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INTRODUCTION

This plan assumes that the City has converted to Generally Accepted Accounting Principles (GAAP) prior to the implementation of GASB 34; therefore this plan will discuss only changes from the old reporting model to the new model as set forth by GASB 34.

Annual Financial Reporting

Cities are required to implement GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments," according to the transition schedule included in the statement. The City should prepare and publish, as a matter of public record, a financial report that encompasses activities that make up the reporting entity. The purpose of the financial statements is to report the overall financial position and results of operations of the reporting entity as well as fund information that focuses on major funds. The basic financial statements serve as the official annual report of the City and should contain all necessary information to demonstrate compliance with legal and contractual provisions.

The City must report at a minimum, the basic financial statements and required supplementary information that is discussed below. The City also has the option to present a Comprehensive Annual Financial Report (CAFR) that is also discussed in further detail in the Financial Statement Presentation section of this plan.

Minimum Requirements for Basic Financial Statements and Required Supplementary Information

1. *Management's Discussion and Analysis* This analysis should introduce the basic financial statements and provide an analytical overview of the government's financial activities. The statements should provide an easy to understand overview of the of the City's financial activities and should be based on known facts and conditions at the time of publication and should include an analysis of current-year results in comparison with the prior year. The analysis can include charts, graphs, or any other information that may be helpful in explaining the financial position of the City.

2. *Basic Financial Statements* These statements are discussed in the Basic Financial Statement Presentation Section and include:
    - Government-wide statements
        - Statement of net assets
        - Statement of activities
    - Fund financial statements
        - Balance sheet - governmental funds
        - Statement of revenues, expenditures and changes in fund balances - governmental funds
        - Statement of revenues, expenditures and changes in fund balance - budget (non-gaap basis) and actual - general and major special revenue funds
        - Statement of net assets - proprietary funds
        - Statement of revenues, expenses and changes in fund net assets - proprietary funds
        - Statement of cash flows - proprietary funds
        - Statement of fiduciary net assets - fiduciary funds
        - Statement of changes in fiduciary net assets - fiduciary funds
    - Notes to the basic financial statements

3. *Required Supplementary Information* The RSI including budgetary comparison schedules for the City's general fund and each major special revenue fund and information about infrastructure assets reported using the modified approach.

Optional Reporting Requirements for a Comprehensive Annual Financial Report (CAFR)

The comprehensive annual financial report is still required to include three basic sections, Introductory, Financial and Statistical, which include primarily the same information as the old reporting model with the following changes:

Introductory Section

The transmittal letter basic contents are amended to include:

1. Formal transmittal of the CAFR
    - A. Management's responsibility for report contents
    - B. Independent audit
2. Profile of the City
3. Information useful in assessing the City's financial condition:
    - A. Local economy
    - B. Long-term financial planning
    - C. Cash management and investments
    - D. Risk financing
    - E. Pension benefits
    - F. Postemployment benefits
4. Awards and acknowledgments

Do not duplicate information contained in the MD&A or Notes. Refer the reader to them.

Financial Section The financial section will include the basic financial statements as required by the new reporting model, as well as combining and individual fund presentation and supplementary information which have been modified to include:

1. Budgetary Comparisons
    - A. Will include an additional column for original budget
2. The CAFR should include a combining statement to support each column in the basic financial statements that aggregates data from more than one fund or discretely presented component unit, which could include the following:
    - A. Combining statements - nonmajor governmental funds
    - B. Combining statements - nonmajor enterprise funds
    - C. Combining statements - internal service funds
    - D. Combining statements - private purpose trust funds
    - E. Combining statements - pension (and other employee benefit) trust funds
    - F. Combining statements - investment trust funds
    - G. Combining statements - agency funds
    - H. Combining statements - nonmajor discretely presented component units

Statistical Section The statistical section remains generally unchanged in the new model, but will require additional data in the following tables:

General Governmental Revenues by Source and Expenses/Expenditures By Function - Last Ten Fiscal Years

1. Will include additional columns for modified and full accrual revenues and expenditures/expenses for the years reported under the new model.

Note: GAAFR provides specific guidance for statistical table information.

OVERVIEW OF CONVERSION PROCESS - OLD MODEL TO NEW

The conversion from previously reported GAAP information to financial statements that conform to the new reporting model is a bit more complicated than the conversion process needed for the old model. The obvious reason for this is the need to create the new government-wide statements on a full accrual basis. There are two aspects of those statements that complicate the conversion process beyond simply applying a new basis of accounting. The first is the need to split net assets into a restricted net asset component and to distinguish between major categories of restrictions. The second is the requirement to identify program revenues and then associate them with the programs reported on the statement of activities.

It would be a straight forward process to compute the full accrual information for governmental activities if you could simply roll the modified accrual information for the governmental funds together and then convert this to full accrual information using journal entries that encompassed all governmental activities. The problem with this approach is that you lose the ability to identify restricted net assets by category. For example, from the modified accrual statements, the fund balance available for debt service is evident. Once all funds are rolled together and the full accrual entries posted, however, the ability to identify the net assets restricted for debt service is lost.

One way to address this issue is to split the accrual journal entries based on the categories of restricted net assets they affect. The other is to take the additional step of posting the journal entries needed to calculate restricted net assets at the fund level. This is the method we have adopted. This method permits restricted net assets to be categorized in as much detail as the reporting government could ever want. It permits the accrual entries to be calculated at the same time and in the same manner as the modified accrual entries. It also generates trial balances that facilitate analytic review, which is beneficial both to the preparer and to the auditors. The posting of full accrual entries at the fund level also facilitates the identification of program revenues by program.

Program revenues will be identified at this fund level and will be tracked on separate columns on the full accrual trial balance for each individual fund. Tracking at this level is much easier, as the revenues can be analyzed as the individual statement is prepared, and then split to the programs for which the revenues are associated. A complete discussion regarding the identification and classification of program revenues is included in this plan.

The following outline is provided to summarize the steps needed in order to convert the City's financial statements from the old reporting model to the new reporting model. Each item of the outline is referenced to the section of the plan that contains the detailed information.

Reclassify funds utilizing the new fund structure and fund definitions. (FUND CLASSIFICATION)
- Identify fund structure.
- Consolidation of funds
  - Small funds or funds of a similar purpose may be combined for reporting purposes.

Identify major funds utilizing the spreadsheet provided by LGS. (FUND CLASSIFICATION)

Prepare draft financial statements by identifying appropriate accounts and activities. (GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS, STATEMENT OF NET ASSETS AND BALANCE SHEET ACCOUNTS, and STATEMENT OF ACTIVITIES ACCOUNTS)
- Statement of Net Assets
  - Chose either the order of liquidity or classified format.
  - Determine the accounts to be included. If aggregated, will need detailed note disclosure per GASB 38.
  - Determine the classifications of restricted net assets.
  - Determine the method of accumulating restricted net assets:

Fund or
Classification.

Statement of Activities

Determine the level of expense presentation.

Determine a method of indirect cost allocation (discretionary).

Determine presentation of program revenues (charges for services, operating grants, and capital grants).

May report more than one column under each major category of program revenues.

Create program revenue worksheet to track specific program revenues throughout the conversion process for all funds with multiple activities (may be limited to general fund).

List all transaction types by type of program revenue and associated activity.

Determine classification of general revenues and the level of detail to be reported.

Determine the breakdown between activities and enterprise funds. Don't assume that business-type activities are only enterprise funds; business-type activities may include activities within governmental funds. Business-type activities must include different identifiable activities reported in enterprise funds.

Determine the presentation of component units. It is important to note that the component units will only be presented on the entity-wide financial statements, therefore the financial information of the component units will also need to be converted to GASB 34.

May report multiple discretely presented component units as a combined total on the face of the entity-wide financial statements with the combining information included as part of the notes to the basic financial statements; or

May report multiple discretely presented component units as a combined total on the face of the entity-wide financial statements with a separate combining statement included in the basic financial statements; or

May report multiple discretely presented component units in separate columns on the face of the entity-wide financial statements.

Finalize the account structure and presentation format.

Create trial balance worksheets based on the account structure determined from the draft financial statements. (TRIAL BALANCES)

Restatement Trial Balance at Beginning of Year. One trial for each governmental fund.

Consolidation Trial Balance at Beginning of Year, One trial for the total of all governmental funds.

Calculate change in beginning of year fund balances for interpretation 6 (and GASB 33/36 if not already implemented). (NONCAPITAL LIABILITIES and RECEIVABLES)

Restate beginning of year deferred revenue based on implementation of GASB 33/36 for analytical review and for the balance sheet reconciliation.

Post to restatement trial balances.

Calculate beginning of year governmental activity.

Breakdown by fund primarily to determine restricted net assets.

Convert revenues to full accrual (RECEIVABLES)

Will need for reversing entries

Identify major revenue transaction types to maintain breakdown of program and general revenues. (PROGRAM REVENUES)

Exchange and exchange-like transactions.

Nonexchange transactions.

Derived tax revenues.

Imposed non-exchange revenues.

            - Government-mandated non-exchange transactions
            - Voluntary non-exchange transactions.
        - Link transaction types to accounts on fund and government-wide financial statements (maintain program revenue worksheet).
    - Convert expenditures to expenses. (INVENTORY& PREPAID ASSETS)
        - Convert to consumption method of inventory.
        - Report governmental prepaid assets at a minimum on the government-wide statements.
    - Allocate non-capital debt items to the funds maintaining an activity account level of breakdown in order to reverse these items. (NONCAPITAL LIABILITIES)
        - Compensated absences.
        - Retirement.
        - Special termination benefits.
    - Identify beginning of year restricted net asset balances (TRIAL BALANCES)
        - Through the combining of individual restatement trial balances.
        - Account for unspent debt proceeds (restricted net assets).
    - Create governmental activity worksheets
        - Capital Debt. (CAPITAL DEBT)
            - Maintain a breakdown between balances due within one year and due in more than one year.
            - Include governmental activity debt issued to acquire proprietary assets.
        - Capital Assets - General and Infrastructure. (CAPITAL ASSETS)
            - Maintain a breakdown between depreciable and non-depreciable capital assets.
    - Create the consolidation trial balance. (TRIAL BALANCES)
        - Post the full accrual totals of the governmental restatement trials.
        - Post capital debt balances.
        - Post capital asset balances.
        - Post internal service funds' balances (FUND BALANCE AND NET ASSETS)
            - Allocate balance to the governmental activities if a governmental fund was the predominant participant.
            - Create an internal balance if significant participation by a business-type activity. (INTERFUND ACTIVITY)
                - The receivable internal balance would be reported as part of unrestricted net assets.
- Calculate end of year governmental activity
    - Create Budgetary Trial Balances. (BUDGETARY REPORTING)
        - One trial balance for each fund as consolidated by new combined fund structure.
        - May still be able to generate the majority of this information through the old GAAP subsystem.
            - Need to incorporate original budgeted information, at a minimum, for the general fund and all major special revenue funds.
        - Information from these trial balances will be carried forward to:
            - Cash Transaction column on modified accrual and full accrual trial balances
            - Budgetary statements that are either reported in the basic financial statements or as required supplementary information.
    - Identify and post cash transactions by activity to the program revenue worksheets.
    - Create modified accrual trial balances. (TRIAL BALANCES)
        - One trial balance for each fund as consolidated by new combined fund structure.
        - Utilize account structure from the draft statements.
        - Post beginning information from the restatement trials, modified accrual total columns.
    - Create restricted net assets trial balances. (TRIAL BALANCES)
        - One trial balance for each fund as consolidated by new combined fund structure.
        - Utilize account structure from the draft statements.
        - Post beginning information from the restatement trials, full accrual total columns.
    - Create consolidation trial balance. (TRIAL BALANCES)

Beginning columns will be posted from the totals of the governmental restricted net assets trial balances.
Post internal service fund beginning assets and liabilities.
Eliminate interfund balances.

Complete work paper sections and gather information for fund level presentation.
Revenue journal entries. (RECEIVABLES)
Prepare full receivable amounts based on GASB 33/36, and then determine the amount received in the available period for the modified accrual revenue amount.
Create revenue modified and full accrual entries at the time of completion of work paper sections keeping the full accrual entries as the net change.
Expenditure/Expense journal entries. INVENTORY and PREPAID ASSETS)
Must report prepaid items on a full accrual basis.
Inventory must be reported through the consumption method.
Non-fund obligations must maintain a breakdown by activity/program.
Depreciation
Internal service activity

Post modified accrual reversing and adjusting journal entries to the modified accrual fund trial balances.

Post both modified and full accrual reversing and adjusting journal entries to the restricted net assets trial fund balances.
Post journal entries by transaction type to the program revenue worksheets.
Maintain program revenue information as right-hand columns of the restricted net assets trial balances, creating activity expense breakdowns for the Statement of Activities.
Post reclassification journal entries for program revenues and the breakdown of general revenues.

Create combining statements. (GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS and COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES)
Entity-Wide Statements.
Combining statement of program revenues for governmental funds and proprietary funds.
Combining statement of net assets and statement of activities for governmental funds and proprietary funds.
Post the combining information to the consolidated trial balance.
Fund Statements.
Combining balance sheet for non-major governmental funds.
Combining statement of revenues, expenditures/expenses, and changes in fund balancefor nonmajor governmental funds.
Post the combining information to the balance sheet and statement of revenues, expenditures and changes in fund balances.

Post current year activity to capital debt and capital assets worksheets and post to the consolidated trial balance.
Post Capital Debt Activity from the capital debt worksheet.
Will eliminate debt service principal.
Post Capital Assets Activity from the capital asset worksheet.
Will eliminate capital outlay and create depreciation expense.
Post internal service fund activity.
Eliminate interfund activity.

Post all information into the financial statement format.

Information in this overview is detailed in the following sections of this plan.

FUND CLASSIFICATIONS

Fund Accounting Systems

In governmental accounting there are three fund classifications. They are:

GOVERNMENTAL FUNDS

Governmental fund reporting focuses on the sources, uses and balances of current financial resources and often has a budgetary orientation. The governmental funds include the general fund, special revenue funds, capital projects funds, debt service funds, and permanent funds. With the exception of permanent funds, those governmental funds are defined in NCGA Statement 1, as amended.

Permanent funds should be used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs - that is, for the benefit of the government or its citizenry. Permanent funds do not include private-purpose trust funds which should be used to report situations in which the government is required to use the principal or earnings for the benfit of individuals, private organizations, or other governments.

PROPRIETARY FUNDS

Proprietary fund reporting focuses on the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. The proprietary fund classifiaction includes enterprise and internal service funds.

Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's principal revenue sources.

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

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

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. Fiduciary funds should be used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds. The three types of trust funds should be used to report resources held and administered by the reporting government when it is acting in a fiduciary capacity for individuals, private organizations, or other governments. These funds are distinguished by the existence of a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Pension (and other employee benefit) trust funds should be used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other postemployment benefit plans, or other employee benefit plans.

Investment trust funds should be used to report the external portion of investment pools reported by the sponsoring government, as required by Statement 31, paragraph 18.

Private-purpose trust funds, such a fund to report escheat property, should be used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments.

Agency funds should be used 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, private organizations, or other governments.

Many governments combine funds with similar characteristics for external reporting purposes. The needs of those who require the establishment of separate funds can generally be met with internal or special purpose reports. The minimum number of funds principal in NCGA Statement 1 would suggest that the government should combine certain funds for external reports. Governments can exercise a certain amount of latitude in determining what should be reported as a 'fund" in external reports. The concept of combining funds on a functional basis is often applied. Certain funds were presented separately for budgetary purposes but are combined for GAAP purposes. The funds will continue to be maintained separately on the books of the City. Consult with your auditors if you question whether the consolidation of a particular fund is appropriate.

GAAP reporting requires the funds of the City to be organized by fund types. The following table summarizes the way the funds were combined for both budgetary purposes and GAAP purposes.

Governmental Funds:

General Fund

- General Fund
  - General Fund
  - Central Garage Fund
  - Trailer Parks Fund
  - Trailer Camps Fund
  - Unclaimed Monies Fund
  - Parking Deck Fund

Special Revenue Funds
- Community Development Block Grant Fund
- Fire Pension Fund
- Food Service Fund
- Housing Code Enforcement Fund
- Indigent Alcohol Fund
- Marina Fund
- Motor Vehicle License Tax Fund
- Municipal Probation Fund
- Police Pension Fund
- Public Health Nursing Fund
- Sanitation Fund
- State Highway Fund
- Street Maintenance and Repair Fund
    - Auto License/Permissive Tax Fund
- Walnut Beach Fund

Capital Projects Funds
- Construction Fund
- Permanent Improvement Fund
    - Permanent Improvement CIT Fund
    - Permanent Improvement Fund

Debt Service Funds
- Debt Service Fund
    - Main Avenue Debt Service Fund
    - Voted Debt Fund

Proprietary Funds:

Enterprise Fund
- Water Pollution Fund

Internal Service Funds
- Self Insurance Fund
- Workers' Compensation Fund

Fiduciary Funds:

Agency Funds
- County Sewer Collections
- Fire Escrow Fund
- Law Library Fund
- Municipal Court Fund
- Street Deposits Fund

MAJOR FUNDS

GASB 34 paragraph 76 states:

The reporting government's main operating fund (the general fund or its equivalent) should always be reported as a major fund. Other individual governmental and enterprise funds should be reported in separate columns as major funds based on these criteria:

a. 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**

b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent 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 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.

Description of GAAP Funds

General Fund To account for financial resources of the City which are not accounted for in any other fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the charter and/or the general laws of Ohio.

Special Revenue Funds Special Revenue funds are established to account for the proceeds of specific revenue sources (other than amounts relating to major capital projects) that are legally restricted to expenditure for specified purposes.

> ***Community Development Block Grant Fund*** To account for monies received from the state government under the federal Community Development Block Grant and Rental Rehabilitation programs.
>
> ***Fire Pension Fund*** To accumulate property taxes levied for the payment of the current and accrued liability for fire disability and pension benefits.
>
> ***Food Service Fund*** To account for food service establishment inspection, license and permit fees collected by the City.
>
> ***Housing Code Enforcement Fund*** To account for fees collected from property owners for inspections to ensure the City's housing codes are followed.
>
> ***Indigent Alcohol Fund*** To account for fees collected by the municipal court from persons whose driver's license or permit was suspended for driving under the influence of alcohol.
>
> ***Marina Fund*** To account for monies received from permits and licenses issued in connection with the operation of the marina.
>
> ***Motor Vehicle License Tax*** To account for resources received as a result of the County's levied motor vehicle license tax.
>
> ***Municipal Probation*** To account for resources received from municipal probation.
>
> ***Police Pension Fund*** To accumulate property taxes levied for the payment of the current and accrued liability for police disability and pension benefits.
>
> ***Public Health Nursing Fund*** To account for monies received from residents who utilize the services of the home nursing program sponsored by the Department of Health of the City.
>
> ***Sanitation Fund*** To account for fees collected for residential and commercial trash services provided to City residents.

State Highway Fund To account for that portion of the state gasoline tax and motor vehicle registration fees designated for maintenance of state highways within the City.

Street Maintenance and Repair Fund To account for that portion of the state gasoline tax and motor vehicle registration fees designated for maintenance and repair of dedicated streets within the City.

Walnut Beach Fund To account for revenue received from concession stand operations.

Debt Service Fund To account for the accumulation of resources for, and the payment of, principal and interest on general long-term debt and related costs.

Capital Projects Funds The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds.)

Construction Fund To account for financial resources to be used for the acquisition and construction of the new Municipal building.

Permanent Improvement Fund To account for financial resources to be used for the acquisition of major capital improvements within the City.

