Governmental Accounting Standards Series

Statement No. 38 of the Governmental Accounting Standards Board

Certain Financial Statement Note Disclosures

Governmental Accounting Standards Board
of the Financial Accounting Foundation
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Summary

This Statement modifies, establishes, and rescinds certain financial statement disclosure requirements.

Existing disclosure requirements are modified to include the following:

a. Descriptions of the activities accounted for in the major funds, internal service fund type, and fiduciary fund types
b. The length of time used to define available for purposes of revenue recognition in the governmental fund financial statements
c. Actions taken to address significant violations of finance-related legal or contractual provisions
d. Debt service requirements to maturity, separately identifying principal and interest for each of the subsequent five years and in five-year increments thereafter
e. Obligations under leases for each of the five subsequent years and in five-year increments thereafter
f. A schedule of changes in short-term debt and the purpose for which short-term debt was issued
g. For interfund balances, amounts due from other funds by individual major fund, nonmajor governmental funds in the aggregate, nonmajor enterprise funds in the aggregate, internal service funds in the aggregate, and fiduciary fund type; the purpose for those balances; and amounts that are not expected to be repaid within one year.

Governments should provide the following additional note disclosures:

a. Interest requirements for variable-rate debt computed using the rate effective at year-end
b. Terms of interest rate changes for variable-rate debt
c. Details about major components of receivable and payable balances when obscured by aggregation and identification of receivable balances not expected to be collected within one year
d. For interfund transfers, amounts transferred from other funds by individual major fund, nonmajor governmental funds in the aggregate, nonmajor enterprise funds in the aggregate, internal service funds in the aggregate, and fiduciary fund type; a general description of the principal purposes of interfund transfers; and purposes for and amounts of certain transfers.

This Statement rescinds the requirement in National Council of Governmental Accounting Statement 1, *Governmental Accounting and Financial Reporting Principles*, to disclose the accounting policy for encumbrances.
The provisions of this Statement are generally effective when the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, are required to be implemented, except that requirements related to short-term debt, receivable and payable balances, interfund balances, and interfund transfers may be implemented one year later by phase 1 governments. Earlier application is encouraged.

Unless otherwise specified, pronouncements of the GASB apply to financial reports of all state and local governmental entities, including general purpose governments, public benefit corporations and authorities, public employee retirement systems, and public utilities, hospitals and other healthcare providers, and colleges and universities. Paragraph 2 discusses the applicability of this Statement.
Statement No. 38 of the
Governmental Accounting
Standards Board

Certain Financial Statement
Note Disclosures

June 2001

Governmental Accounting Standards Board
of the Financial Accounting Foundation
401 Merritt 7, P.O. Box 5116, Norwalk, Connecticut 06856-5116
Statement No. 38 of the Governmental Accounting Standards Board

Certain Financial Statement Note Disclosures

June 2001

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INTRODUCTION

1. The note disclosure requirements included in almost every GASB and National Council on Governmental Accounting (NCGA) pronouncement previously have been considered primarily in relation to the individual pronouncement of which they are a part. Questions have been raised about the need to (a) eliminate existing disclosures that are no longer relevant or useful, (b) revise existing disclosures to improve the information they provide, and (c) add new disclosures of essential information that currently is not required. The need to reevaluate certain existing disclosure requirements in the context of the reporting model in Statement No. 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments, was also raised. In order to address these questions, the GASB has reconsidered disclosure requirements as a single body of standards. This reconsideration included disclosure requirements that have been in place long enough for financial statement users to integrate the information into their analysis, except for disclosures that will be reexamined as part of other projects on the GASB’s technical agenda.

STANDARDS OF GOVERNMENTAL ACCOUNTING AND FINANCIAL REPORTING

Scope and Applicability

2. This Statement establishes and modifies disclosure requirements related to the summary of significant accounting policies, actions taken to address violations of
significant finance-related legal and contractual provisions, debt and lease obligations, short-term debt, disaggregation of receivable and payable balances, and interfund balances and transfers. This Statement applies to all state and local governments.

4. This Statement rescinds NCGA Statement 1, paragraph 92. In addition, this Statement amends NCGA Statement 1, paragraph 158; NCGA Statement 5, paragraph 27; and NCGA Interpretation 6, paragraphs 4 and 5.

**General Disclosure Principle**

5. Certain information may be presented either on the face of the financial statements or in the notes to the financial statements. Disclosure in the notes to the financial statements is needed only when the information required to be disclosed is not displayed on the face of the financial statements.

