individual employees or classes or groups of employees will become eligible to receive termination payments.

Voucher. A written document that evidences the propriety of transactions and usually indicates the accounts in which they are to be recorded.

Voucher System. A system that calls for the preparation of vouchers for transactions involving payments and for the recording of such vouchers in a special book of original entry, known as a *voucher register*, in the order in which payment is approved.

Vouchers Payable. Liabilities for goods and services, evidenced by vouchers that have been pre-audited and approved for payment but that have not been paid.

Voluntary Nonexchange Transactions. Transactions that result from legislative or contractual agreements, other than exchanges, entered into willingly by the parties to the agreement (for example, certain grants and private donations).

Voting Majority. When the number of a government's appointees to a component unit's board is sufficient to exhibit control.

W

Warrant. An order drawn by the legislative body or an officer of a government upon its treasurer, directing the latter to pay a specified amount to the person named or to the bearer. It may be payable upon demand, in which case it usually circulates the same as a bank check, or it may be payable only out of certain revenues when and if received, in which case it does not circulate as freely. See Registered Warrant and Deposit Warrant.

Warrants Payable. The amount of warrants outstanding and unpaid.

Welfare Exemption. A tax exemption on property used exclusively for religious, hospital, scientific, or charitable purposes, owned and operated by community chests, funds, foundations, or corporations organized and operated for religious, hospital, scientific, or charitable purposes.

Widely Recognized and Prevalent Practice. A term used in connections with the hierarchy of GAAP for state and local governments. The principal that accounting and financial reporting practice should itself serve as a source of GAAP in the absence of higher level guidance.

Working Capital Fund. See Internal Service Fund.

X

NONE

Y

Yield. See Effective Interest Rate.

Z

NONE

Appendix B: Additional Information Resources

General Governance

- Bagley-Keene Open Meeting Act (Gov. Code, §11120 et seq.)
- Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (Gov. Code, §56000 et seq.)
- The Ralph M. Brown Act (Gov. Code, §54950.5 et seq.)
- California Public Records Act (Gov. Code, §6251 et seq.)

Local Government Resources

Association of California Health Care Districts
www.achd.org

Association of California Water Agencies
www.acwa.com

California Association of Joint Powers Authorities
www.cajpa.org

California Association of Public Cemeteries
<http://capc.info>

California Association of Recreation and Park Districts
www.carpd.net

California Association of Resource Conservation Districts
www.carcd.org

California Association of Sanitation Agencies
www.casaweb.org

California Debt and Investment Advisory Commission
www.treasurer.ca.gov/Cdiac

California Association of Local Agency Formation Commissions
<https://calafco.org>

California Local Government Finance Almanac
www.californiacityfinance.com

California Special Districts Association
www.csda.net

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California Special Districts Finance Corporation
www.csdafinance.net

California State Association of Counties
www.csac.counties.org

Fire Districts Association of California
www.fdac.org

Government Finance Officers Association
www.gfoa.org

Institute for Local Government
www.ca-ilg.org

League of California Cities
www.cacities.org

Mosquito and Vector Control Association of California
www.mvcac.org

Special District Risk Management Authority
<http://www.sdrma.org/>

State Resources

Office of the Governor
www.gov.ca.gov

The Governor's Office of Planning and Research
www.opr.ca.gov

Attorney General's Office (California Department of Justice)
www.ag.ca.gov

California Codes
<http://leginfo.legislature.ca.gov>

California Code of Regulations
<https://govt.westlaw.com>

California Department of Transportation
www.dot.ca.gov

Appendix B: Additional Information Resources

California Public Employees' Retirement System (CalPERS)

www.calpers.ca.gov

California State Assembly

www.assembly.ca.gov

California State Board of Equalization

www.boe.ca.gov

California State Controller's Office

www.sco.ca.gov

California State Controller's Office – Local Government Financial Data

<https://bythenumbers.sco.ca.gov/>

California State Senate

<http://senate.ca.gov/committees>

California State Treasurer

www.treasurer.ca.gov

California Uniform Cost Accounting Commission

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

California Fair Political Practices Commission

www.fppc.ca.gov

Legislative Analyst Office

www.lao.ca.gov

Little Hoover Commission (California's Independent State Oversight Agency)

www.lhc.ca.gov

Local Government Commission

www.lgc.org

Secretary of State's Office

www.sos.ca.gov

Other

Governmental Accounting Standards Board

www.gasb.org

California State Controller's Office
Local Government Programs and Services Division
Local Government Policy Unit
3301 C Street, Suite 700
Sacramento CA 95816

If you have any questions please contact the Local Government Policy Unit:
LocalGovPolicy@sco.ca.gov