Proprietary Funds Proprietary funds are used to account for the City's ongoing activities which are similar to those found in the private sector. The following are the City's proprietary fund types:

Enterprise Funds The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Water Pollution Fund To account for the City's ongoing activities that are similar to private businesses (a) where the intent is that the costs (expenses, including allocations) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purpose.

Internal Service Funds The internal service funds are used to account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis.

Self Insurance Fund To account for a medical benefit self-insurance program for employees of the City. Monthly fees are paid and any balance on hand is held until used.

Workers' Compensation Fund To account for the revenues used for the purpose of providing workers' compensation benefits to employees.

Fiduciary Funds Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments units and/or other funds. There are two types of fiduciary funds, trust and agency. The following are the City's fiduciary fund type:

Agency Funds The City's agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement or results of operations.

> ***County Sewer Collections Fund*** To account for monies collected from residents of adjacent township areas for sewer usage fees, billed by the City then distributed to the County Sanitary Engineer.
>
> ***Fire Escrow Fund*** To account for deposits made by property owners or insurance companies to ensure that fire damaged buildings are restored or razed in compliance with the City building code.
>
> ***Law Library Fund*** To accumulate monies collected from state patrol fines that are then distributed to the County law library.
>
> ***Municipal Court Fund*** To account for the collection and distribution of court fines and forfeitures.
>
> ***Street Deposits Fund*** To account for deposits from contractors or vendors held by the City to insure compliance with various City ordinances regarding development within the City.

Comments

For GAAP reporting, the main avenue debt service fund and the voted debt fund will be reported as part of a debt service fund.

The trailer parks, trailer camps, parking deck, unclaimed monies, and central garage funds are currently set up as individual funds. For financial reporting, these funds are included in the general fund because of the small balances carried in each.

For GAAP financial reporting, the street construction fund and the auto license/permissive tax fund are combined for reporting purposes. The sanitation fund and the bond/debt retirement fund are combined for reporting purposes. The permanent improvements CIT fund and the permanent improvement fund are combined into one fund since there is no real distinction between what improvements may be made from either fund by ordinance.

A conversion program for fund classification is listed below. This program should be used to classify future funds added to the City's list of funds. The proper fund classifications may be determined more accurately by applying the conversion program.

FUND CLASSIFICATION CONVERSION PROGRAM

Obtain a list of current City cash basis funds.

For each fund, identify the source of the funding and any restrictions imposed on the use of the money. Each fund should then be evaluated to determine proper classification. Documentation should be assembled which identifies the applicable expenditure restrictions for any fund that is unusual or specific to your City. Only restrictions on the use of the money imposed by statute or by contract are relevant to the fund classification process. Funds created solely as a result of restrictions imposed by the board of education must have been authorized by the Auditor of State. If written authorization has not been received, the fund should be considered unrestricted and consolidation with the general fund may be appropriate.

If any funds have insignificant activity during the year and minimal balances at fiscal year end, it may be acceptable to consolidate these funds with the general fund or a fund used to achieve a similar purpose.

Determine which funds will be major funds, per the criteria listed above.

Note: A spreadsheet to help determine major funds may be obtained from LGS.

Determine if any revenue received by the City has a portion or is totally designated for another government, a non-profit organization or some other entity. The specifics should be reviewed on a case by case basis, and may require either a) a budgetary adjustment to reclassify the expenditures as "Intergovernmental" (A liability may be required for any portion of revenue held to be expended on behalf of another government), or b) a split of the fund to report the other entity's portion in an agency fund.

GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS

Management's Discussion and Analysis

The management's discussion and analysis is an easily readable analysis of the government's financial activities. It discusses current year results in comparison with the prior year. This discussion includes both the positive and negative effects and is written by the fiscal officer. This is the perfect opportunity to explain to the nonfinancial users of the report what is happening financially within the entity, why it is happening, and its potential impacts.

A more detailed discussion of the MD&A can be found later in the plan.

Basic Financial Statements

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government and its component units, except for the fiduciary funds of the primary government and component units that are fiduciary in nature, since their resources are not available to finance the government's programs. Those funds and component units should be reported only in the statements of fiduciary net assets and changes in net assets. The activity of the internal service funds is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are business-type activities and between the primary government and its discretely presented component units.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. These statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the City.

The focus of the government-wide financial statements should be on the primary government, as defined in Statement 14. Separate rows and columns should be used to distinguish between the primary government and its discretely presented component units. A total column should be presented for the primary government. A total column for the entity as a whole may be presented but is not required. Prior year data may be presented in the government-wide statements but also are not required.

Separate rows and columns also should be used to distinguish between the governmental and business-type activities of the primary government. Governmental activities are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. These activities are usually reported in enterprise funds.

The terms activity and fund are not synonymous; that is, "activity" generally refers to programs or services, whereas a fund is an accounting and reporting device. A single fund could account for several activities and a single activity could be accounted for in multiple funds. As previously indicated, the statement of activities usually follows the categorizations used in the fund financial statements - governmental activities are those that are usually accounted for in governmental funds and business-type activities are those that usually are accounted for in enterprise funds. Nevertheless, governments can realign their activities if they believe that it more faithfully represents their operating objectives and philosophies. The reconciliations from the governmental and enterprise fund financial statements to the government-wide statements would explain the reclassification.

Statement of Net Assets

The statement of net assets reports all financial and capital resources of the City's governmental and business-type activities. Fiduciary funds are excluded. Internal service funds are combined with the activity that is the predominant participant in the fund. Governments are encouraged to present the statement in a format that displays assets less liabilities equal net assets, although the traditional balance sheet format (assets equal liabilities plus net assets) may be used. Regardless of the format used, however, the statement of net assets should report the difference between assets and liabilities as net assets and not as fund balance or equity.

Governments are encouraged to present assets and liabilities in order of their relative liquidity. An assets' liquidity would be determined by how readily it is expected to be converted to cash and whether restrictions limit the government's ability to use the resources. A liability's liquidity is based on when cash is expected to be used to liquidate it. The liquidity of an asset or liability may be determined by assessing the average liquidity of the class of assets or liabilities to which it belongs, even though individual balances may be significantly more or less liquid than others in the same class and some items may have both current and noncurrent elements. Liabilities whose average maturities are greater than one year should be reported in two components - the amount due within one year and the amount due in more than one year.

Use of a classified statement of net assets, which distinguishes between all current and long-term assets and liabilities, is also acceptable.

The difference between a government's assets and its liabilities is its net assets, Net assets should be displayed in three components - invested in capital assets, net of related debt; restricted (distinguishing between major categories of restrictions); and unrestricted.

Invested in capital assets, net of related debt consists of capital assets, including any restricted capital assets, less both accumulated depreciation and the outstanding balances of any bonds, mortgages, notes, or other borrowings that are directly attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds should not be included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt should be included in the same net assets component as the unspent proceeds - for example, restricted for capital projects.

Question 90 in the implementation guide for GASB 34 provides guidance for determining unspent proceeds. It states, "The precision with which the unspent proceeds can be determined depends on the government's accounting records. Most governments are required to, or choose to, account for bond issues separately - either in separate funds or in an account or memorandum fashion in a multipupose fund - and can identify what has been spent and what remains. Those governments whose accounting systems do not lend themselves to that type of specific tracking should use their best estimates - in a manner that can be documented - to determine the unspent portion."

Net assets, restricted includes that portion of net assets where constraints are placed on the assets use by either external parties (e.g., creditors or grantors) or through constitutional provisions or enabling legislation. For this purpose, enabling legislation authorizes a 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. The basic concept is that restrictions are not unilaterally established by the reporting government itself, and cannot be removed without the consent of those imposing the restrictions or through formal due process.

At a minimum the restricted net assets include capital projects, debt service, and other purposes (primarily special revenue funds and unclaimed monies in the general fund). Special revenue fund resources should be reviewed carefully to be sure they meet the definition of restricted since the use of special revenue funds is not limited to legally restricted resources. NCGA Statement 1, paragraph 23, states that funds may also be created by the governing board to achieve sound and expeditious financial administration and reporting or to comply with grant or contract accounting and financial reporting requirements. The purpose for which the resources are restricted needs to be narrower than that of the reporting unit in which it is reported. For instance, resources that are required to be used for governmental activities are not considered restricted in the governmental activities column in the statement of net assets, but those that are required to be used for law enforcement, for example, would be considered restricted.

Net assets, unrestricted consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Statement of Activities

The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Indirect costs may be allocated among the various functions or programs. If indirect costs are allocated, direct and indirect expenses should be presented in separate columns to enhance comparability of direct expenses between governments that allocate indirect costs and those that do not. Additionally it may be necessary to allocate fringe benefits among the various functions or programs if they are charged to a single account such as general fund PERS. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on those restricted grants which also restrict any related interest earnings to support a particular program. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

All revenues are general revenues unless they are required to be reported as program revenues. All taxes, even those levied for a specific purpose, are general revenues. Taxes may be presented by the purpose for which they were levied within the general revenues.

Contributions to term and permanent endowments, contributions to permanent fund principal, special and extraordinary items, and transfers between governmental and business-type activities should each be reported separately from, but in the same manner as, general revenues. That is, these sources of financing the net cost of the government's programs should be reported at the bottom of the statement of activities to arrive at the all-inclusive change in net assets for the period.

Because some entities receive term and permanent endowments, GASB concluded that, based on the unavailabilty of the principal portion of these revenues to finance program costs it would be inappropriate to report them as reductions of program costs. Although some argue that term endowments eventually become available to finance programs, the Board decided that because of the uncertainty of the timing of release of most term restrictions (such as the death of the provider), it would be more appropriate to report these endowments in the same manner as permanent endowments.

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the 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 where the government is required to use the principal or earnings for the benefit of individuals, private organizations, or other governments.

Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. Extraordinary items should be reported separately at the bottom of the statement of activities. Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence. Special items should also be reported separately in the statement of activities, before extraordinary items, if any. In addition, governments should disclose in the notes to the financial statements any significant transactions or other events that are either unusual or infrequent but not within the control of management.

In the process of aggregating data for the statement of activities, some amounts reported as interfund activity should be eliminated or reclassified. After eliminations, the transfers that remain are those between governmental activities and business-type activities.

Fund Financial Statements During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Internal service funds are combined and the totals are presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

The fund financial statements (modified accrual information) will be presented primarily as they appeared in the old model, with the following changes:

Balance Sheet - Governmental Funds The Balance Sheet - Governmental Funds will include separate columns for the general fund and each major fund (see section on major funds), all other governmental funds, total governmental funds.

This statement will exclude columns for reporting the General Fixed Assets Account Group and the General Long-Term Obligations Account Group that were previously reported under the old model.

Component Units are no longer reported on the Balance Sheet - Governmental Funds.

Fiduciary Funds will no longer be reported on the Balance Sheet - Governmental Funds, as they are required to be reported on a full accrual basis under the new reporting model.

The Balance Sheet - Governmental Funds will include a reconciliation between total governmental fund balances as reported on the modified accrual basis and total net assets of governmental activities as reported on the full accrual basis.

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds The Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds will include separate columns for the general fund and each major fund, all other governmental funds, and total governmental funds.

Component Units are no longer reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

Fiduciary Funds will no longer be reported on the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds, as they are required to be reported on a full accrual basis under the new reporting model.
The Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds will include a reconciliation between the total net change in fund balances for all governmental funds as reported on the modified accrual basis and the change in net assets of governmental activities as reported on the full accrual basis.

This statement will include special and extraordinary items. These categories are presented after the other financial sources and uses. Special items are items under management’s control that are either unusual in nature or infrequent in occurrence. Extraordinary items are items not under management’s control that are both unusual in nature and infrequent in occurrence.

Definitions of certain accounts are modified by the new reporting model and will be discussed throughout this plan. Specific guidance regarding these changes can be found in GASB 34 and GAAFR.

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

GASB 34 requires the presentation of budgetary comparison schedules, as required supplementary information (RSI), for the general fund and each major special revenue fund that has a legally adopted budget. The City may elect to report budgetary comparison statements for the general fund and each major special revenue fund as part of the basic financial statements, rather than RSI. This approach is recommended by the Auditor of State Department of Local Government Services. Cities electing to prepare a CAFR, and participate in the GFOA certificate of excellence program are encouraged to present supplementary budgetary schedules for all funds that are legally required to be budgeted.

GASB 34 requires the budgetary schedules to reflect the original budget and final budget amounts along with the actual activity for the general and each major special revenue fund. A variance column is optional. Supplementary budgetary schedules are not required to include an original budget column, but inclusion is optional.

The purpose of budgetary statements or schedules is to demonstrate compliance (or non-compliance) with state or local statutes. The statements or schedules are therefore presented using the basis of accounting that is prescribed by state or local statute, and are prepared, subject to reclassification, using the amounts as they appear on the books of the City after the year-end closing.

Each budgetary comparison statement or schedule may have four columns of figures. The first column will be labeled "original budget", the second "final budget", the third "actual", and the fourth "variance". In the original budget column the expenditure figures represent the amounts from the first appropriated budget that covered the entire year, including encumbrances amounts automatically carried over from prior years. The original budgeted revenue figures will be the amounts on the certificate of estimated resources in place at the time the original budget was adopted. In the final budget column, the revenue figures represent the amounts from the final certificate of estimated resources requested during that year. The expenditure/expense figures represent the total of all appropriation measures passed prior to year end plus the carry-over encumbrances from the prior year. Figures presented in the actual column as revenues are the amounts of cash received during the year; expenditures/expenses are the disbursements made during the year plus outstanding encumbrances at fiscal year end. The variance column presents the difference between the final budgeted and actual amounts.

If a City elects to prepare a comprehensive annual financial report, additional budgetary schedules will be presented for individual funds. The level of presentation for revenues will stay the same. The level of reporting for expenditures will match the level at which budgetary controls are maintained in the financial records of the school district (generally fund/department/object).

GASB 34 requires the City to include between the beginning and end of year fund balance figures a reconciling account "Prior Year Encumbrances Appropriated". A specific example will be included in the budgetary conversion program.

This will be discussed in more detail in the Budgetary Reporting section of this plan.

Statement of Net Assets - Proprietary Funds This statement presents assets and liabilities categorized as current and noncurrent and net assets categorized as invested in capital assets, net of related debt, restricted, or unrestricted. Each major enterprise fund is presented along with the total nonmajor enterprise funds, total enterprise funds, and total internal service funds.

Retained Earnings and Contributed Capital are no longer reported for proprietary funds.

Statement of Revenues, Expenses, and Changes in Fund Net Assets This statement presents operating revenues, operating expenses, nonoperating revenues and expenses, contributions and transfers for each major enterprise fund, total nonmajor enterprise funds, total enterprise funds, and total internal service funds.

Statement of Cash Flows The statement of cash flows is required for all proprietary funds. This statement presents cash receipts and payments classified according to whether they were generated from operating, non-capital financing, capital and related financing, or investing activities.

There is very little change in the cash flow statement between the old and new reporting models with the exception that the statement must be presented using the direct method along with the required reconciliation of operating income to net cash provided or used by operating activities. In addition any noncash investing, capital, and financing activities must be presented.

Statement of Fiduciary Net Assets This statement includes information about the assets, liabilities, and net assets for all of the four fiduciary fund types of the primary government, as well as any component units that are fiduciary in nature. The statement should provide a separate column for each fund type - pension (and other employee benefit) trust funds, investment trust funds, private purpose trust funds, and agency funds. Agency fund assets should equal liabilities.

This statement was not previously reported under the old reporting model.

Statement of Changes in Fiduciary Net Assets This statement should include information about the additions to, deductions from, and net increase (or decrease) for the year in net assets for each fiduciary fund type. It should provide information about significant year-to-year changes in net assets. Agency funds should not be presented in this statement.

This statement was not previously reported under the old reporting model.

Notes to the Financial Statements The notes to the financial statements should communicate information essential for fair presentation of the financial statements that is not displayed on the face of the financial statements. As such, the notes are an integral part of the basic financial statements. The notes should focus on the the primary government - specifically, its governmental activities, business-type activities, major funds, and nonmajor funds in the aggregate. The notes to the financial statements should be reported in conformity with GASB Statement 38, "Certain Financial Statement Note Disclosures."

Notes to the financial statements are information appended to financial statements that is essential to a user's understanding of the financial position and changes in financial position of the reporting unit, but that either does not meet the criteria for recognition in a financial statement or provides more detail about recognized amounts than can appropriately be included in the body of a financial statement. Notes are usually in narrative form but may be quantitative, with appropriate explanations, including measures other than dollars. Note may include up to two prior years of similar information, for comparative purposes.

Notes should have a clear and demonstrable relationship to information in financial statements to which they are appended and should be essential to a user's understanding of those financial statements. In this context, "essential to a user's understanding" means so important as to be indispensable to a user with reasonable knowledge of (a) the financial activities of governments, (b) basic accounting principles, and (c) the basic terminology of governmental finance and accounting, and who is willing to study the information with reasonable diligence.

Notes to financial statements should achieve a high level of objectivity and verifiability. Unlike financial statements, notes may include management's objective explanation of recognized amounts and related known facts, contingencies, subsequent events, measurement methods, accounting policies, and other information essential to understanding the financial statements. However, notes should not include either

(a) subjective assessments of the effects of reported information on the reporting unit's future financial position or (b) predictions about the effects of future events on future financial position.

Information that meets the definition of and reporting criteria for notes to the financial statements should be reported in that manner. Disclosure as supplementary information (including required supplementary information, management's discussion and analysis, and other supplementary information) is not an adequate substitute.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The information that must be recorded in the financial records and reported in the financial statements is determined based on what the accountant is trying to measure. This measurement focus differs between governmental and proprietary funds. Governmental fund reporting focuses primarily on the sources, uses and balances of current available expendable financial resources. Proprietary fund and entity-wide reporting use the economic resources measurement focus.

The criteria which establish when revenues and expenditures/expenses are recognized and reported in a fund is called the basis of accounting. During the year, the City currently uses the cash basis of accounting, in which revenues are recorded when received in cash and expenditures are recorded when paid, through out the year. When preparing financial statements in accordance with GAAP, the basis of accounting will change and, like the measurement focus, will differ between governmental (modified accrual basis) and proprietary funds (accrual basis) for the fund financial statements.

Fund Financial Statements

Governmental Funds

As opposed to a corporation, the continued existence of governmental entities is not determined by their ability to generate a profit through the marketing of goods and services. Rather the government is faced with a seemingly inexhaustible demand for increased goods and services that must be addressed with limited resources; and, in governmental funds, revenues generally are not increased through the provision of additional services. Instead, revenues are provided from general sources such as property taxes, income taxes, grants etc. and then allocated at the discretion of the legislative body to provide the services they feel deserve priority. This disparity between the demand for services and the ability to provide them coupled with the fact that providing services depletes resources rather than increasing them places a priority on identifying the available sources of general revenues and the purposes to which the resources were allocated. The measurement focus is therefore on the sources and amounts of dollars that were available during the period and the identification of how the dollars were used.

In accounting terms, the measurement focus for governmental funds is on the sources and uses of current available financial resources. Current available financial resources include cash and those other assets which will become cash soon enough after year end to be available to pay for current year operations. This is an attempt to match the assets to be received and the revenues they represent to the year that they will finance. The number of days after year end in which these assets can be received in cash and still be used to pay off prior year operations is called the available period. To the extent these assets are measurable at year end and reasonably assured of being received in the available period, they may be recognized as revenue of the current year. A major part of the conversion process is the identification of these assets at year end.