**Summary of Significant Accounting Policies**

6. Governments that present their primary government in more than a single column in their basic financial statements should disclose in their summary of significant accounting policies the activities accounted for in each of the following columns—major funds, internal service funds, and fiduciary fund types—presented in the basic financial statements. With the exception of the general fund or its equivalent, the descriptions should be specific to the particular government, rather than general definitions that could describe any government. For example, activities of the road fund could be described as maintenance and preservation of local roads financed with local fuel taxes. Activities of internal service funds could be described as provision of information technology, facilities management, and fleet services to other funds on a cost-reimbursement basis.

7. Governments should disclose in their summary of significant accounting policies the length of time used to define *available* for purposes of revenue recognition in the governmental fund financial statements.
8. This Statement rescinds the requirement in NCGA Statement 1, paragraph 92, to disclose the accounting policy for encumbrances.

Violations of Finance-related Legal or Contractual Provisions

9. In their disclosure of significant violations of finance-related legal or contractual provisions, governments should identify actions taken to address such violations.

Debt and Lease Obligations

10. Governments should disclose the following details of debt service requirements to maturity:

a. Principal and interest requirements to maturity, presented separately, for each of the five subsequent fiscal years and in five-year increments thereafter. Interest requirements for variable-rate debt should be determined using the rate in effect at the financial statement date.

b. The terms by which interest rates change for variable-rate debt.

11. Governments should disclose the future minimum payments for each of the five subsequent fiscal years and in five-year increments thereafter for their obligations under capital and noncancelable operating leases.

Short-term Debt

12. Governments should provide details in the notes to the financial statements about short-term debt activity during the year, even if no short-term debt is outstanding at year-end. Short-term debt results from borrowings characterized by anticipation notes, use of lines of credit, and similar loans. Details should include:

a. A schedule of changes in short-term debt, disclosing beginning- and end-of-year balances, increases, and decreases

b. The purpose for which the short-term debt was issued.
Disaggregation of Receivable and Payable Balances

13. Balances of receivables and payables reported on the statements of net assets and balance sheet may be aggregations of different components, such as balances due to or from taxpayers, other governments, vendors, customers, beneficiaries, and employees. Governments should provide details in the notes to the financial statements when significant components have been obscured by aggregation. Balances of receivables may also have different liquidity characteristics. Significant receivable balances not expected to be collected within one year of the date of the financial statements should be disclosed.

Interfund Balances and Transfers

14. Governments should disclose in the notes to the financial statements the following details about interfund balances reported in the fund financial statements:
   a. Amounts due from other funds by individual major fund, nonmajor governmental funds in the aggregate, nonmajor enterprise funds in the aggregate, internal service funds in the aggregate, and fiduciary fund type
   b. The purpose for interfund balances
   c. Interfund balances that are not expected to be repaid within one year from the date of the financial statements.

15. Governments should disclose in the notes to the financial statements the following details about interfund transfers reported in the fund financial statements:
   a. Amounts transferred from other funds by individual major fund, nonmajor governmental funds in the aggregate, nonmajor enterprise funds in the aggregate, internal service funds in the aggregate, and fiduciary fund type
   b. A general description of the principal purposes of the government’s interfund transfers
   c. The intended purpose and the amount of significant transfers that meet either or both of the following criteria:
      (1) Do not occur on a routine basis—for example, a transfer to a wastewater enterprise fund for the local match of a federal pollution control grant
      (2) Are inconsistent with the activities of the fund making the transfer—for example, a transfer from a capital projects fund to the general fund.
EFFECTIVE DATE AND TRANSITION

16. The requirements of this Statement are effective in three phases based on the revenues of the government as described in paragraph 143 of Statement 34:

- Phase 1 governments should implement paragraphs 6 through 11 for fiscal periods beginning after June 15, 2001. These governments should implement paragraphs 12 through 15 for fiscal periods beginning after June 15, 2002.
- Phase 2 governments should apply this Statement for fiscal periods beginning after June 15, 2002.
- Phase 3 governments should apply this Statement for fiscal periods beginning after June 15, 2003.

Earlier application is encouraged. However, paragraphs 6, 14, and 15 should be implemented only if Statement 34 has also been implemented.

The provisions of this Statement need not be applied to immaterial items.

This Statement was issued by unanimous vote of the seven members of the Governmental Accounting Standards Board:

Tom L. Allen, Chairman
Cynthia B. Green
William W. Holder
Edward M. Klasny
Edward J. Mazur
Paul R. Reilly
Richard C. Tracy
Appendix A

BACKGROUND INFORMATION

History of Disclosure Requirements

17. In Statement 1, the Board recognized note disclosure requirements promulgated by the NCGA. NCGA Statement 1, issued in 1979, identified fifteen specific disclosure requirements and required any other disclosures necessary in the circumstances. NCGA Interpretation 6, issued in 1982, added nine additional disclosure requirements and identified several more disclosures in a nonauthoritative appendix. Subsequently issued GASB pronouncements added additional disclosure requirements.