Expenditures are defined as uses of current available financial resources. A use of financial resources includes not only the payment of cash but also the incurrence of a legal obligation (a liability) whose future payment will require the use of current available financial resources. Another part of the conversion process is the identification of these liabilities at year end and the recording of the corresponding expenditures.

The assets and liabilities identified at year end will be recorded on the balance sheet. In addition to the assets to be received in the available period, the balance sheet will include assets, such as cash and supplies that remain at year end and can be used for the upcoming year's operation. Any receivable which will not be collected in the available period should be offset by a deferred revenue. Fund balance will be the difference between the assets and the liabilities and will represent the amount of resources that are available to finance the upcoming year.

Proprietary Funds

Proprietary funds represent those funds of the City which are operated similarly to profit-oriented corporations. Unlike governmental funds, the major source of revenue in proprietary funds is a direct charge to the individuals receiving the service. The intent is to know to what extent the charge pays for the cost of providing the service. The measurement focus is therefore on profit or loss.

Revenues are recognized when they are earned, i.e. when the service is provided. Expenditures are not measured. Expenses are measured. Expenses are the costs of providing the services. They are recorded when they are incurred. To better understand the difference between expenditures and expenses, consider the purchase of a $10,000 truck with an anticipated useful life of five years. The purchase of the truck for $10,000 is a use of financial resources and would be recorded in a governmental fund as an expenditure. The purchase of the truck in a proprietary fund represents the exchange of one asset (cash) for another (equipment). No expense is recorded until the truck is used in providing services. The expense of using the truck for a year, assuming the truck has no value at the end of its five year useful life, is $2,000.

Since the focus is on determining profit or loss, all assets associated with providing goods or services are reported on the balance sheet of a proprietary fund, as are all liabilities. The difference between assets and liabilities is net assets and is reported as invested in capital assets, net of related debt, restricted or unrestricted.

Government-Wide Financial Statements

Capital assets and long-term obligations not associated with the proprietary funds are not included in the fund financial statements. These assets and liabilities are reported on the government-wide statement of net assets in the governmental activities column. Net assets are also reported as invested in capital assets, net of related debt, restricted, or unrestricted. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Conversion Process

The conversion of cash basis financial statements to statements that conform to generally accepted accounting principles is a process of creating a balance sheet or statement of net assets. If presenting GAAP financial statements for the first time or if implementing a new GASB statement such as 34 (the new reporting model), the prior year balance sheet or statement of net assets may need to be restated to show what they would have been had GAAP or the new statement been used then.

The creation of the balance sheet amounts and the adjustment of the revenue and expenditure or expense accounts to the appropriate basis of accounting are accomplished through journal entries. There are three types of journal entries that may be necessary. A restatement entry may be appropriate. Annually a reversing entry and an adjusting entry are typical for many accruals. Governmental activities may involve separate entries for the modified accrual basis of accounting and the accrual basis of accounting.

Sample entries will be provided in the various sections of this plan that deal with balance sheet items. Sample trial balances which are used to record the journal entries are also discussed.

PROGRAM REVENUES

THEORY

Program revenue is a term used in connection with the government-wide statement of activities. They are revenues that derive directly from the program itself 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.

Generally accepted accounting principles require that the government-wide statement of activities be presented using a net-cost format. That is, in the statement of activities, outside revenues directly related to individual functions (user fees and charges, restricted grants, and contributions) are to be presented as a reduction of the net cost for providing program services. This format enables a government to arrive at the net amount of program cost to be financed from the government's own resources.

Governments frequently dedicate a portion of their own resources to support specific functions. Such amounts do not constitute program revenues, despite their close relationship with specific functions. Therefore, to avoid any potential confusion, generally accepted accounting principles (GAAP) require that a government describe in the summary of significant accounting polices the types of transactions that are reported as program revenues.

Some functional activities are financed, in whole or in part, with resources obtained from parties outside the government. GAAP require that such program revenues be presented separately as a reduction of the total expense of the benefitting functional activities to arrive at the net expense of each. Program revenues include the following:

> amounts received from those who purchase, use, or directly benefit from a program.
>
> amounts received from parties outside the reporting entity's citizenry (such as grants and contributions) that are restricted to one or more specific programs. For multipurpose grants, the amount attributable to each program must be identified in either the grant award or the grant application to qualify as program revenues. Reimbursement-type multipurpose grants automatically meet this test. Multipurpose grants that do not provide for specific identification of the programs and amounts should be reported as general revenues.
>
> earnings on investments that are legally restricted for a specific program (such as certain endowments and permanent funds or invested grant proceeds).

The statement of activities should separately report three categories of program revenues: charges for services, program-specific operating grants and contributions, and program-specific capital grants and contributions. These three categories may be split further by specific sources of program revenues under the three broad categories.

Charges for services include revenues based on exchange or exchange-like transactions. These revenues arise from charges to customers or applicants who purchase, use, or directly benefit from the goods, services, or privileges provided. Revenues in ths 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. Payments from other governments that are exchange transactions should be reported as charges for services.

Charges for services should be reported separately from grants and contributions in the function in which they are generated, even if they are used for some other purpose. Thus lottery revenues would be reported in the function responsible for the lottery, even if the revenues were dedicated to another function (for example, education). Fees and charges do not need to be restricted to the function which generates them.

Program-specific grants and contributions (operating and capital) include revenues arising from mandatory and voluntary nonexchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program. Those restrictions must either be externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or be imposed by law through constitutional provisions or enabling legislation. 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 purpose stipulated in the legislation.

Operating grants and contributions should be reported separately from capital grants and contributions. Grants or contributions that can be used for either capital or operating purposes should be treated as operating grants or contributions. Reimbursements of indirect costs by grantors should be reported in the same functional category as the expenses being reimbursed (for example, general government).

It is important to note that 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, or income tax. The taxes can be classified by the purposes for which the taxes were levied. For example the property taxes in Richland County were reported as levied for Health - Mental Health Board, Health - Mental Retardation Board, Human Services - Children's Services, and General Fund. For this purpose, special assessments are not considered taxes, even if collected in connection with the property tax levy. Rather, operating-type special assessments should be treated as charges for services and capital-type special assessments should be treated as capital grants and contributions. Likewise, fines and forfeitures should be treated as charges for services rather than as taxes.

All revenues that do not qualify as program revenues should be reported as general revenues. General revenues should be presented immediately following the total net expense of the government's functions.

Gains on the sale of capital assets, if material, should be reported as general revenue. Immaterial gains may be handled as an adjustment to the current period's depreciation expense. Losses are not allocated to functions since they are not considered direct expenses.

Contributions to term endowments, permanent endowments, and permanent fund principal should be presented as a separate line item, immediately following general revenues. For this purpose, no distinction is necessary between term endowments and permanent endowments, even though the two are distinguished on the government-wide statement of net assets, where amounts associated with permanent endowments are classified separately as restricted assets - nonexpendable.

Earnings on endowments or permanent fund investments should be reported as program revenues if restricted to a program or programs specifically identified in the endowment or permanent fund agreement or contract. Earnings from endowments or permanent funds that finance general fund programs or general operating expenses should not be reported as program revenue. Similarly, earnings on investments not held by endowments or permanent funds may be legally restricted to specific functions or programs. For example, interest earnings on state grants may be required to be used to support a specific program. When earnings on the invested accumulated resources of a program are legally restricted to be used for that program, the net cost to be financed by the County's general revenues is reduced, and those investment earnings should be reported as program revenues.

Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.

Special and extraordinary items should be reported on a separate line after endowment and permanent fund contributions. If special items and extraordinary items occur in the same period, the two should be reported separately within a single category, with special items reported before extraordinary items. In addition, governments should disclose in the notes to the financial statements any significant transactions or other events that are either unusual or infrequent but not within the control of management.

Transfers are flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. Transfers between governmental activities and business-type activities is the last item reported on the government-wide statement of activities before the total change in net assets.

IDENTIFYING PROGRAM REVENUES

Background

- State of Ohio and Ohio local governments maintain daily records on a cash basis
- State and local governments convert to GAAP at year end through journal entries
- For the new model, conversion is documented through trial balances on spreadsheets
- Trial balances are created for each governmental fund
- The accounting systems we encounter do not specifically code program revenues nor identify the associated function

What we try to provide

- Conversion programs that are generally applicable to Ohio local governments
- Detailed programs, with an understanding that program may shrink as understanding and experience grows

Necessary information

- Identify specific transactions that generate program revenues
- Calculate revenue amounts on full accrual basis
- Associate each transaction with appropriate function
- Classify program revenues by type
- Accumulate program revenues by type and function

Two methods are available

- One generates information at the governmental activities level (entity wide)
- The second approach begins at the fund level using trial balance information

<u>FIRST METHOD</u>

Identification

- Familiarize reviewer with definition and examples
  - Exchange transactions - special assessments, interest
  - Exchange-like transactions - licenses, permits
  - Nonexchange transactions - grants and contributions
- Review revenue report and extract known and potential transactions that generate program revenues
- Research potential transactions for program revenue determination
- Finalize list of program revenue transactions

Calculation

- Identify annual cash receipts for each type of transaction
- Adjust cash amounts to full accrual

Association
- For each transaction, identify associated function
  - Derive from the program
    - Identify department where receipts originate (which generate the revenue)
  - Program specific operating and capital grants
    - Purpose restrictions should be obtained from grant documentation

Classify transactions by program revenue types
- Charges for goods and services
- Operating grants and contributions
  - Nonspecific grants
- Capital grants and contributions

Accumulation
- Create worksheet to accumulate results for posting to statement of activities

Potential efficiencies:
- Coordinate with GASB 33 restatement process
- Document program revenue type and associate revenue to a particular function while gathering receivable documentation
- Having been done once, research will only need to be updated for changes in future years

<u>SECOND METHOD</u>

Identify program revenues by reviewing components of receipt classifications (charges for services, intergovernmental) that may contain program revenues at the fund level
Calculate revenue amounts on full accrual basis
Associate program revenues with related function
Classify program revenues by type
Accumulate results for posting on statement

Potential efficiencies:
- For many funds, components of receipt classifications will already be known from receivable work or familiarity with the type of government
- Revenue adjustments will also be known from receivable work
- Most funds will only have one function
- Type of fund and receivable work will identify program revenue type
- Results can be appended to the trial and accumulated by fund

PROGRAM REVENUES CONVERSION PROGRAM

1. Determine the detailed program revenue classifications to be reported under the three broad categories of program revenues.

2. Prepare a list of program revenues by reviewing the detailed receipts ledger and receivables work papers section of the County for all funds with more than one transaction types.

   A. Post to the program revenue worksheets.

3. Determine the cash activity, by detailed program revenue classification, to be posted to the appropriate program revenue worksheet.

4. Determine the modified accrual and the full accrual entries, by detailed program revenue classification, to be posted to the appropriate program revenue worksheet.

5. For funds with a single transaction type the program revenue may be reported in the right hand columns of the restricted net assets trial without being tracked separately tracked in a program revenue worksheet. Documentation for the justification of the assignment of the transaction type should be maintained.

ENTITY-WIDE STATEMENT OF NET ASSETS ACCOUNTS

Asset Accounts

Equity in pooled cash and cash equivalents An asset account reflecting all cash and investments held in the City treasury except for cash and investments that are legally restricted and are included in restricted assets.

Cash and cash equivalents in segregated accounts An asset account reflecting deposits with the various departments or component units of the City that are not required to be deposited into the City treasury.

Accounts receivable An account representing amounts owed on open account from private persons or organizations for goods and services furnished by the City. This includes billed and unbilled sewer receivables.

Accrued interest receivable An asset account reflecting the amount of interest earned on investments but not received as of the balance sheet date.

Taxes receivable The uncollected portion of property taxes (current, deferred, and delinquent) sales taxes, and other local taxes which the City has levied.

Internal balances For the entity-wide statement of net assets, interfund receivables and payables within governmental activities and within business-type activities should be eliminated. This elimination will only leave interfund receivables and payables between governmental activities and business-type activities, which should net to zero in the primary government total.

Interfund receivable An account used to indicate amounts owed to a particular fund by another fund in the same government for goods received or services rendered or for interfund loans.

Due from other governments An asset account reflecting amounts due to the City from another government. The amount can consist of grants, shared revenues, entitlements, and charges for services rendered by the City to another government.

Materials and supplies inventory An asset account which reflects the cost of consumable materials and supplies on hand for use in operations.

Prepaid items An asset account reflecting charges paid for benefits not yet received. Prepaid items differ from deferred charges in that they are spread over a shorter period of time and are regularly recurring costs of operations.

Special assessments receivable The uncollected principal portion of special assessments which the City has levied (current, deferred, and delinquent).

Loans receivable An account used to record the CDBG loans outstanding as of the date of the balance sheet.

Capital assets Assets of long-term character which are intended to be held or used, such as land, buildings, improvements other than buildings, infrastructure, and machinery and equipment. This account relates to the governmental activities general capital assets, as well as to enterprise, internal service, and trust funds. Depreciable capital assets should be disclosed separately from those that are not being depreciated if the government has a significant amount of these assets.

> ***Accumulated depreciation*** A valuation account (contra asset) used to record the accumulation of periodic allocations of cost representing expiration of the estimated service life of capital assets.

Liability Accounts

Accounts payable Reflects amounts on open accounts owed to private persons or organizations for goods or services received by a government exclusive of amounts due to other funds of the same government or due to other governments.

Accrued wages A liability account reflecting the amount of salaries earned by the end of the year that are not paid until the following year.

Contracts payable Amounts due on contracts for goods and services furnished to a government. Amounts withheld as guarantees on contracts may be shown separately as contracts payable-retained percentage.

Due to other funds An account that reflects amounts owed by a particular fund to another fund in the same government for goods sold or services rendered or for interfund loans.

Due to other governments A liability account reflecting amounts owed by the City to another government.

Deferred revenue Amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts may be measurable but not available. Under the accrual and modified accrual basis of accounting, such amounts may have been received but not yet earned.

Undistributed monies Reflects amounts held by the agency funds that are awaiting distribution to others as conditions are met.

Deposits held and due to others A liability account reflecting amounts due to individuals by the City.

Accrued interest payable Reflects interest costs incurred but not due until a later date.

Notes payable For governmental funds, notes payable is a fund liability intended to be repaid from taxes or other anticipated revenues, or bond anticipation notes for which the necessary legal steps for refinancing have not been taken and the ability to consummate refinancing on a long-term basis has not been demonstrated by either a post balance sheet date issuance of a long-term obligation or equity securities or a financing agreement that meets certain criteria found in FASB Statement 6, paragraph 11. For proprietary funds, the notes payable can be a short or long-term liability. The determination between long and short term is made by whether or not the necessary legal steps for refinancing have been taken and the ability to consummate refinancing on a long term basis exists. (See NCGA Interpretation 9).

Claims payable A liability account in the self insurance fund reflecting the estimated amount of claims that are probable to be paid including incurred but not reported claims as of the balance sheet date.

Long-Term Liabilities

> ***Due within One Year*** A liability account for the current portion of general obligation bonds or notes, judgments payable, compensated absences, and capital lease obligations.
>
> ***Due in More Than One Year*** A liability account for the long-term portion of general obligation bonds or notes, judgments payable, compensated absences, and capital lease obligations.

Net Assets

For the entity-wide statement, the proprietary funds statements, and the fiduciary (trust) funds, the difference between assets and liabilities is net assets. Net assets are displayed in three components as appropriate.

> ***Invested in capital assets, net of related debt*** This account consists of capital assets, including any restricted capital assets, less both accumulated depreciation and the outstanding balances of any bonds, mortgages, notes, or other borrowings that are directly attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds should not be included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt should be included in the same net assets component as the unspent proceeds - for example, restricted for capital projects.
>
> ***Net Assets Restricted for:***
>
> > ***Capital Projects*** The net assets of capital project activities on the government-wide financial statements.
> >
> > ***Debt Service*** The net assets of debt service activities on the government-wide financial statements.
> >
> > ***Other Purposes*** The net assets of special revenue activities on the government-wide financial statements.
>
> ***Net assets, unrestricted*** This account consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

It may be helpful to think in terms of posting the assets and liabilities in various columns to separate the components of net assets. For example, assume we want to show net assets categorized as (a) invested in capital assets, net of related debt, (b) restricted for capital projects, (c) restricted for debt service, (d) restricted for other purposes, and (e) unrestricted. By sorting the assets and liabilities in either column a, b, c, d, or e we can determine net assets by classification.

STATEMENT OF ACTIVITIES ACCOUNTS

The operating statements present all revenues, expenses, and changes in net assets for the City as a whole. The operating statement format should contain data categorized by program expenses, program revenues, and general revenues. The accounts selected for the City's financial statements are:

Expenses

Governmental Activities
General Government
Legislative and Executive
Judicial System
Security of Persons and Property
Police
Fire
Public Health Services
Street Maintenance and Repair
Housing and Community Development
Sanitary Services
Leisure Time Activities
Interest and Fiscal Charges

Business-Type Activities
Wastewater Treatment

Component Unit
Port Authority

Program Revenues

Charges for Services All charges for services, fines, forfeitures, licenses and permits that can be identified to a specific program which generates the revenue.

Operating Grants, Contributions, and Interest Operating grants, contributions, and interest whose use is restricted to a specific program expense.

Capital Grants, Contributions, and Interest Capital grants, contributions, and interest whose use is restricted to a specific program expense.

General Revenues

Property Taxes These revenue line items include real estate taxes and personal property taxes and are classified to show the purpose for which they were levied.

Income Tax This revenue line item is for the municipal income tax levied by the City and are classified to show the purpose for which they were levied.

Lodging Tax This revenue item includes the tax levied on hotel and motel rooms by the City.

Grants and Entitlements not Restricted to Specific Programs These revenues include local government funds and real and personal property rollbacks and exemptions.

Unrestricted Contributions This includes any contributions that were not restricted to a specific purpose.

Investment Earnings Includes interest on various checking and STAROhio accounts that are not restricted for specific program expense.

Gain on Sale of Capital Assets To account for revenues received in excess of the carrying value of the capital asset.

Miscellaneous All other revenue received not designated above.

Other Resources Contributions to term and permanent endowments, contributions to permanent fund principal, special and extraordinary items, and transfers between governmental and business-type activities should each be reported separately from, but in the same manner as, general revenues. That is, these sources of financing the net cost of the government's programs should be reported at the bottom of the statement of activities to arrive at the all-inclusive change in net assets for the period.

Contributions to term and permanent endowments Because some entities receive term and permanent endowments, GASB concluded that, based on the unavailabilty of the principal portion of these revenues to finance program costs it would be inappropriate to report them as reductions of program costs. Although some argue that term endowments eventually become available to finance programs, the Board decided that because of the uncertainty of the timing of release of most term restrictions (such as the death of the provider), it would be more appropriate to report these endowments in the same manner as permanent endowments.

Contributions to permanent fund principal Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the 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 where the government is required to use the principal or earnings for the benefit of individuals, private organizations, or other governments.

Special and Extraordinary Items

Special Items Significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence are special items. They should be presented separately in the statement of activities before extraordinary items, if any. Any significant transactions or other events that are either unusual or infrequent but not within the control of management should be disclosed in the notes to the financial statements.

Extraordinary Items Transactions or other events that are both unusual in nature and infrequent in occurrence are extraordinary items. They should be reported separately at the bottom of the statement of activities.

Transfers

Transfers In the process of aggregating data for the statement of activities, some amounts reported as interfund activity should be eliminated or reclassified. After eliminations, the transfers that remain are those between governmental activities and business-type activities.

These accounts are the ones we selected to use for Generic City. This listing is not intended to be all inclusive. Other choices are available. Preparing draft financial statements is critical as that process will involve the selection of the relevant accounts. Using the proper accounts throughout the entire conversion process (i.e., on all the trial balances) will allow the accounts to be consistent and to be in the same order for the various trial balances. The more similar the trial balance accounts are to the financial statement accounts, the easier it will be for the information to flow through the process.

ILLUSTRATION OF THE CONVERSION PROCESS

To illustrate the process for recognizing additional revenues, assume the City general fund had an intergovernmental receivable of $50,000 of which $25,000 was received in the available period at the beginning of the year and was recognized in the prior year as revenue. The amount received outside the available period was not reflected in the prior year statements. Further assume the City has a similar receivable of $60,000 of which $30,000 will be received in the available period at the end of the year.

The following journal entries assume the City is utilizing separate journal entry files for modified and full accrual statements.

Journal Entries to record the beginning balance:

Fund Financial Statements (Modified Accrual Basis):

Intergovernmental Receivable	$25,000	
Deferred Revenues		$25,000

Government-wide Statements (Accrual Basis):

Deferred Revenues	$25,000	
Net Assets, Unrestricted		$25,000

Journal Entries to reverse the beginning balance:

Fund Financial Statements (Modified Accrual Basis):

Deferred Revenues	$25,000	
Intergovernmental Revenues	25,000	
Intergovernmental Receivable		$50,000

Government-wide Financial Statements (Accrual Basis):

Intergovernmental Revenues	$25,000	
Deferred Revenues		$25,000

Journal Entries to record the ending balance:

Fund Financial Statements (Modified Accrual Basis):

Intergovernmental Receivable	$60,000	
Deferred Revenues		$30,000
Intergovernmental Revenues		30,000

Government-wide Financial Statements (Accrual Basis):

Deferred Revenues	$30,000	
Intergovernmental Revenues		$30,000

TRIAL BALANCES AND WORKSHEETS

The purpose of the trial balances is to account for the cash activity (from the budgetary schedules) and the necessary adjusting journal entries to convert the cash financial data to GAAP financial data. From the trial balances all GAAP financial statements can be generated There are several trial balances involved in implementing GASB 34. Descriptions of each type of trial balance used for the governmental funds and governmental activities.

Restatement Trial Balance

If the City had not previously adopted GASB Interpretation 6 and GASB Statement 33, they must be implemented at the same time they implement GASB Statement 34. This trial identifies all restatements necessary for the implementation. Any correction of prior periods may also be done on this trial as well. This trial will first summarize all the restatements necessary on a modified accrual basis and then to convert to the accrual basis. The total of the debit and credit entries for each set of columns must equal. A consolidation trial balance would then be used to complete the calculation of the beginning of the year net assets amount for governmental activities.

RESTATEMENT TRIAL BALANCE CONVERSION PROGRAM

1. A trial balance must be established for each fund. The balance sheet portion (assets, liabilities, and equity) of all trial balances should be set up like the example provided. All trial balance formats should be identical so combining and basic statements can be easily generated. Revenues and expenditures/expenses will differ between governmental and proprietary funds. However, for the restatement trial, the adjustments would be limited to the balance sheet.

2. Once a trial balance has been established, the prior year's balance sheet should be posted into the balance sheet columns of the trial.

3. Any corrections to prior periods should be posted in the adjustments columns. These effect of those entries are included in the adjusted balance sheet columns.

4. Any adjustments necessary to implement GASB Interpretation 6 should be posted in the interpretation 6 adjustments columns. This interpretation provides guidance regarding when to recognize fund liabilities on a modified accrual basis. For further guidance see the compensated absence section of this plan.

5. Any adjustments necessary to implement GASB Statement 33 should be posted in the GASB 33 adjustments columns. This statement provides guidance regarding when to recognize receivables and related revenues for nonexchange transactions. The receivables section of this plan discusses this in more detail.

6. The preceding generates the modified accrual financial statement and roll-up information. This information is the starting point for the modified accrual trial balance, which is discussed later in this section of the plan.

7. Any entries to be recorded at the fund level to convert from the modified accrual basis to the accrual basis should be posted to the accrual adjustments columns. These columns are for identifying restricted net assets at the beginning of the year. These entries include such things as noncapital related debt (i.e., compensated absences and unpaid pension obligations) and revenues which were deferred under the modified accrual basis that should be considered revenue under the accrual basis.

8. The accrual reclassifications columns are for various reclassifications that are necessary to convert from the modified accrual basis to the accrual basis. This would included reclassifying fund balances to the various classifications of net assets, as well as considering reclassifying compensated absences to long-term liabilities due within one year and due in more than one year. This reclassification may be helpful but is not necessary to restate net assets since it does not affect total net assets.

9. All of the above will generate the fund financial statement and roll-up information on the accrual basis of accounting. This information is the beginning basis for the restricted net assets trial balance.

Modified Accrual Trial Balance

This trial balance is used to generate the modified accrual basis fund financial statements. It serves to combine the prior year restated modified accrual balances, any prior period restatements not included in the restatement trial balance, the modified accrual reversing entries, the cash transactions, the modified accrual adjusting entries, and any modified accrual audit adjustments to generate fund financial statement amounts. The rows of the trial balance are the assets, liabilities, fund balance, revenue accounts and expenditure accounts that will appear on the fund financial statements. The total of the debit and credit entries for each set of columns must equal. All asset and expenditure accounts normally carry a debit balance while liabilities, fund balance, and revenue accounts normally carry credit balances.

MODIFIED ACCRUAL TRIAL BALANCE CONVERSION PROGRAM

1. A trial balance must be established for each governmental fund. All trial balance formats should be identical so that combining and basic statements can easily be generated.

2. The beginning balances come from either the restatement trial modified accrual roll-up column, if applicable, or from the prior year report.

6. Post modified accrual reversing entries to reverse the adjusted balances established at the beginning of the year.

4. Post cash transactions for the current year.

5. Post modified accrual adjusting entries.

6. Foot and cross-foot all columns and rows to ensure balances are correct.

Restricted Net Assets (Full Accrual) Trial Balance

The restricted net assets trial balance is used to reclassify fund balance to net assets, note any appropriate restrictions of net assets, and distinguish between program revenues (charges for services, operating grants and contributions, and capital grants and contributions) and general revenues. It provides for the accrual reversing and adjusting entries at the fund level, and has a column for posting any accrual audit adjustments. The rows of the trial balance are the assets, liabilities, net assets, revenue accounts and expense accounts that will appear on the government-wide financial statements. The total of the debit and credit entries for each set of columns must equal. All asset and expense accounts normally carry a debit balance while liabilities, fund balance/net assets, and revenue accounts normally carry credit balances.

RESTRICTED NET ASSETS TRIAL BALANCE CONVERSION PROGRAM

1. A trial balance must be established for each governmental fund that will be reported in the annual report. All trial balance formats should be identical so that combining and basic statements can easily be generated.

2. The beginning balances either come from the restatement trial accrual roll-up info column if applicable or from the prior year trial balances.

3. Post modified accrual reversing entries to reverse the adjusted balances established at the beginning of the year.

4. Post accrual reversing entries to reverse the adjusted balances established at the beginning of the year.

5. Post cash transactions for the current year.

6. Post modified accrual adjusting entries.

7. Post accrual adjusting entries.

8. Make any accrual reclassifications necessary to convert from modified accrual to full accrual (IE. program revenues, classification of any general revenues (i.e. taxes by purpose, etc.) fund balance to net assets, and compensated absences to long term liabilities due within one year and due in more than one year).

9. Foot and cross-foot all columns and rows to ensure balances are correct.

Capital Assets Worksheet

The capital assets worksheet is created to accumulate all information pertaining to capital assets to be carried forward to the consolidated trial balance. There are specific columns included for tracking this information. They include beginning balances, additions, deductions, depreciation, transfers and reclassifications. The purpose of the worksheet is to facilitate the audit process by splitting activity related to capital assets into its components.

Capital-Related Debt Worksheet

The capital-related debt worksheet needs is created to accumulate all information pertaining to capital-related debt to be carried forward to the consolidated trial balance. There are specific columns included for tracking this information. They include beginning balances, additions, payments, advance refunding, amortization of premium/discount, amortization of gain/loss, amortization of deferred charges, accrued interest, reclassifications, and error corrections or audit adjustments. The purpose of the worksheet is to facilitate the activity related to capital debt into its components.

Consolidation Trial Balance

This trial balance is used to add in the internal service funds that are considered governmental activities, to eliminate interfund activities and balances, to enter capital asset and debt activity, any other adjustments, and any accrual audit adjustments. The rows of the trial balance are the assets, liabilities, net assets, revenue, and expense accounts that will appear on the government-wide financial statements. All asset and expense accounts normally carry a debit balance while liabilities, net assets, and revenue accounts normally carry credit balances.

The first column on the trial represents the sum of the amounts for all governmental funds from the restricted net assets trial balances. A worksheet is usually prepared where each fund is posted and added together. The final column on the worksheet then becomes the first column on the consolidation trial.

CONSOLIDATION TRIAL BALANCE CONVERSION PROGRAM

1. Each fund should have an restricted net assets (accrual) trial balance. The governmental fund trials (these include general, special revenue, debt service, capital projects, and permanent) are added together to come up with one total. These totals are posted in the governmental activities columns. It may prove helpful to summarize the combining process in spreadsheets to provide audit trail.

2. Since the internal service fund's predominate customers are part of governmental activities, the fund is added to the governmental activities.

7. For ease in following the adjustments, the interfund elimination columns are split into two segments.

    A. Since the internal service funds are included with the governmental activities, any activity between the governmental funds and the internal service funds needs to be eliminated. This is to help show the City as one entity without doubling up those expenses and revenues. This is discussed in the interfund elimination section of this plan.

    One of the City's internal service fund is for self insurance. The revenue for the internal service fund comes from the premiums paid from the various funds for their portion of the claims that will be paid. On a budgetary basis, this revenue is reported as charges for services in the internal service funds and to various expenditure functions in the other funds. The internal service fund has different expense functions than the program expenses for the other governmental funds. The profit or loss of the internal service fund needs to be reclassified to the various expenses appearing on the statement of activities. This reclassification is based on the method of allocation used by the City to charge the various functions for internal service fund services during the year.

    B. Transfers that went from one governmental fund to another were eliminated to only leave those transfers that were between governmental activities and business-type activities.

4. The capital asset adjustments columns are used to post the capital asset beginning balances to the statement of net assets and the journal entries to record depreciation expense, capital asset additions, capital asset deletions including any gain or loss on

disposal. These columns should be supported by and posted from the Capital Asset Worksheet. For the initial GASB 34 implementation we posted the general infrastructure to separate columns because the amounts were not available until rather late in the process. We wanted to simplify the late addition for audit by keeping it completely separate.

5. The debt adjustments columns are used to post the beginning long-term debt and the journal entries to record any new issues, any debt principal payments, the accretion of any discounts, the amortization of any deferred charges, any gain or loss on refunding debt, and the interest accrual entries for governmental debt. These columns should be supported by and posted from the Debt Worksheet.

6. The other adjustments columns are for any other adjustments that are not included in the previous columns but may be needed to prevent the financial statements from being misstated.

7. The audit adjustments columns are for any adjustment the auditors may propose that do not carry through from the trials or will affect the other columns on this trial.

8. The governmental activities financial statements columns combine the results of all the other columns to provide the financial statement information.

9. The roll-up information column summarized the governmental activities financial statements columns. This column is where you can verify that assets equal liabilities plus net assets and that net assets from the balance sheet portion of the trial equal net assets from the revenue and expense portion of the trial.

BUDGETARY REPORTING

THEORY

Generally accepted accounting principles require either the presentation of budgetary comparison statements for the general fund and each major special revenue fund in the basic financial statements or as schedules as required supplementary information (RSI). Cities are encouraged to present budgetary schedules for any major debt service or capital projects funds, any nonmajor special revenue, debt service, or capital projects funds, and any proprietary or trust funds in addition to those required by GAAP. Cities participating in the GFOA certificate of excellence program are required to present budgetary statements or schedules for all governmental funds that are legally required to be budgeted annually.

The purpose of budgetary statements or schedules is to demonstrate compliance (or non-compliance) with state statute. The statements are therefore presented using the basis of accounting that is prescribed by state statute and are prepared subject to reclassification using the amounts as they appear on the books of the City after the year-end closing. GASB Statement No. 34 also requires reporting the original budget as well as the final budget for the general fund and each major special revenue fund in the RSI (if not presented in the basic financial statements). In addition it requires that an analysis of significant variances between original and final budgets and between final budget amounts and actual budget results for the general fund be included in management's discussion and analysis. The analysis should include any currently known reasons for those variances that are expected to have a significant effect on future services or liquidity. It would be advantageous to keep these requirements in mind and to compile the information for the analysis as the statement or schedule is being prepared.

Statement 34 establishes standards for the basic financial statements, MD&A, and certain RSI other than MD&A. It does not prescribe requirements for data presented as supplementary information - combining and individual fund statements and statistical information, for example. Governments that present additional budgetary comparisons as supplementary information may choose to, but are not required to, present that information in accordance with the provisions of paragraphs 130 and 131.

Statement or Schedule Presentation

Each budgetary comparison statement or schedule may have four columns of figures. The first column will be labeled "original budget", the second "final budget", the third "actual", and the fourth "variance". In the budget columns, the revenue figures represent the amounts from the certificates of estimated resources that were in place at the time the original budget is passed and the end of the year.

The original budget is the first complete (intended to finance the entire year) appropriated budget. The original budget should also include actual appropriation amounts automatically carried forward from prior years by law.

The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year, passed prior to year end.

Budgetary information will be presented by individual fund and will no longer be combined by fund type. The level of presentation for revenues will stay the same; the level of reporting for expenditures must match the level at which the commissioners adopt appropriation measures, i.e. program (public safety)/department (police)/object (personal services, supplies and materials, contractual services, fringe benefits, capital outlay and other).

Each budgetary comparison statement or schedule will include two fund balance figures, one as of the beginning of the year being reported on and one as of the year end. The purpose of the budgetary fund balance figure is to identify the amount remaining that is available for appropriation in the upcoming year. The budgetary fund balance figure that appears on each budgetary comparison statement will be cash minus encumbrances outstanding at year end.

BUDGETARY REPORTING CLIENT PROCESS AND CONVERSION PROGRAM

In order to leave an audit trail, it is recommended that a worksheet be developed to compile the budgetary information.

. Determine appropriate revenue figures to present in the budget to actual comparisons:

Budget Obtain a copy of the certificate of estimated resources in place at the time the budget was adopted and the last amended certificate requested by the City before year end. The total estimated available resources (less the balance at the beginning of the year) listed on the certificate should be the sum of the budgeted "total revenues" and the budgeted "other financing sources" found on the City's budgetary worksheets. The budgetary worksheets should reflect revenue by source; however, the certificate lists these amounts by fund only. To obtain the amounts at the detail needed for budgetary presentation, the estimated receipts from the receipts report which compares actual receipts to estimated receipts at the source level can be used provided the estimated receipts if this report ties to the final amended official certificate of estimated resources (less the balance at the beginning of the year) requested by the City before year end. If these two reports do not agree, adjust the estimated receipts on the receipt report to the certificate amount.

Actual Obtain a copy of a revenue report that identifies actual year-to-date revenues by fund and source.

. Determine appropriate figures to be reflected as budget and actual expenditures:

Budget Obtain a copy of the annual appropriation ordinance together with any amendments and modifications approved by the council before year end. The budgetary statement figures will equal the current year appropriation figures from the appropriation ordinance plus the amount of carry-over encumbrances from the prior year.

Actual Obtain a report that shows actual expenditures at the departmental object level within each fund. The actual figures on the budgetary statements will equal the sum of all expenditures made during the year plus the encumbrances outstanding at year end.

Budget to GAAP Reconciliation A note to the basic financial statements showing the adjustments necessary to convert the results of operations at the end of the year on the budget basis to the GAAP basis is required for the general fund and each major special revenue fund.

CASH, CASH EQUIVALENTS AND INVESTMENTS CONVERSION PROGRAM

The primary work in compiling the budgetary section will remain essentially the same, with the following change:

1. GASB 33/36 must be implemented for accrued interest receivable . The amount of accrued interest receivable must still be calculated for all interest bearing deposit accounts and investment instruments at year end. Accrued interest represents the amount of interest earned during the prior fiscal year but received in the following fiscal year. Accrued interest on interest bearing deposit accounts equals the interest earned by year end but not posted to the account by the bank until after year end. *December interest posted by the bank in December but not posted to the City's records until January should be included in the financial statements as cash and cash equivalents rather than interest receivable.* The calculation of the receivable remains the same, with corresponding credit being posted to Interest Income (if it was actually received within the available period) or Deferred Revenue (if it was actually received outside of the available period).

RECEIVABLES

THEORY

The purpose of this section of the plan is to identify those revenues which will generate a receivable on the balance sheet and to determine appropriate revenue recognition or deferral at year end. The easiest approach is to calculate the full accrual amount for the receivable and related revenue and then to defer the portion not received in the available period for the modified accrual basis.

If receivables are aggregated in the financial statements, the detail must be presented in the notes. For example, if net receivables are presented as one amount in the statements, accounts receivable, taxes receivable, special assessments receivable, and due from other governments would be broken out in the notes.

Transaction Types

Cities engage in two kinds of transactions as follows:

> Exchange (and exchange-like transactions) - these transactions occur when each party receives or gives up essentially equal values.
>
> Non-exchange transactions - these transactions occur when the City receives value without directly giving equal value in exchange.

The following classifies recurring City transactions as exchange or non-exchange and explains the appropriate accounting treatment for each.

Exchange and Exchange-like Transactions

In exchange transactions, each party receives or gives up essentially equal value. The GASB has also identified what are called exchange-like transactions in which the values exchanged may not be quite equal or in which the benefits to the transaction may not be exclusively for the parties to the transaction. Under the full accrual basis of accounting, a receivable and revenue are recognized when the portion of the transaction that is the City's responsibility is completed resulting in the revenue being earned, to the extent the amounts are collectible and measurable. Under modified accrual, only amounts received in the available period are recognized as revenue. Amounts received outside the available period are deferred. The treatment of these items should be consistent from year to year.

Accounts Receivable

Sewer charges:

The City assesses a sewer rental charge for collection services. All billings, collections and accounting related to this charge are handled by the City.

Charges for sewer rental are billed bimonthly for two months in arrears based on actual usage taken from meter readings taken by the Ohio-American Water Company. One half of the users are billed in the odd months and the other half are billed in the even months.

Sanitation Charges:

The City implemented a city-wide trash fee for all residents effective September 1, 1988. The fee was $6.00 per month. Effective July 1, 1992 the fee increased to $9.00 per month and continues at this rate.

Trash is billed bi-monthly for residents along with sewer charges. Businesses are billed monthly for trash pick-up.

Residents The fee is two months in arrears. Every other month, the user is billed a total of $18.00 for the previous two month period. The City is split into two billing districts and 26 "cycles". One half of the City is billed in the odd months (January, March, May etc.) and the other half is billed in the even months (February, April, June etc.) Once the bills are sent, the residents have 30 days in which to pay their bills. Month to month billings vary due to there being more units in the even month billing district than the odd month billing district.
Business The fee is one month in arrears. The bill is usually sent at the first of the month and payment is due within two weeks.

Delinquencies All delinquencies are certified to the County Auditor. Once the City certifies the delinquencies to the County, this balance is then taken off the City's billing system and only current charges remain. Since these amounts are then attached to the tax bills for payment, all delinquencies are considered fully collectible by the City. The County then distributes the collections on the property tax settlement sheets. The City records the amount collected in the Sanitation fund. The County keeps track as to which delinquencies have and have not paid.

Public Health Nursing:

Services are paid upon receipt except for Medicare billing which is immaterial.

Rentals:

The building occupied by the Dairy Queen is rented from the City under a 13 year lease. Note disclosure will be required as well as a review of the lease to determine if there is a receivable at year-end.

Cable Franchise Fee:

The City has an agreement with Tele-Communications Cablevision of Ohio, Inc., Generic System which stipulates franchise tax payments to the City in the amount of three percent of the annual gross revenue collection by Tele-Communications. The three percent payments from Tele-Communications are paid to the City semi-annually in February and July. Amounts applicable to the year end are received in January or February. According to NCGA Statement 1, the amount is measurable and available, ("available" means collectible within the current period or soon thereafter to be used to pay liabilities of the current period).

Permits:

Permits are paid for when received.

Tap-In Fees:

The City charges a fee for tap-ins through out the City as well as townships that are nearby. The amount collected over the cost of the tap-in is recorded as a capital contributions.

Tap-In Fees Conversion Program

1. Identify all tap-ins performed during the year and the location of those tap-ins.

2. Net the cost of the tap-in against the amount collected for the tap-in.

3. Record and post accrual adjusting journal entry

Debit: Tap-Ins
Credit Capital Contributions

Miscellaneous:

The City carries stop-loss insurance coverage of $50,000 per person per year and $1.3 M in total per year. The City pays all claims and is then reimbursed for any claims in excess of either the individual limit or the aggregate limit. Any amounts due the City as a result of the stop-loss coverage at year-end should be booked as an account receivable with a corresponding reduction to the expense.

Collectibility of Accounts Receivable

The City collects overdue sewer and sanitation charges by certifying the delinquencies to the county auditor for collection as special assessments. This insures that these charges are collectible.

ACCOUNTS RECEIVABLE CONVERSION PROGRAM

Develop and record the reversing entries and adjusting entries for both the modified accrual and accrual basis of accounting.

1. Reversing Entry - modified accrual
   Debit: Charges for Services
   Debit Deferred Revenue
   Credit Accounts Receivable

2. Reversing Entry - accrual
   Debit Charges for Services
   Credit Deferred Revenue

3. Adjusting Entry - modified accrual
   Debit Accounts Receivable
   Credit Charges for Services
   Credit Deferred Revenues

4. Adjusting Entry - accrual
   Debit Deferred Revenues
   Credit Charges for Services

Special Assessments Receivable

Governmental funds are accounted for on a current resources measurement focus and use the modified accrual basis of accounting. At the end of the balance sheet year, an entry is made to record the entire amount remaining to be collected on the original levy as a receivable in the asset account "Special Assessments Receivable". All of the special assessment would be reported as deferred revenue since the amount to be received in the available period is not measurable. However, when using the economic resources measurement focus and the accrual basis of accounting, the principal amount of the assessments would be recognized as revenue upon original levy, if collectible. Subsequent principal collections would be a reduction of the receivable. The portion of the collections representing interest should be recognized as interest as earned.

Currently, the City has one special assessment bond issue outstanding. The bond issues are for the property owners' share of each project. Payments from property owners are made in interest bearing semiannual installments to the County Auditor when real estate taxes are collected. This amount is then forwarded to the City by the County Auditor. This fund will be reported as part of the debt service fund for financial reporting purposes.

At year end, an entry will be made to record the amount remaining to be collected on the original levy as a receivable. The principal and interest estimated to be received in the available period will be recorded as current revenue, if the amount is measurable. Amounts received outside the available period along with delinquencies will be reported as deferred revenue. Confirmation of current assessments collected, current assessments due, delinquent collections and outstanding delinquencies at the balance sheet date need to be obtained from the County Auditor.

SPECIAL ASSESSMENT CONVERSION PROGRAM:

1. The following reversing journal entries should be made:

    Special Assessment Debt Service Fund:
    Debit: Deferred Revenue
    Credit: Special Assessment Receivable

2. The following adjusting entries should be made:

    Special Assessment Debt Service Fund:
    Debit: Special Assessments Receivable
    Credit: Deferred Revenue

    The portion of special assessments collected for the year that represents interest should be reclassified to interest and fiscal charges from special assessments assuming all cash collections were recorded as special assessments in the cash basis transactions.

    For the accrual basis the deferred revenue recognized in the debt service and special revenue funds would be recognized as revenue (charges for services or capital contribution, as appropriate).

Non-exchange Transactions

THEORY

In non-exchange transactions, the City receives value from another party without directly giving equal value in exchange. Non-exchange transactions are grouped into the following four classes:

> Derived tax revenues result from assessments imposed by governments on exchange transactions.
>
> Imposed non-exchange revenues result from assessments by governments on non-governmental entities, including individuals, other than assessments on exchange transactions.
>
> Government-mandated non-exchange transactions occur when a government at one level provides resources to a government at another level and requires that government to use them for a specific purpose or purposes established in the provider's enabling legislation.
>
> Voluntary non-exchange transactions result from legislative or contractual agreements, other than exchanges, entered into willingly by two or more parties.

An asset is recognized for nonexchange transactions in the period when an enforceable legal claim to the assets arises or when the resources are received, whichever occurs first. Other than property taxes, revenues should be recognized when the asset is recognized unless there are time requirements specified in the enabling legislation. If time requirements are specified, revenue should be recognized in the period when the resources are required to be used or when use is first permitted. Governments should recognize revenues from property taxes, net of refunds and uncollectible amounts, in the period for which the taxes are levied.

A detailed discussion of these four classes of non-exchange transactions follows, including receivable and revenue recognition criteria.

Derived Tax Revenues

An asset is recognized when the underlying exchange on which the tax is imposed occurs or when resources are received, whichever occurs first. Revenue is recognized in the same period that the assets are recognized, provided that the underlying exchange transaction has occurred. When modified accrual accounting is used, resources should also be available to be recognized as revenue. If not available, it is reported as deferred.

TAXES RECEIVABLE CLIENT PROCESS

Income Tax

An income tax of 1.8 percent is levied on substantially all income earned within the City. In addition, the residents of the City are required to pay City income taxes on income earned outside the City; however, credit is allowed for income taxes paid to other municipalities up to one hundred percent of the City's current tax rate.

The City's income tax ordinance requires ten percent of the income tax revenues to be used to finance capital projects or acquire fixed assets. As a result, this portion of the revenue is placed in the permanent improvement capital projects fund. The remaining ninety percent is unrestricted and is credited to the City's general fund.
Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

In accordance with the City Charter, any income tax ordinance must be approved by a majority vote at a City election prior to the ordinance becoming effective. The current income tax levy was renewed through December 2003.

The City levies an income tax of one and eight tenths percent on all income earned within the City as well as income earned by residents outside the City. A credit is given for income taxes paid to other municipalities up to one hundred percent of the City's current tax rate.

Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City either monthly or quarterly.

The City's income tax ordinance requires ten percent of the income tax revenue to be used to finance capital projects or acquire fixed assets. As a result, this portion of the revenue is placed in the permanent improvement capital projects fund. The remaining ninety percent is unrestricted; eighty-eight percent is credited to the City's general fund and two percent is placed in the City's debt service fund. Although, the City ordinance states this, the City has chosen to put the full 90 percent in the general fund

Collection process:

Employee withholding - Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City monthly for amounts withheld over $100 and quarterly for amounts withheld under $100.

Businesses - Tax returns are required to be filed annually by April 15. The City Income Tax Ordinance states that business must file quarterly estimates. Although, this is required by ordinance the City has chosen not to enforce this. Some businesses have chosen to pay quarterly estimates. Any losses a business may have in the current tax year cannot be carried forward to offset future gains.

Individual - Tax returns are required to be filed annually by April 15. Residents are given a credit of 100 percent up to 1.8 percent for taxes paid to other cities or villages.

Recognize as revenue all amounts of tax related to income paid (or earned) in the current year. Record a receivable for amounts not yet received.

Employee withholding - All employee withholdings are due one month following the end of the reporting period. For monthly or quarterly payments ending December 31, the payment is due by January 31 of the following year.

Business/Individuals - The report used is the "Year to Date Receipts by Tax Year" provided by the income tax department. This reports shows the payments made in the current year by tax year. Therefore, if any delinquencies were paid in the current year for prior years, they would show up on the prior tax year line of the current run date report. Amounts shown on the current tax year line of the current run date report represents individuals/businesses who have chosen to pay quarterly estimates.

INCOME TAX CONVERSION PROGRAM

1. Obtain the February "Year to Date Receipts by Tax Year" report.

2. Use the amount listed on the 19x1 (for the restatement) / 19x2 (for the current year) line under the withholding section for the withholding taxes portion of the receivable.

3. The individuals and business accrual are both calculated as follows:

    B. Prepare an analysis of current year collections and prior delinquencies collected over the past four to five years from the "Year to Date Receipts by Tax Year" report dated December 31 of each year. This analysis should be an average of both the amount collected as well as an average of the percentage of increase (decrease) from year to year.

    C. Based upon the analysis, state a conclusion as to why which averaging method was chosen.

4. Add the all three amounts calculated above. This is your total receivable.

5. On the February report, the amounts collected for each type of taxes paid will be added together for the amount that will be recognized as revenue on a modified accrual basis.

6. Record and post the 12/31/x1 modified accrual restatement adjusting journal entry:

Debit Taxes Receivable
Credit Fund Balance (current portion from the February report)
Credit Deferred Revenue (for the long-term portion)

7. Record and post the 12/31/x1 accrual restatement adjusting journal entry:

Debit Deferred Revenue
Credit Net Assets

8. Record and post the 1/1/x2 modified accrual reversing journal entry:

Debit Municipal Income Tax
Debit Deferred Revenue
Credit Taxes Receivable

9. Record and post the 1/1/x2 accrual reversing journal entry

Debit Municipal Income Tax
Credit Deferred Revenue

10. Record and post the 12/31/x2 modified accrual adjusting journal entry:

Debit Taxes Receivable
Credit Municipal Income Tax (current portion from the February report)
Credit Deferred Revenue (for the long-term portion)

11. Record and post the 12/31/x2 accrual adjusting journal entry:

Debit Deferred Revenue
Credit Municipal Income Tax

Imposed Nonexchange Revenue Transactions

THEORY

The City should recognize assets from imposed nonexchange revenue transactions in the period when an enforceable claim to the assets arises or when the assets are received, whichever occurs first. For property taxes, the date when an enforceable legal claim to taxable property arises is generally specified in the enabling legislation. That date is called the lien date or the assessment date.

They should recognize revenues from property, taxes, net of estimated refunds and estimated uncollectible amounts, in the period for which the taxes are levied, even if the enforceable legal claim arises or the due date for payment occurs in a different period. All other imposed nonexchange revenues should be recognized in the same period that the assets are recognized unless the enabling legislation includes time requirements. If so, revenues should be recognized in the period when resources are required to be used or when first use is permitted. Resources received or recognized as receivable before that time period should be reported as deferred revenues.

Taxes Receivable

Property Taxes

A receivable is booked for property taxes when an enforceable legal claim has arisen. On the accrual basis, property taxes may not be recognized as revenue prior to the year for which they are levied. When modified accrual accounting is used, property taxed are recognized in the period for which the taxed are levied and are available. For this reason it is necessary to review the property tax calendar. Most of the calendar information that follows must also be disclosed in the notes to the financial statements.

Property taxes are levied and assessed on a calendar year basis.

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Property tax revenue received during 2000 for real and public utility property taxes represents collections of the 1999 taxes. Property tax payments received during 2000 for tangible personal property (other than public utility property) are for 2000 taxes.

2000 real property taxes are levied after October 1, 2000, on the assessed value as of January 1, 2000, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2000 real property taxes are collected in and intended to finance 2001. Thus, the deferral of the receivable would also be appropriate for the accrual basis.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2000 public utility property taxes became a lien December 31, 1999, are levied after October 1, 2000, and are collected in 2001 with real property taxes.

2000 tangible personal property taxes are levied after October 1, 1999, on the value as of December 31, 1999. Collections are made in 2000. Tangible personal property assessments are generally 25 percent of true value.

Real property taxes are payable annually or semi-annually. If paid annually, the payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30; with the remainder payable by September 20.

The County Treasurer collects property taxes on behalf of all taxing districts in the county. The County Auditor periodically remits to the City its portion of the taxes collected. Accrued property taxes receivable represent real and tangible personal property taxes, public utility taxes and outstanding delinquencies which are measurable as of December 31, 2000 and for which there is an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor were they levied to finance 2000 operations. The receivable is therefore offset by deferred revenue.

The eventual collection of significantly all real and public utility property taxes (both current and delinquent) is reasonably assured because of the County's ability to force foreclosure of the properties on which the taxes are levied. However, for tangible personal property taxes (both current and delinquent), a determination of the percentage deemed uncollectible should be obtained from the county auditor's office. This percentage would be applied against the gross taxes receivable to yield the estimated net realizable value of such resources. An "Allowance for Uncollectible Property Taxes" would be set up as a contra account to the gross taxes receivable account if the percentage is significant. The amount of deferred revenue would then be recorded as the net value of the two accounts. Any significant amount considered uncollectible would be disclosed in the notes to the financial statements.

On the accrual basis, any delinquent taxes that are considered collectible would be recorded as revenue rather than as deferred.

PROPERTY TAXES CONVERSION PROGRAM

1. Review County Auditor's tax settlement dates

2. Obtain confirmation of the following from the County Auditor:
   The gross real property tax amounts to be assessed and collected.
   A. Total outstanding delinquents.
   B. Property tax rates.
   C. Delinquent tax collections. If material, record separate receivable for current versus delinquent taxes.

3. Distribute taxes receivable by fund.

4. Record and post the modified accrual reversing journal entries
   Debit: Deferred Revenue
   Credit: Taxes Receivable-Current
   Credit: Taxes Receivable-Delinquent (if material)

5. Record and post the full accrual reversing journal entry for collectible delinquent amounts
   Debit: Property Taxes Revenue
   Credit: Deferred Revenue

6. Record and post the modified accrual adjusting journal entries.
   Debit: Taxes Receivable-Current
   Debit: Taxes Receivable-Delinquent (if material)
   Credit: Deferred Revenue

7. Record and post the full accrual adjusting journal entry for collectible delinquent amounts
   Debit: Deferred Revenue
   Credit: Property Taxes Revenue

Government-mandated and Voluntary Non-exchange Transactions

THEORY

For government-mandated and voluntary non-exchange transactions receivables and revenues are recognized when all eligibility requirements are met. When modified accrual accounting is used, resources should be available to be recognized as revenue (versus deferred). Eligibility requirements included one or more of the following:

Required characteristics of recipients. The recipient has the characteristics specified by the provider.

Time requirements Time requirements specified by enabling legislation or the provider have been met. (The period when the resources are required to be used or when use is first permitted has begun, or the resources are being maintained intact, as specified by the provider.) Sometimes a provider in a government-mandated or voluntary non-exchange transaction does not specify time requirements. When that is the case, the entire award should be recognized as a liability and an expense by the provider, and as a receivable and a revenue by the recipients, in the period when all applicable period for both the provider and the recipient is the provider’s fiscal year and begins on the first day of that year (when, for example, the relevant appropriation becomes effective). The entire award should be recognized at that time.

Reimbursements The provider offers resources on a reimbursement basis and the recipient has incurred allowable costs under the applicable program.

Contingencies (Applies only to voluntary non-exchange transactions.) The provider's offer of resources is contingent upon a specified action of the recipient and that action has occurred.

If a grant has been received but the revenue recognition criteria have not been met, record the receipt as deferred revenue.

Note disclosure regarding intergovernmental receivables is required if the amount is significant.

Local Government Fund

Allocation of the undivided local government fund (and library support fund) from the State Auditor to the County occurs monthly. The amount distributed represents revenue for the prior month. In December, the tax commissioner estimates and certifies the amount to be paid into the local government fund on the state level for distribution during the following calendar year. The Commissioner then determines the separate amounts to be distributed to each county during the following calendar year. Since this is not considered a time requirement, a six month accrual is appropriate. The State appropriates these distributions to the counties so resources are appropriated through June 30 (the end of the state's fiscal year).

LOCAL GOVERNMENT CONVERSION PROCESS

1. Determine the best method to estimate a six month receivable of local government. This will be based upon past history of receipts or the City's proportionate share of the annual allocation from the County.

2. Record and post the modified accrual reversing journal entry

   Debit Intergovernmental revenue
   Debit Deferred revenue
   Credit Due from other governments

3. Record and post the accrual reversing journal entry

   Debit Intergovernmental revenue
   Credit Deferred revenue

4. Record and post the modified accrual adjusting journal entry

   Debit Due from other governments (for the full six month receivable)
   Credit Intergovernmental revenue (amount collected in the available period)
   Credit Deferred revenue (amount that was not collected in the available period)

5. Record and post the accrual adjusting journal entry

   Debit Deferred revenue
   Credit Intergovernmental revenue

Homestead and Rollback

State law grants tax relief in the form of a ten percent reduction in real property tax bills. In addition, a two and a half percent rollback is granted on residential property taxes. Tax relief is also granted to qualified elderly and disabled home owners based on their income. The loss of real property taxes as a result of these reductions is paid by the State to the City following the February settlements and may be reflected on the property tax appointment sheets of the county auditor. These payments are received for each fund which has a tax levy and should be classified as intergovernmental revenue.

Like local government money, homestead and rollback have no specified timing requirements. Amounts are appropriated by the State to the Department of Taxation for disbursement. At December 31, the payment which follows the February settlement has been appropriated. Record a receivable and deferred revenue on the modified accrual basis and revenue on the full accrual basis.

Ten Thousand Dollar Tangible Personal Property Tax Exemption

Personal property tax legislation provides for an exemption from payment of tax on the first $10,000 of valuation. Those with valuations of less than $10,000 must still file a return so that entities will know how much the exemption is costing them. The State pays the City once a year following the October personal property tax settlement based on certification of lost revenue from the county auditor. The County estimates this revenue based on the prior year's revenue. This distribution represents the payment for the lost personal property taxes and should have been received before year-end. If not, follow the guidelines for homestead and rollback.

Motor Vehicle License Tax

Motor vehicle license tax levied by the State of Ohio on motor vehicles operated upon the public roads or highways is shared with other political subdivisions. Accordingly, the guidance of GASB Statement No. 36 would be relevant. It replaces paragraph 28 of Statement 33 with the following:

> "On the other hand, a government may share its own derived tax revenues or imposed nonexchange revenues with other governments. For example, a state (provider) may share a portion of the revenues resulting from its sales tax with local governments. Both the provider and recipient governments should comply with the requirements of this Statement for voluntary or government-mandated nonexchange transactions, as appropriate. Because some recipient governments receive these shared revenues through a continuing appropriation, they may rely on periodic notification by the provider government of the accrual-basis information necessary for compliance. If notification by the provider government is not available in a timely manner, recipient governments should use a reasonable estimate of the amount to be accrued."

GASB 36 must be implemented with GASB 33 which must be implemented with (or before) GASB 34.

Tax revenues are distributed by the State to the City through an appropriation in the Auto Registration Distribution Fund. Since the eligibility requirements have been met and the State's fiscal year controls the appropriation of funds, it will be necessary to recognize a receivable for six months (January through June) of motor vehicle license tax payments, similar to the approach for local government money.

Gasoline Tax

Gasoline tax revenue is distributed monthly by the State of Ohio. These distributions would be accounted for as voluntary or government-mandated nonexchange transactions according to GASB 36, since they are a sharing of a state levied tax. Entries are necessary to recognize the receivable and intergovernmental revenue and deferred revenues in the Motor Vehicle License and Gas Tax special revenue fund and the Street Construction Maintenance and Repair Fund and the State Highway Fund for six months of distributions (January - June).

MOTOR VEHICLE LICENSE TAX AND GAS TAX CONVERSION PROGRAM

1. Estimate the January through June distributions.

2. Add the six months together for the full amount of the receivable. On a modified accrual basis, the amount received outside the available period will be deferred.

3. Record and post the modified accrual reversing journal entry
   Debit: Intergovernmental Revenue
   Debit: Deferred Revenue
   Credit: Due From Other Governments

4. Record and post the accrual reversing journal entry
   Debit: Intergovernmental Revenue
   Credit: Deferred Revenue

5. Record and post the modified accrual adjusting journal entry
   Debit: Due From Other Governments
   Credit: Intergovernmental Revenue
   Credit: Deferred Revenue

6. Record and post the accrual adjusting journal entry
   Debit: Deferred Revenue
   Credit: Intergovernmental Revenue

Grants and Other Subsidies

THEORY

Appendix C of GASB 33 provides a summary chart of the classes and timing of recognition of nonexchange transactions. That summary provides the same recognition criteria for government-mandated nonexchange transactions and voluntary nonexchange transactions (except contingencies) so we saw no need to classify grants between them. For those two types of nonexchange transactions, assets and liabilities should be recognized in the period when all eligibility requirements have been met or (for asset recognition) when resources are received, whichever is first. Revenues and expenses or expenditures should be recognized in the period when all eligibility requirements have been met.

Grant award is an indication that the required characteristics of recipients was met.

Review the time requirements for each grant to be sure they have been met.

If the grant is a reimbursement grant the revenue and related receivable should be recognized as allowable costs are incurred. If the grant is expenditure-driven (reimbursement type) with funds being advanced, any amount received for which allowable costs have not been incurred should be deferred rather than recognized as revenue.

Sometimes a provider in a government-mandated or voluntary nonexchange transaction does not specify time requirements. When that is the case, the entire award should be recognized as a liability and an expense by the provider, and as a receivable and revenue (net of estimated uncollectible amounts) by the recipients, in the period when all applicable eligibility requirements are met (applicable period). When the provider is a government (including the federal government), the applicable period for both the provider and the recipients is the provider's fiscal year and begins on the first day of that year (when, for example, the relevant appropriation becomes effective). The entire award should be recognized at that time. However, if a provider government has a biennial budgetary process, each year of the biennium should be considered a separate applicable period. In those circumstances, the provider and the recipients should allocate one-half of the resources appropriated for the biennium to each applicable period, unless the provider specifies a different allocation.

Finally, if there are contingencies in the grant agreement for voluntary non-exchange transactions, such as matching fund requirements, we need to verify they have been met in order to recognize the receivable and related revenue.

Purpose restrictions specify the purpose for which resources are required to be used. Purpose restrictions should not affect when a nonexchange transaction is recognized. However, governments that receive resources with purpose restrictions should report resulting net assets as restricted.

GRANTS AND OTHER SUBSIDIES CLIENT PROCESS

Prepare a complete listing of grants and other subsidies. Review this listing to determine receivables at year end. A review of the funds of the City may be helpful in determining potential grant and entitlement receivables, as well as a review of revenue accounts in the general fund. Create a spreadsheet listing all of these items. The spreadsheet should include the following information:

1. The fund in which the revenue is recorded.
2. The governmental agency or passthrough agency from which the revenue is received.
3. Type of revenue or grant, i.e. exchange, government mandated non-exchange or voluntary non-exchange
4. Purpose of the grant (operating or capital) and whether restricted for a specific activity or purpose.
   A. To enable the posting of the program revenue spreadsheets..
5. Significant legal or contractual restrictions on the use of the funds.
6. Local matching requirements and method of providing the funds, if applicable.
7. Grant period in which the money must be spent or may first be spent.
8. The total amount of the grant or award.
9. The total amount received prior to year end.
10. The amount of the receivable at year end.
    A. The remainder of the award not yet received.
    B. The amount of any reimbursable expenditures not yet reimbursed.
11. The amount of revenue received within the available period.
12. The amount of revenue received outside of the available period.

Obtain sufficient documentation, i.e. grant awards, receipts, and expenditure reports, from City records to substantiate the above spreadsheet and classification of receivables.

INVENTORY

Inventory items may be considered expenditures in governmental funds either when purchased or when used.

Purchase Method
The purchase method charges supplies as an expenditure at the time of acquisition. Inventories on hand at year end are recorded as an asset with a corresponding reserve for inventory in fund balance indicating that the asset does not represent spendable financial resources.

Consumption Method
The consumption method records inventory in the inventory accounts at acquisition and as an expenditure when used. The fund balance reserve need not be established unless a minimum amount of inventory must be maintained and is therefore not available for expenditure.

Inventory items are considered expenditures when purchased for governmental funds and are considered expenses of proprietary funds when consumed for the Richland County financial statements. The government-wide statements also consider inventory items as expenses when used.

GASB 34 requires the accrual basis financial statements (government-wide financials) to utilize the consumption method. ***Therefore, the preferred method for modified accrual financial statements (fund financials) would be the consumption method, to eliminate the need for a reconciling item between the governmental funds statement of revenues, expenditures, and changes in fund balance and the government-wide statement of activities.***

Journal Entries

Draft and post adjusting journal entries. If governmental funds use the purchase method, establish corresponding reservation of fund equity.

Governmental Fund Types
(Modified accrual)
Debit: Materials and Supplies Inventory
Credit: Fund Balance - Reserved for Inventory

(Accrual - Restricted net asset trial)
Debit: Fund Balance - Reserved for Inventory
Credit: Program Expense

Proprietary Fund Types
Debit: Materials and Supplies Inventory
Credit: Materials and Supplies Expense

Reverse debit and credit if the ending inventory is lower than the beginning inventory.

PREPAID ASSETS

The City enters into certain types of contracts for which services extend over more than one accounting period. This prepayment creates an asset. The following is a list of the type of contracts that need to be reviewed: insurance, computer maintenance, telephone, copier, and other equipment. The City has the option of not recording a prepaid on a modified accrual basis (fund financial statements). The full accrual basis of accounting (government-wide financial statements) requires that all prepaids be recorded. It is recommended that prepaids be recorded on both the modified and full accrual statements.

Note: If the City chooses not to report prepaids on a modified accrual basis, only the journal entries for the Government-Wide Financial Statements should be recorded.

Journal Entries

Record the appropriate journal entries:

Reversing Entry
Debit: Program expenditures/expenses
Credit: Prepaid items

Accrual Entry:
Debit: Prepaid items
Credit: Program expenditures/expenses

CAPITAL ASSETS

THEORY

Capital assets are those assets, such as land, buildings, improvements other than buildings, infrastructure, vehicles, machinery and equipment, of a long-term character (initial useful lives extending beyond a single reporting period) which are used in operations. The distinctive nature of governmental financial operations requires capital assets to be accounted for either within the proprietary (or trust) funds or within the governmental activities.

Accounting for Capital Assets

A clear distinction should be made between fund capital assets and general capital assets. Capital assets related to specific proprietary funds or, if applicable, trust funds should be accounted for through those funds. All other capital assets of a governmental unit should be accounted for as general capital assets for governmental activities.

General Capital Assets

General capital assets do not represent financial resources available for expenditure, but are items for which financial resources have been used and for which accountability should be maintained. They are not reported as assets of any fund but are reported as assets of governmental activities.

Fund Capital Assets

The capital assets of proprietary and trust funds are accounted for within the fund itself. Fund capital assets are not limited to those assets acquired with fund resources but can include assets that are donated and/or purchased with governmental fund resources. In the year of acquisition of such assets, capital contribution (a nonoperating revenue) is credited for donations from customers or contractors and entitlements or grants designated solely for capital acquisition, while transfers in are credited for additions received from general governmental resources.

Infrastructure

Infrastructure assets are long-lived capital assets that are normally stationary and that can be preserved for a significantly greater number of years than most capital assets.

General infrastructure assets are infrastructure assets that are associated with and generally arise from governmental activities. Currently this includes roads, bridges, storm sewers, and traffic lights for Generic City.

Estimated Costs

The initial cost of capital assets is available from contracts, purchase orders, ordinances, vouchers, and other documents obtained through the transaction process. However, determining the historical costs after many years can be difficult. In such situations, the original purchase documents may not be available, or an excessive amount of time may be necessary to establish exact historical cost. Therefore, it may be necessary to estimate the historical cost by indexing current cost figures back to the estimated year in which the asset was acquired, and to record these estimated costs in the appropriate capital asset accounts.

The recording of capital assets at an estimated cost presents some margin of error into the capital assets accounts. These errors will have only a short run effect because, as older assets are retired and replaced, the estimated costs are replaced by properly recorded actual cost amounts. The extent to which capital asset costs have been estimated, and the methods of estimation, should be disclosed in the notes to the financial statements.

Capitalization of Interest

GASB 37 prohibits capitalizing interest for governmental capital assets, so this is only relevant for proprietary or trust fund assets.

Depreciation of Capital Assets

Depreciation is an element of expense. It is a method of allocating the cost of a tangible capital asset, less salvage value, over the estimated useful life of the asset. Depreciation is an important element of the income determination process. Therefore, it is recognized in the proprietary funds and in the statement of activities for both governmental and business-type activities.

1. Depreciation of general capital assets should not be recorded in the accounts of governmental funds. Depreciation of general capital assets, including infrastructure, shall be recorded in governmental activities through the consolidation trial balance.

2. Depreciation of capital assets accounted for in a proprietary or trust fund should be recorded in the accounts of that fund.

Basic Financial Statements

1. Amounts of both general capital assets and fund capital assets at the beginning and end of the year being reported need to be classified by asset type (or example - land, building, machinery and equipment, etc.) and by activity and fund.

2. Calculation of depreciation for the year being reported and accumulated depreciation at the beginning and end of the year being reported should be classified by asset type, and by activity and fund.

3. The enterprise and trust fund capital assets and depreciation expense are required to be reported by fund.

4. Capital asset additions and deletions during the year being reported should be classified by general capital assets or fund capital assets, by asset type, and by activity and fund.

5. Identify the change in construction in progress during the year being reported.

6. Identify the information regarding leased assets.

7. Identify transfers made during the year.

8. Identify the source of revenue used to acquire capital assets as either the fund itself or some other source. Note the account from which it was purchased and summarize by line item as they will appear on the financial statements.

9. Identify gain or loss on disposal of any capital assets.

Information Required to Track Capital Assets

Specific information will have to be included in the City's records to provide the necessary capital asset reporting information. This information includes:

Specific asset identification (tag number).
Actual or estimated historical cost.
Year of acquisition of asset.
Useful life of asset.
Salvage value of asset, if applicable.
Location of asset.
Classification by function that is currently utilizing the asset.
Classification by major asset class and between depreciable and non-depreciable assets (i.e. land, building, vehicles, etc.)
Capital asset additions during the reporting year by fund and account.
Capital assets disposed of during the reporting year and the amount of any gain or loss.
Changes in construction in progress during the reporting year .
Identification and information regarding leased assets.
Accumulated depreciation at beginning of reporting year by account and asset type.
Depreciation expense by function and asset type for reporting year.
Identification of gain or loss on disposal of any capital assets.

***General Capital Assets Conversion Program*:**

1. The City should review the existing fixed asset accounting policies. These policies should be updated to reflect the specific changes in reporting for capital assets as detailed above. The following is a summary of information that could be included:

   A. The criteria to be met before an asset will be accounted for as a capital asset in terms of useful life and threshold dollar amount.
   B. The method to be used to determine the costs (actual and estimated) of capital assets.
   C. How assets are to be identified - assigning asset numbers, location, asset type, description, tagging, etc.
   D. When a newly acquired or constructed capital asset is to be recorded in the capital asset records.
   E. The costs to be included in the cost of acquiring or constructing the capital asset.
   F. The City's policy for computing depreciation.
   G. Whether the cost of replacing a capital asset should be maintained by the system, how it should be determined, how often it should be revised and by whom.
   H. Policies regarding the sale, trade or other disposal of capital assets.
   I. Under what circumstances transfers of assets between departments or buildings are permitted.
   J. If the existence of a maintenance agreement is to be included in the capital asset information.
   K. If capital asset values are to be maintained for insurance purposes.
   L. Under what conditions the City will report a leased asset as a capital asset with a corresponding liability for the lease payments.

   Other asset policy issues are identified and discussed in the Auditor of State's fixed assets handbook.

2. The City must establish a beginning capital asset balance, utilizing the GASB 34 criteria. The balances that were previously reported in the GFAAG, must be presented as governmental capital assets on the statement of net assets (government-wide financials) and must be tracked at the function level in order to facilitate the reporting of depreciation expense by function.

A. This may be accomplished by reviewing the detailed assets reports that were generated at the beginning of the year. A summary worksheet should be prepared that reconciles the previously reported balances to the new breakdown of assets by function.

B. This balance is will be recorded on the beginning of year consolidated trial balance.

Journal Entries to record the restated capital asset balance at the beginning of year:

Government-Wide Financial Statements - Statement of Net Assets (Full Accrual)
Consolidated Trial Balance - Beginning of Year

Debit: Depreciating Capital Assets, Net (Majority of Capital Assets)
Debit: Non-Depreciation Capital Assets (Land & Constuction)
Credit: Invested in Capital Assets, Net of Related Debt

Note: The GFAAG has been eliminated under the new reporting model.

3. The City must establish a beginning balance of accumulated depreciation by asset type and function at the beginning of the year for governmental capital assets.

A. Since depreciation has not been required for governmental assets in prior years, the County may need to review fixed assets records and recalculate depreciation for these assets as of the beginning of the year.

B. This balance will be reported on the beginning of year consolidated trial balance, and in the notes to the financial statements.

Government-Wide Financial Statements - Statement of Net Assets (Full Accrual)
Consolidated Trial Balance - Beginning of Year

Debit: Invested in Capital Assets, Net of Related Debt
Credit: Depreciating Capital Assets, Net

4. A summary of the changes in governmental and business-type capital assets during the year by asset type and function is required. The summary should be supported by sufficient documentation to provide substantiation of the additions and deletions (including any gains or losses, rather than proceeds from the sale of assets).

A. Additions to general capital assets can be determined through analysis of expense accounts and capital expense objects.

B. The additions for governmental capital assets will be reported on the capital asset worksheet.

Government-Wide Financial Statements - Statement of Net Assets (Full Accrual)
Capital Asset Worksheet

Debit: Depreciating Capital Assets, Net (majority of assets)
Debit: Non-Depreciating Capital Assets (land, construction in progress)
Credit: Expense Accounts/Capital Outlay

C. Deletions to general capital assets can be determined through analysis of the revenue account “sale of fixed assets” on the cash basis records of the County as well as through the review of Council minutes, and discussions with personnel regarding disposal of capital assets.

D. The deletions for governmental capital assets will be reported on the capital asset worksheet.

Government-Wide Financial Statements - Statement of Net Assets (Full Accrual)
Capital Asset Worksheet

Debit:	Proceeds from Sale of Capital Assets
Debit:	Loss on Sale of Capital Assets (reported as an expense)
Credit:	Depreciating Capital Assets (net of accumulated depreciation)
Credit:	Non-Depreciating Capital Assets (net of accumulated depreciation)

Note: If the proceeds were greater than the book value of the asset, a credit would be posted to the "Gain on Sale of Capital Assets" account (reported as a general revenue.

5. Depreciation expense for end of year governmental and business-type activities is required to be reported by asset type and function.

A. The depreciation expense for governmental capital assets will be reported on the capital asset trial worksheet. The amounts from the worksheet will then be posted to the appropriate columns on the end of year consolidated trial balance.

Government-Wide Financial Statements - Statement of Net Assets (Full Accrual)
Capital Asset Worksheet

Debit:	Expense Account (Function)
Credit:	Depreciating Capital Assets, Net

6. Prepare information required in the notes to the financial statements.

The change in general capital assets during the year is presented in the notes to the financial statements along with depreciation expense by function. Sample note presentations follow:

The changes in general capital assets during 2000 were as follows:

	Balance 12/31/99	Additions	Deductions	Balance 12/31/00
Governmental activities:				
Capital assets not being depreciated:				
Land	$1,603,196	$0	$79,849	$1,523,347
Construction in process	327,795	0	327,795	0
Total capital assets not being depreciated	1,930,991	0	407,644	1,523,347
Other capital assets:				
Buildings and improvements	8,024,088	446,575	34,882	8,435,781
Equipment	1,917,424	295,207	125,267	2,087,364
Vehicles	3,160,870	292,022	111,816	3,341,076
Furniture and fixtures	35,397	3,557	8,730	30,224
Infrastructure:				
Bridges	3,485,757	0	0	3,485,757
Roads	7,613,011	735,491	578,923	7,769,579
Storm Sewers	2,407,012	14,370	0	2,421,382
Traffic lights	499,445	42,350	0	541,795
Total other capital assets	$27,143,004	$1,829,572	$859,618	$28,112,958
Accumulated depreciation:				
Buildings and improvements	($2,403,460)	($236,902)	$6,131	($2,634,231)
Equipment	(1,403,932)	(153,998)	123,188	(1,434,742)
Vehicles	(1,944,123)	(290,555)	107,948	(2,126,730)
Furniture and fixtures	(22,630)	(3,688)	8,730	(17,588)
Infrastructure:				
Bridges	(1,337,264)	(35,209)	0	(1,372,473)
Roads	(4,631,541)	(452,937)	578,923	(4,505,555)
Storm Sewers	(913,014)	(24,421)	0	(937,435)
Traffic lights	(51,300)	(5,196)	0	(56,496)
Total accumulated depreciation	(12,707,264)	(1,202,906)	824,920	(13,085,250)
Other capital assets, net	14,435,740	626,666	34,698	15,027,708
Governmental activities capital assets, net	$16,366,731	$626,666	$442,342	$16,551,055

Depreciation expense was charged to functions as follows:

General Government	
Legislative and Executive	125,321
Judicial	73,858
Security of Persons and Property	
Police	151,963
Fire	92,478
Public Health Services	3,419
Public Works	626,298
Street Maintenance and Repair	5,267
Housing and Community Development	96,660
Leisure Time Activities	27,642
Total Governmental Activities Depreciation Expense	$1,202,906

PROPRIETARY FUND TYPES CAPITAL ASSET CONVERSION PROGRAM

. Prepare the notes to the financial statements.

	Balance 12/31/99	Additions	Reductions	Balance 12/31/00
Business-type activities:				
Capital assets not being depreciated:				
Land	$70,125	$0	$0	$70,125
Construction in process	446,849	0	446,849	0
Total capital assets not being depreciated	516,974	0	446,849	70,125
Other capital assets:				
Buildings and improvements	6,667,525	10,960	0	6,678,485
Equipment	1,304,671	57,486	7,144	1,355,013
Vehicles	520,776	0	0	
Furniture and fixtures	3,068	0	0	
Infrastructure				
Sanitary sewer system	7,213,055	520,832	0	7,733,887
Total other capital assets	$15,709,095	$589,278	$7,144	$16,291,229
Accumulated depreciation:				
Buildings and improvements	($2,162,568)	($170,761)	$0	($2,333,329)
Equipment	(780,309)	(107,501)	2,648	(885,162)
Vehicles	(348,883)	(62,039)	0	(410,922)
Furniture and fixtures	(730)	(351)	0	(1,081)
Infrastructure				
Sanitary sewer system	(2,579,684)	(166,301)	0	(2,745,985)
Total accumulated depreciation	(5,872,174)	(506,953)	2,648	(6,376,479)
Other capital assets, net	9,836,921	82,325	4,496	9,914,750
Business-type activities capital assets, net	$10,353,895	$82,325	$451,345	$9,984,875

The only business-type activity is the City wastewater treatment operation.

INTERFUND ACTIVITY

THEORY

Interfund activity within and among the three fund categories (governmental, proprietary, and fiduciary) should be classified and reported as follows:

1. Reciprocal interfund activity is the internal counterpart to exchange and exchange-like transactions. It includes:

   A. Interfund loans are amounts provided with a requirement for repayment. Interfund loans should be reported as interfund receivables in lender funds and interfund payables in borrower funds. This activity should not be reported as other financing sources or uses in the fund financial statements. If repayment is not expected within a reasonable time, the interfund balances should be reduced and the amount that is not expected to be repaid should be reported as a transfer from the fund that made the loan to the fund that received the loan.

   B. Interfund services provided and used are sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used should be reported as revenues in seller funds and expenditures or expenses in purchaser funds.

2. Nonreciprocal interfund activity is the internal counterpart to nonexchange transactions. It includes:

   a. Interfund transfers are flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. This category includes payments in lieu of taxes that are not payments for, and are reasonably equivalent in value to, services provided. In governmental funds, transfers should be reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers. In proprietary funds, transfers should be reported as nonoperating revenues and expenses.

   B. Interfund reimbursements are repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements should not be displayed in the financial statements.

Eliminations and Reclassifications

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds should be eliminated or reclassified as explained below.

Internal Balances - Statement of Net Assets

Eliminations should be made in the statement of net assets to minimize the “grossing-up” effect on assets and liabilities within the governmental and business-type activities columns of the primary government. As a result, amounts reported in the funds as interfund receivables and payables should be eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which should be presented as internal balances. Amounts reported in the funds as receivable from or payable to fiduciary funds should be included in the statement of net assets as receivable from and payable to external parties (consistent with the nature of fiduciary funds), rather than as internal balances. All internal balances should be eliminated in the total primary government column.

Internal Activities - Statement of Activities

Eliminations should be made in the statement of activities to remove the "doubling-up" effect of internal service fund activity. The effect of similar internal events (such as allocations of accounting staff salaries) that are, in effect, allocations of overhead expenses from one function to another or within the same function also should be eliminated, so that the allocated expenses are reported only by the function to which they were allocated.

The effect of interfund services provided and used between functions (for example, the sale of water or electricity from a utility to the general government) should not be eliminated in the statement of activities. To do so would misstate both the expenses of the purchasing function and the program revenues of the selling function.

CLIENT PROCESS

A spreadsheet should be prepared to eliminate the operating income recognized in the internal services fund. In addition to eliminating the operating income (or loss), the operating expenses in the internal service fund should be offset against the operating revenues so the remaining expense is recognized in the function for which the expenses were incurred.

This elimination should be done proportionately to the charges to the various activities by the internal service fund. For example, if the charges to Police were 10% of the total charges to all activities. Police would get 10% of the operating income credited back or would be charged 10% of the operating loss.

See the Notes to the Financial Statements for GASB 38 disclosure requirements regarding interfund receivables and payables and transfers.

THEORY

Expenditure Recognition

GASB Interpretation No, 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements," states, in paragraph 14: "Governmental fund liabilities and expenditures for claims and judgments, compensated absences, special termination benefits, and landfill closure and postclosure costs should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources. Governments, in general, are normally expected to liquidate liabilities with expendable available financial resources to the extent that the liabilities mature (come due for payment) each period. For example, compensated absences liabilities are normally liquidated with expendable available financial resources, and a governmental fund liability and expenditure should be recognized, as payments come due each period upon the occurrence of relevant events such as employee resignations and retirements. Similarly, landfill closure and postclosure costs are normally liquidated with expendable available financial resources, and a governmental fund liability and expenditure should be recognized, as payments come due each period upon receipt of goods and services used in the closing care processes. In all cases, the criterion for modified accrual recognition is whether and to what extent the liability has matured, independent of the method and timing of resource accumulation."

Interpretation 6 addresses the recognition of liabilities and expenditures in governmental funds. Its sole purpose is to establish rules for identifying liabilities that should be reported as governmental fund obligations, either in whole or in part. This is an area in which current guidelines have been inconsistently applied. The Interpretation is applicable to all state and local governments that use the current resources measurement focus and the modified accrual basis of accounting. The Interpretation must be implemented with the adoption of Statement No. 34. Early implementation is encouraged, but only if the implementation occurs concurrently with the implementation of the new reporting model.

In the absence of an explicit requirement to do otherwise, a government should accrue a governmental fund liability and expenditure when the government incurs the liability. Liabilities that should be accrued include liabilities that a government normally pays in full and in a timely manner from current financial resources, e.g. salaries. This rule is applied regardless of whether resources are or are not currently available to pay the liability.

The general rule also addresses the unmatured and matured portions of general long-term obligations, including bonds, capital leases, compensated absences, claims and judgments, landfill closure and postclosure costs, special termination benefits and pensions. The unmatured portion of these obligations should be reported as general long-term liabilities. The matured portion, which is defined as the portion that has come due for payment, should be reported as a fund obligation. There are three explicit requirements that modify this general rule.

Additional accrual of governmental fund liabilities and expenditures for debt service on general long-term debt (including capital leases) is appropriate if a government has provided financial resources to a debt service fund for payment of liabilities that will mature early in the following year. These resources must be in the debt service fund and dedicated to the payment of the debt. "Early in following year" may not exceed one month.

The second exception addresses obligations already addressed in the general rule and reaches the same conclusion. It states that governmental fund obligations and expenditures should be recognized for compensated absences, claims and judgments, landfill closure and postclosure costs, and special termination benefits to the extent they are expected to be liquidated with expendable, available financial resources. This is defined in the Interpretation as the extent to which these obligations come due (mature) during the period, regardless of the extent to which resources have been accumulated and earmarked for their payment.

The third exception states that matured liabilities should also be reported as fund obligations. Matured liabilities include liabilities that are normally due and payable in full when incurred.

GASB Statement No. 27, "Accounting for Pensions by State and Local Government Employers" states in paragraph 19: "Employers that participate in cost-sharing multiple-employer plans should recognize annual pension expenditures/expense equal to their contractually required contributions to the plan. Recognition should be on the modified accrual or accrual basis, whichever applies for the type of employer or for the fund type(s) used to report the employers contributions. Pension liabilities and assets result from the difference between contributions required and contributions made."

Paragraph 16 says that pension expenditures from governmental funds should be recognized on the modified accrual basis; that is, the amount recognized should be equal to the amount contributed to the plan or expected to be liquidated with expendable available financial resources.

Liability accounts can include but are not limited to the following:

- Accounts Payable
- Accrued Wages and Benefits
- Intergovernmental Payable
- Due To Other Funds
- Interfund Payable
- Contracts Payable
- Compensated Absences Payable
  - (Employee must have retired or resigned by year end to have a fund liability under Interpretation #6)
- Claims and Judgments Payable
- Deferred Revenue

It is significant to note that retirement contributions are **not** subject to Interpretation 6. Therefore all amounts paid within the available period will be posted as a liability to the modified accrual trial balances, and all amounts paid outside of the available period will be posted as a liability on the restricted net assets (full accrual trial balances).

Items Subject to Accrual

A. Wages and salaries, including overtime, at fiscal year end. ***No significant change from old model to new model***.
B. PERS and STRS on accrued wages and salaries at fiscal year end. ***No significant change from old model to new model***.
C. Accrued vacation and sick leave and compensatory time for eligible employees, ***based on compensated absences guidelines, Interpretation 6 (to the extent the liabilities are due and payable and "normally to be expected to be liquidated with expendable available financial resources".***
D. Workers' Compensation Insurance on accrued wages and unfunded liability for the fiscal year. ***No significant change from old model to new model***.
E. Medicare on accrued wages at fiscal year end. ***No significant change from old model to new model***.
F. Accrued unemployment at fiscal year end. ***No significant change from old model to new model***.
G. Accounts payable at fiscal year end. ***No significant change from old model to new model***.
H. Contracts payable at fiscal year end. ***No significant change from old model to new model***.
I. Claims and judgments. ***No significant change from old model to new model***.
J. Amounts due to other governments at fiscal year end ***No significant change from old model to new model***.

K. Interfund advances not yet repaid at fiscal year end ***No longer used***

L. Funds with a deficit cash balance ***No significant change from old model to new model.***

Compensated Absences

Compensated absences **are** subject to Interpretation 6.

A liability would be accrued on a modified accrual basis only to the extent that the liability was **“due and payable” at year end, meaning that an employee had resigned/retired prior to year end and had not been paid by year end.**

The full amount of the compensated absence liability will now be reported on the restricted net assets trials (full accrual) in the funds that will be scheduled to make the payments, with the corresponding expenses being reported in the activities (functions) scheduled to make the payments. The liability accounts will be split between “Long-Term Liabilities - Due within one Year” and “Long-Term Liabilities - Due in more than one Year”.

The presentation in the notes to the financial statements must include the actual increases and decreases in the liability rather than the net effect on the balance of the liability.

Governmental Activities Long-term Liabilities

The principal amount of all unmatured capital related long-term debt for governmental activities of the County is reported as governmental activities general long-term debt. The general long term debt account group in no longer reported in the new model. However, this debt is posted to the debt worksheet which is posted to the consolidation trial balance. This debt is typically offset against capital assets and is reported as part of net assets invested in capital assets, net of related debt. See the net assets section for further discussion of this issue.

Since the entity-wide statements are presented on the accrual basis of accounting, it is appropriate to record and amortize or accrete any significant premium and/or discount (including deep discount debt) on debt issued for governmental activities and any significant bond issuance costs. It is also appropriate to recognize any gain or loss on any advance refunding of governmental activities debt. Interest expense for governmental activities should be recognized as incurred rather than when due in the governmental fund statements.

The interest rate on the bond is known as the stated rate. This rate is set by the City issuing the bonds and is expressed as a percentage of the par value, or face value, of the bond. If the bonds are sold for more than par value (at a premium) or less than par value (at a discount), the actual interest yield to the bondholder is less than or greater than the stated rate. This rate of interest actually earned by the bondholder is called the effective yield, or market rate, and is set by the investment market.

APB Opinion No. 21 requires that bond premium be reported in the statement of net assets as a direct addition to the face amount of the bond. The premium would be amortized over the life of the bonds and would be charged to interest expense in such a way as to result in a constant rate of interest when applied to the amount outstanding at the beginning of any given period. However, other methods of amortization (such as straight-line) may be used if the results obtained are not materially different from those which would result from the effective interest method.

Using the effective interest method of amortizing premiums allows the interest cost for each period to be the effective interest rate multiplied by the book value of the bonds at the start of that period. The book value changes each period by the amount of bonds paid and the amount of premium amortized.

The issuance of bonds involves printing costs, legal fees, commissions, and other similar charges. According to APB Opinion No. 21, these items should be debited to a deferred charge account for unamortized expenses of bond issue and amortized over the life of the issue

The requirements of APB Opinions No. 12, Omnibus Opinion - 1967, and No. 21, Interest on Receivables and Payables, as amended, require deferral and amortization of debt issue premium or discount. These opinions may be applied prospectively to governmental activities in the statement of net assets and the statement of activities, except for governmental activity debt that is deep-discount or zero-coupon debt. Similarly, Statement 23, which requires deferral and amortization of the difference between the reacquisition price and the net carrying amount of old debt in debt-refunding transactions, may be applied prospectively by governmental activities. The retroactive effect of applying those standards is not required to be considered in determining beginning net assets for governmental activities.

CAPITAL RELATED LONG-TERM LIABILITIES CONVERSION PROGRAM

Adjusting Entries

Governmental Activities - Consolidation Trial (Accrual Basis)
Old Issues - Amount Retired
Debit General Obligation Bonds Payable
Debit: Special Assessment Bonds Payable
Credit: Principal Retirement

Debit: Amortization of Bond Issuance Costs
Credit: Deferred Charge for Bond Issuance Costs

New Issues
Debit: General Obligation Bonds Issued
Debit: Unamortized Discount on Bonds
Credit: General Obligation Bonds Payable
Credit: Special Assessment Bonds Payable

Outstanding Bonds
Debit: Interest Expense
Credit: Interest Payable

Fund Balance is the fund equity of governmental funds on the balance sheet (fund financial statements). The only significant change in the new reporting model is that amounts reported as "unreserved and undesignated" now must be further classified (split) among fund types.

Net Assets For the entity-wide statements, the proprietary funds statements, and the fiduciary (trust) funds statements, the difference between assets and liabilities is reported as net assets. Net assets are displayed in three components as appropriate.

Invested in capital assets, net of related debt

This account consists of capital assets, including any restricted capital assets, less both accumulated depreciation and the outstanding balances of any bonds, mortgages, notes, or other borrowings that are directly attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds should not be included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt should be included in the same net assets component as the unspent proceeds - for example, restricted for capital projects.

Question 90 in the implementation guide for GASB 34 provides guidance for determining unspent proceeds. It states, "The precision with which the unspent proceeds can be determined depends on the government's accounting records. Most governments are required to, or choose to, account for bond issues separately - either in separate funds or in an account or memorandum fashion in a multipupose fund - and can identify what has been spent and what remains. Those governments whose accounting systems do not lend themselves to that type of specific tracking should use their best estimates - in a manner that can be documented - to determine the unspent portion."

Net assets, restricted

This account includes that portion of net assets where constraints are placed on the assets use by either external parties (e.g., creditors or grantors) or through constitutional provisions or enabling legislation. For this purpose, enabling legislation authorizes a 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. The basic concept is that restrictions are not unilaterally established by the reporting government itself, and cannot be removed without the consent of those imposing the restrictions or through formal due process.

At a minimum the restricted net assets include capital projects, debt service, and other purposes (primarily special revenue funds and unclaimed monies in the general fund). Special revenue fund resources should be reviewed carefully to be sure they meet the definition of restricted since the use of special revenue funds is not limited to legally restricted resources. NCGA Statement 1, paragraph 23, states that funds may also be created by the governing board to achieve sound and expeditious financial administration and reporting or to comply with grant or contract accounting and financial reporting requirements. The purpose for which the resources are restricted needs to be narrower than that of the reporting unit in which it is reported. For instance, resources that are required to be used for governmental activities are not considered restricted in the governmental activities column in the statement of net assets, but those that are required to be used for law enforcement, for example, would be considered restricted.

Net assets, unrestricted

This account consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

NET ASSETS CONVERSION PROGRAM

1. The restricted net assets trial balance contains columns for accrual reclassifications. This provides a place to post the journal entry to reclassify fund balance to the appropriate classification of net assets. This entry needs to be evaluated, written, and posted by fund to best understand and comply with the standards for restricted net assets.

2. In the capital projects funds, any debt issued for general capital asset acquisition or construction should be offset against (debited to) the invested in capital assets, net of related debt unless significant unspent proceeds remain, in which case they would be offset against the remaining unspent proceeds by debiting net assets restricted for capital projects, assuming the unspent proceeds are in a capital projects fund. Any analysis performed to determine the amount invested in capital assets, net of related debt or the amounts of any significant unspent proceeds should be documented in the work papers to support the net asset reclassification entry. Any unusual items should be noted in those work papers. The work papers should provide audit with what they need to review the classification and determine that net assets are appropriately classified.

THEORY

Management's discussion and analysis (MD&A) should introduce the basic financial statements and provide an analytic overview of the City's financial activities. Although it is required supplementary information (RSI), governments are required to present MD&A before the financial statements.

MD&A should provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions. For purposes of MD&A, currently known facts are information that management is aware of as of the date of the auditor's report and are based on what has happened and not on what might happen. MD&A should include comparisons of the current year to the prior year based on government-wide information. It should provide an analysis of the government's overall financial position and results of operations to assist users in assessing whether that financial position has improved or deteriorated as a result of the year's activities. In addition, it should provide an analysis of significant changes that occur in funds and significant budget variances. It should also describe capital asset and long-term debt activity during the year. MD&A should conclude with a description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.

MD&A should discuss the current year results in comparison with the prior year, with emphasis on the current year. This fact-based analysis should discuss the positive and negative aspects of the comparison with the prior year. The use of charts, graphs, and tables is encouraged to enhance the understandability of the information. Charts and graphs may be used to supplement, or elaborate on, information in the condensed statements, but should not be used in place of them

GAAP identify a list of specific topics that the City should address in its MD&A to the extent that those topics are relevant to the City's particular circumstances. These requirements are described in paragraphs 8 - 11 in GASB Statement No. 34. Because MD&A constitute required supplementary information, the City may not address additional topics not found on this list as part of MD&A, although they are free to provide whatever level of detail they deem appropriate in addressing the specific topics identified by GAAP. This requirement is explained in question 10 of the implementation guide for statement 34. GASB Statement No. 37 also confined the information present in the MD&A to the topics identified in a through h in paragraph 11 of statement 34. The letter of transmittal provides and appropriate place for addressing topics not identified by GAAP for inclusion within MD&A. Because MD&A is subject to a limited degree of auditor involvement, highly subjective information should be reported in the letter of transmittal.

MD&A requirements established by this Statement are discussed below in general rather than specific terms to encourage financial managers to effectively report only the most relevant information and to avoid boiler-plate discussion. The information presented should be confined to the topics discussed in 1 through 8, below.

1. A brief discussion of the basic financial statements, including the relationships of the statements to each other, and the significant differences in the information they provide. This discussion should include analyses that assist readers in understanding why measurements and results reported in fund financial statements either reinforce information in government-wide statements or provide additional information.

2. Condensed financial information derived from government-wide financial statements comparing the current year to the prior year. At a minimum, governments should present the information needed to support their analysis of financial position and results of operation required in 3, below, including these elements:

   A. Total assets, distinguishing between capital and other assets

B. Total liabilities, distinguishing between long-term liabilities and other liabilities
C. Total net assets, distinguishing among amounts invested in capital assets, net of related debt; restricted amounts; and unrestricted amounts
D. Program revenues, by major source
E. General revenues, by major source
F. Total revenues
G. Program expenses, at a minimum by function
H. Total expenses
I. Excess (deficiency) before contributions to term and permanent endowments or permanent fund principal, special and extraordinary items, and transfers
J. Contributions
K. Special and extraordinary items
L. Transfers
M. Change in net assets
N. Ending net assets

3. An analysis of the government's overall financial position and results of operations to assist users in assessing whether financial position has improved or deteriorated as a result of the year's operations. The analysis should address both governmental and business-type activities as reported in the government-wide financial statements and should include reasons for significant changes from the prior year, not simply the amounts or percentages of change. In addition, important economic factors, such as changes in the tax or employment bases that significantly affected operating results for the year should be discussed.

4. An analysis of balances and transactions of individual funds. The analysis should address the reasons for significant changes in fund balances or fund net assets and whether restrictions, commitments, or other limitations significantly affect the availability of fund resources for future use.

5. An analysis of significant variations between original and final budget amounts and between final budget amounts and actual budget results for the general fund (or its equivalent). The analysis should include any currently known reasons for those variations that are expected to have a significant effect on future services or liquidity.

6. A description of significant capital asset and long-term debt activity during the year, including a discussion of commitments made for capital expenditures, changes in credit ratings, and debt limitations that may affect the financing of planned facilities or services. Paragraphs 116 through 120 require certain disclosures about capital assets and long-term debt. It is sufficient for purposes of this discussion in MD&A to summarize that information and refer to it for additional details.

7. A discussion by governments that use the modified approach (paragraphs 23 - 25) to report some or all of their infrastructure assets including:

   A. Significant changes in the assessed condition of eligible infrastructure assets from previous condition assessments.

   B. How the current assessed condition compares with the condition level the government has established.

   C. Any significant differences from the estimated annual amount to maintain/preserve eligible infrastructure assets compared with the actual amounts spent during the current period.

8. A description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position (net assets) or results of operations (revenues, expenses, and other changes in net assets).

Question 11 in the statement 34 implementation guide discusses meeting the requirement to provide information to assist readers in understanding why measurements and results reported in fund financial statements either reinforce information in government-wide statements or provide additional information. That discussion states, "The primary objective of the requirement in paragraph 11a is to help readers of MD&A understand the relationship of the results reported in the governmental funds financial statements to the results reported for governmental activities in the government-wide statements. For example, if the statement of activities reports a significant decrease in net assets of governmental activities and the fund financial statements show an increase in the fund balances of the governmental funds, MD&A should explain why that occurred. The explanation could be that significant bond proceeds were received and capital expenditures were unusually low in capital projects funds, or that some long-term liabilities were reported in the government-wide statements that did not affect the governmental funds. The causes of the differences should be evident in the reconciliations accompanying the fund financial statements (see paragraph 77), but MD&A should provide an overview of that information, in narrative fashion, to meet the requirements of paragraph 11a. On the other hand, if the reasons for the change in net assets of governmental activities and the change in fund balances of governmental funds are similar, MD&A should note that similarity."

NOTES TO THE FINANCIAL STATEMENTS

Notes to the financial statements are an integral part of the basic financial statements and should immediately follow them. The notes include explanations and interpretations of factors not present in the statement's captions and amounts, thus providing a better understanding of the basic financial statements for external users.

The notes to the financial statements are not to be cluttered with unnecessary and immaterial disclosures. They are not used to correct or change amounts, present alternative information or be so detailed that they obscure the facts and circumstances being described.

NCGA Statement 1 identifies the minimum note disclosure essential for fair presentation of the GPFS. In addition, Statement 1 identifies several additional areas for disclosure, if applicable. The topical index for the Codification of Governmental Accounting and Financial Reporting Standards lists various note disclosure requirements by subject matter (under the listing "Notes to the Financial Statements") and the original pronouncement that initiated those requirements, along with any related codification reference. GASB Statement No. 34 and Statement No. 38 also provide some note disclosure requirements. The outline below indicates both the required and additional disclosures that may appear in the City's notes to the financial statements.

1. Criteria used to determine the scope of the reporting entity and component units combined to form the reporting entity, including key criteria considered
    - A. Disclosure on potential component units meeting any of the criteria but are not included in the reporting entity. Specific reasons are required to be disclosed for excluding the component unit.

2. Summary of significant accounting policies including:
    - A. Basis of presentation
        - 1) Government-wide Financial Statements
        - 2) Fund Financial Statements
    - B. Fund Accounting
        - 1) Governmental Funds
        - 2) Proprietary Funds
        - 3) Fiduciary Funds
    - C. Measurement Focus
        - 1) Government-wide Financial Statements
        - 2) Fund Financial Statements
    - D. Basis of Accounting
        - 1) Revenues - Exchange and Non-exchange Transactions
        - 2) Deferred Revenue
        - 3) Expenses/Expenditures
    - E. Budgetary process **(GASB 38 rescinded this requirement)**
        - 1) Description of the budgetary process
        - 2) Which funds appropriated budgets have been adopted
        - 3) Tax Budget
        - 4) Estimated Resources
        - 5) Appropriations
        - 6) Budgeted Level of Expenditures
        - 7) Lapsing of Appropriations
        - 8) Encumbrances
    - F. Cash, Cash Equivalents, and Investments
    - G. Inventory
    - H. Prepaid Items

- I. Capital Assets
- J. Interfund Balances
- K. Compensated Absences
- L. Accrued Liabilities and Long-term Obligations
- M. Fund Balance Reserves
- N. Net Assets
- O. Operating Revenues and Expenses
- P. Contributions of Capital
- Q. Interfund Activity
- R. Extraordinary and Special Items
- S. Estimates

3. Changes in Accounting Principles and Restatement of Prior Year's Fund Equity
   - A. Changes in Accounting Principles
   - B. Restatement of Fund Equity

4. Budgetary Basis of Accounting

5. Accountability and Compliance (if applicable)
   - A. Material violations or finance-related legal and contractual provisions
   - B. Deficit fund balance or net assets of individual funds including how the deficit will be relieved
   - C. Excess of expenditures/expenses over appropriations in individual funds at the level of budgetary control, if any, and explanations including remedial action planned by or required of the City

6. Deposits and Investments
   - A. Statutory requirements and definitions
   - B. Cash on Hand
   - C. Investments
   - D. Reconciliation between GASB 3 and GASB 9's definition of deposits and investments.

7. Receivables

8. Capital Assets (GASB 34 requirements)

9. 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 an organization) and risk financing (to obtain finances to restore the economic damages of those losses.) (GASB 10)
   - A. Names of the companies the City is insured with
   - B. The types of insurance coverage the City has
   - C. The amounts of deductible for all coverages
   - D. Any limitations on coverages
   - E. Worker's Compensation coverage
   - F. Employee Health Insurance Fund

10. Defined Benefit Retirement Plans
    - A. Public Employees Retirement System
    - B. Ohio Police and Fire Pension Fund

11. Postemployment Benefits
    - A. Public Employee Retirement System
    - B. Ohio Police and Fire Pension Fund

12. Compensated Absences (GASB Interpretation 6)

13. Capital Leases - Lessee Disclosure (GASB Statement 38)

14. Long-Term Debt (GASB Statement 38

15. Notes Payable (GASB Statement 38)

16. Due to/from Other Funds (if applicable)

17. Related Organizations

18. Contingent Liabilities

19. Related Party Transactions

20. Component Unit

21. Significant effects of subsequent events
    A. Significant new bond issue
    B. Bonds issued to retire notes
    C. Change in entity
    D. Newly negotiated union contract
    E. Fire, flood or other natural disaster

The areas for note disclosure which are listed above may not be all inclusive nor are they intended to replace professional judgment in determining disclosure for the fair presentation in the existing circumstances.

NCGA Statement 1 also describes narrative explanations that relate to individual fund financial statements and schedules. These narratives provide information not included in the financial statements, the notes to the financial statements nor the schedules that are necessary: (a) to assure an understanding of the combining and individual fund and account group statements and schedules, and (b) to demonstrate compliance with finance-related legal and contractual provisions. The narrative explanations can appear on the divider pages, directly on statements and schedules or in a separate section.

GASB 34 Note Requirements

Governments should provide these additional disclosures (if applicable) in their summary of significant of significant accounting policies based on the requirements of this Statement:

1. A description of the government-wide financial statements, noting that neither fiduciary funds nor component units that are fiduciary in nature are included.

2. The measurement focus and basis of basis of accounting used in the government-wide statements.

3. The policy for eliminating internal activity internal activity in the statement of activities.

4. The policy for applying FASB pronouncements issued after November 30, 1989, to business-type activities and to enterprise funds of the primary government.

5. The policy for applying capitalizing assets and for estimating the useful lives of those assets (used to calculate depreciation expense). Governments that choose to use the modified approach for reporting eligible infrastructure assets should describe that approach.

6. A description of the types of transactions included in program revenues and the policy for allocating indirect expenses to functions in the statement of activities.

7. The government's policy for defining operating and nonoperating revenues of proprietary funds.

8. The government's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Governments should provide detail in the notes to the financial statements about capital assets and long-term liabilities of the primary government reported in the statement of net assets. The information disclosed should be divided into major classes of capital assets and long-term liabilities. As well as between those associated with governmental activities and those associated with business type activities. Capital assets that are not being depreciated should be disclosed separately from those being depreciated.

Information presented about major classes of capital assets should include:

1. Beginning and end of year balances (regardless of whether beginning of year balances are presented on the face of the government-wide financial statements), with accumulated depreciation presented separately from historical cost.

2. Capital acquisitions

3. Sales or other dispositions

4. Current period depreciation expense, with disclosure of the amounts charged to each of the functions in the statement of activities.

For collections (works of art and historical collections) not capitalized, disclosures should provide a description of the collection and the reasons these assets are not capitalized. For collections that are capitalized, governments should make the same disclosures just noted for capital assets.
Information about long-term liabilities should include both log-term det (such as bonds, notes, loans, and leases payable) and other long-term liabilities (such as compensated absences and claims and judgments). Information presented about long-term liabilities should include:

1. Beginning and end of year balances (regardless of whether beginning of year balances are presented on the face of the government-wide financial statements).

2. Increases and decreases (separately presented).

3. The portions of each item that are due within one year of the statement date.

4. Which governmental funds typically have been used to liquidate other long-term liabilities (such as compensated absences and pension liabilities) in prior years.

Determining whether to provide similar disclosures about capital assets and long-term liabilities of discretely presented component units is a matter of professional judgement. The decision to disclose should be based on the individual component unit's significance to the total of all discretely presented component units and that component unit's relationship with the primary government.

Note disclosures should include the following information about donor restricted endowments:

1. The amounts of net appreciation on investments of donor-restricted endowments that are available for authorization for expenditure by the governing board, and how those amounts are reported in net assets.

2. The state law regarding the ability to spend net appreciation.

3. The policy for authorizing and spending investment income, such as a spending-rate or total-return policy.

Segment Information

Governments that report enterprise funds or that use enterprise fund accounting and reporting standards to report their activities are required to present segment information for those activities in the notes to the financial statements. For purposes of this disclosure, a segment is an identifiable activity reported as or within an enterprise fund or an other stand-alone entity for which one or more revenue bonds or other stand-alone entity for which one or more revenue bonds or other revenue-backed debt instruments (such as certificates of participation) are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds or other revenue-backed debt and has related expenses, gains and losses, assets, and liabilities that can be identified. Segment disclosure requirements should be met by providing condensed financial statements in the notes:

1. Type of goods or services provided by the segment.

2. Condensed statement of net assets:
   - A. Total assets - distinguishing between current assets, capital assets, and other assets. Amounts receivable form other funds or component units should be disclosed separately.
   - B. Total liabilities - distinguishing between current and long-term amounts. Amounts payable to other funds or component units should be disclosed separately,
   - C. Total net assets - distinguishing among restricted (separately reporting expendable and nonexpendable components); unrestricted; and amounts invested in capital assets, net of related debt.

3. Condensed statement of revenues, expenses, and changes in net assets:
   - A. Operating revenues (by major source).
   - B. Operating expenses. Depreciation (including any amortization) should be identified separately.
   - C. Operating income (loss).
   - D. Nonoperating revenues (expenses) - with separate reporting of major revenues and expenses.
   - E. Capital contributions and additions to permanent and term endowments.
   - F. Special and extraordinary items.

G. Transfers

H. Change in net assets.

I. Beginning net assets.

J. Ending net assets.

4. Condensed statement of cash flows:

A. Net cash provided (used) by:
1) Operating activities.

2) Noncapital financing activities.

3) Capital and related financing activities.

4) Investing activities.

B. Beginning cash and cash equivalent balances.

C. Ending cash and cash equivalent balances.

Determining whether to provide segment disclosures about component units that use enterprise fund accounting and reporting standards is a matter of professional judgement. The decision to disclose should be based on the individual component unit's significance to the total of all discretely presented component units and that component unit's relationship to the primary government.
Governments that want to present disaggregated information for their multiple-function enterprise funds beyond what is required for segment reporting (for example, net program cost information) are encourage to present (as supplementary information) a statement of activities. Special-purpose governments engaged only in business-type activities also are encouraged to present this information.

GASB 38 Note Requirements

Areas affected by new requirements in GASB 38 are noted in the work paper copy of the Richland County CAFR for the year ended December 31, 2000. These areas include:

1. Disclose the activities accounted for in the major funds, internal service funds and fiduciary fund types presented in the basic financial statements.

2. Disclose the length of time used to define available for purposes of revenue recognition in the governmental fund financial statements.

3. Rescind the requirement in NCGA Statement 1, paragraph 92, to disclose the accounting policy for encumbrances.

4. Disclose actions taken to address any significant violations of finance-related legal or contractual provisions.

5. Disclose principal and interest requirements to maturity. These should be presented separately. Variable rate interest requirements are also addressed.

6. Disclose the future minimum payments for each of the five subsequent fiscal years and in five-year increments thereafter for obligations under capital and noncancelable leases.

7. Disclose details about short-term debt activity during the year, even if no short-term debt is outstanding at year end. These include a schedule of changes in short-term debt and the purpose for which the short-term debt was issued

8. Disclose components of aggregated receivable and payable balances reported on the statements of net assets and balance sheet. For example, components may include balances due to or from taxpayers, other governments, vendors, customers, beneficiaries, and employees. Disclose any significant receivable balances not expected to be collected within one year of the date of the financial statements.

9. Disclose certain details about interfund balances and transfers reported in the fund financial statements. Balance disclosures include amounts, purposes, and any balances not expected to be repaid within one year of the date of the financial statements. Transfer disclosures include amounts, purposes and any significant transfers that do not occur on a routine basis or that are inconsistent with the activities of the fund making the transfer.

COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

THEORY

To be truly comprehensive, the CAFR must provide information on each individual fund and component unit. As a rule, the basic financial statements provide detailed information only on major individual governmental funds, major individual enterprise funds, and major individual component units. Accordingly, it is the role of the combining and individual fund presentations to provide the level of detail for nonmajor governmental funds, nonmajor enterprise funds, individual internal service funds and fiduciary funds and nonmajor individual discretely presented component units.

The CAFR should include a combining statement to support each column in the basic financial statements that aggregates data from more than one fund or discretely presented component unit. Thus, a government with the full complement of fund types and component units could have up to eight sets of combining financial statements, as follows:

combining statements - nonmajor governmental funds
combining statements - nonmajor enterprise funds
combining statements - internal service funds
combining statements - private-purpose trust funds
combining statements - pension (and other employee benefit) trust funds
combining statements - investment trust funds
combining statements - agency funds
combining statements - nonmajor discretely presented component units

Combining statements are not necessary if there is only one individual fund in any of these categories.

Combining statements for nonmajor governmental funds combine individual fund from different fund types in a single financial statement. Because the fund type of an individual fund is important to financial statement users, columnar headings are useful to clearly identify the fund type of each fund presented in that statement.

Sometimes a government has so many individual nonmajor governmental funds that it is difficult to present all the individual fund data on a single financial statement. In such cases you may elect to present subcombining statements to support the combining statements. Assume the City had 16 individual nonmajor special revenue funds and 23 individual nonmajor capital projects funds., in addition to a nonmajor debt service fund. You may present a combined column for the nonmajor special revenue funds and a combined column for the capital projects funds in the combining statements for nonmajor governmental funds. The combined columns will be supported by subcombining statements that presented a separate column for each nonmajor special revenue fund and each capital projects fund respectively.

GAAP emphasize that only the minimum number of funds consistent with legal and operating requirements should be established since unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration. If a government is hesitant to report information on each individual fund in its CAFR, this hesitation may itself be an indication that such funds are not, in fact, funds at all for external financial reporting purposes, even though they may be treated as funds for internal accounting purposes. Accordingly, a government should carefully consider the proper application of the number of funds principle to its particular situation before proceeding to present a large number of individual funds in its CAFR. See the Fund Classification section of this plan to see how individual funds for internal accounting were combined for budgetary comparison purposes and for GAAP reporting purposes.

By definition, information on each individual fund and component unit must be provided in the basic financial statements or the combining financial statements. Accordingly, there is no reason to provide individual fund financial statement presentations unless these additional presentations furnish information not otherwise already available in the basic financial statements or combining statements. Examples of situations where individual fund financial presentations would be needed include the following:

> *Budgetary comparisons not required in connection with the basic financial statements.* Budgetary comparisons must be presented in connection with the basic financial statements for the general fund and any major individual special revenue funds. For governments preparing CAFRs, budgetary comparisons are also required for any other individual governmental funds foe which annual appropriated budgets have been adopted (nonmajor special revenue funds, capital projects funds, debt service funds, and permanent funds). Individual fund financial statements or schedules are often presented for this purpose in the financial section of the CAFR.
>
> *Detailed budgetary comparisons for the general fund and major special revenue funds.* As noted, budgetary comparisons must be presented in connection with the basic financial statements for the general fund and major individual special revenue funds. These budgetary comparisons need be presented only at the functional level of detail, which sometimes is not adequate to demonstrate legal compliance. Governments that prepare CAFRs are required to present budgetary comparisons at a level of detail sufficient to demonstrate legal compliance. Accordingly, additional individual fund financial presentations are included in the financial section of the CAFR to demonstrate legal compliance for the general fund and the major individual special revenue funds whenever the budgetary comparisons associated with the basic financial statements are not adequate for this purpose.
>
> *Comparative data.* Governments often wish to provide comparative data from the prior year for individual funds. Typically, it is not feasible to format the basic and combining financial statements to present comparative data for individual funds. Accordingly, individual fund presentations in the financial section of the CAFR frequently are used for this purpose.
>
> *Greater detail.* The accounts used for combining presentations are necessarily somewhat generic because of the practical need to encompass a broad range of activities. Governments frequently desire more descriptive accounts, however, especially in the case of enterprise funds. Individual fund presentations within the financial section of the CAFR are a practical means of providing this additional detail.

A cover sheet should precede each of the separate combining statements. It should present a brief description of the nature and operations of each individual fund presented in the combining statements, except for those funds whose nature and operations are clearly evident from their name.

Budgetary comparisons are properly described as schedules rather than as statements, except when they are included as part of the basic governmental fund financial statements.

Combining Balance Sheet - Nonmajor Governmental Funds

As noted earlier, the combining balance sheet - nonmajor governmental funds has a column for the nonmajor debt service fund along with combined columns for the nonmajor special revenue funds and the nonmajor capital projects funds which are supported by the combining balance sheet - nonmajor special revenue funds and the combining balance sheet - nonmajor capital projects funds.

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds

As noted earlier the combining statement of revenues, expenditures, and changes in fund balances - nonmajor governmental funds has a column for the nonmajor debt service fund along with combined columns for the nonmajor special revenue funds and the nonmajor capital projects funds which are supported by the combining statement of revenues, expenditures, and changes in fund balances - nonmajor special revenue funds and the combining statement of revenues, expenditures, and changes in fund balances - nonmajor capital projects funds.

Combining Statement of Fiduciary Net Assets

This statement contains columns for each private purpose trust fund and a combined column for the agency funds, which is supported by the combining statement of changes in assets and liabilities - agency funds.

Combining Statement of Changes in Fiduciary Net Assets - Fiduciary Funds

This Statement contains columns for each private purpose trust fund.

Combining Statement of Changes in Assets and Liabilities - Agency Funds

This statement contains beginning balance, additions, reductions, and ending balances for each account of each agency fund.

Individual Fund Schedules of Revenues, Expenditures/Expenses and Changes in Fund Balance/Equity - Budget (Non-GAAP Basis) and Actual

These schedules include budgetary comparisons for each fund with a legally adopted budget. They are presented in the following order:

major funds
nonmajor special revenue funds
nonmajor debt service fund
nonmajor capital projects funds
private purpose trust fund
enterprise fund
internal service fund

The schedules for each of the above should be sequenced in the same order as the columns are sequenced in the basic financial statements or the combining financial statements. If multiple funds for budgetary comparison purposes are presented as one fund for GAAP purposes they should be presented in the same sequence as they are presented in the cover sheets that provide the fund descriptions and details about which funds are presented as one fund for GAAP purposes.