Research Reports

18. In the 1985 GASB Research Report, The Needs of Users of Governmental Financial Reports, Jones et al. categorized users as citizen groups, legislative and oversight officials, and investors and creditors. The report found strong user interest in additional disclosures and encouraged further research.

19. The GASB commissioned a study of note disclosure requirements by Dr. Leon E. Hay. The purpose of Hay’s 1988 Research Report, A Study of the Usefulness of Disclosures Required by GASB Standards, was “to determine whether disclosures required by GASB standards to be presented in the notes to financial statements meet the information needs of users of governmental financial reports.” A sample set of note disclosures intended to illustrate all disclosures required by GASB Statements issued prior

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1NCGA Statement 1, paragraph 158.
to January 1, 1987, was compiled. Hay identified a sufficient number of candidates who met his criterion of a serious user of governmental financial reports and conducted twenty-six interviews. Hay favored limiting disclosures to “concise presentation of truly important information”\(^2\) while broadening the use of supplementary information to all entities. Although Hay’s premise in initiating the study was a concern over the volume of note disclosures, the study ultimately recommended more rather than fewer disclosures, whether in the form of notes or as supplementary information. The study was not intended to address cost–benefit relationships.

20. The AICPA Special Committee on Financial Reporting (Jenkins Committee) report issued in 1994 prompted similar discussions in the private sector. The study recognized that “users have insatiable appetites for information”\(^3\) and that it is critical to distinguish between the types of information that users need and the types that are interesting but not essential to their work. The committee’s report included a number of recommendations for improvements to specific disclosures as well as a recommendation that “standard setters should search for and eliminate less relevant disclosures.” The committee acknowledged that users were reluctant to identify less useful disclosures that currently were required. Although the scope of the study was limited to financial reporting by business enterprises, the insights and recommendations were considered by the GASB in its research.

**Initial Scope of This Project**

21. The Board formally added this project to its agenda in October 1996. Although the

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\(^2\)GASB Research Report (Hay), page 45.

\(^3\)Jenkins, page 11.
need for information not currently required to be disclosed would be considered, the primary focus of the project initially was to identify disclosures that were unnecessary and that users of governmental financial statements did not consider when making decisions. Because of the length of time needed for users of financial statements to become accustomed to new disclosures, the scope of the project was limited to disclosure requirements effective through 1994. Until that time, disclosure requirements were primarily considered in relation to the topic of the Statement that required the disclosure.

**Focus Groups**

22. Focus groups formed to provide feedback on the Preliminary Views document, *Governmental Financial Reporting Model: Core Financial Statements*, on the financial reporting model made comments on note disclosures in addition to their comments on the model. As work continued on the note disclosures project, the Board decided to conduct focus group sessions specifically on note disclosures.

23. Dr. Gilbert Crain of Montana State University conducted the focus group sessions in January 1997. The purpose of the research was to obtain information from users of governmental financial statements about whether disclosures were too voluminous, whether disclosures were out-of-date and no longer necessary, and whether disclosures could be reduced without reducing their useful content.

24. The users selected to participate were grouped by type of users (for example, financial community, citizen groups, and elected officials). For purposes of the focus group sessions, note disclosures were defined as “essential information that is not otherwise displayed on the face of the basic financial statements.” The users were
provided with background about the note disclosures project, a list of required disclosures, and sample notes to the financial statements to illustrate the required disclosures. Twelve focus group sessions were conducted. The majority of users indicated that disclosures were not too voluminous and that additional disclosures were needed.

**Task Force**

25. In February 1997, a task force meeting was held. The twenty-three attendees discussed the purpose of note disclosures, the targeted user of note disclosures, the approach of the project, how materiality could be applied to note disclosures, structure and style of note disclosures, and the implications of the proposed new reporting model (which resulted in Statement 34) for note disclosures.

**Change in Focus of the Project and Survey**

26. Following the task force meeting, the Board discussed note disclosures in detail over a period of several months. The Board evaluated the usefulness of existing note disclosures, considering results from the Research Reports, focus group sessions, and the task force meeting. As with previous examinations of note disclosure requirements, the Board generally concluded that existing note disclosures were essential to understanding government financial statements. Research identified several areas in which users indicated that the presentation of information was incomplete. The focus of the project and of the Board’s deliberations shifted from primarily identifying disclosures that were no longer relevant or useful, to also considering ways of enhancing existing disclosures and requiring additional disclosures in order to address the areas in which disclosures are incomplete. The Board’s deliberations developed ten potential changes to note disclosure requirements.
27. A sample set of notes to the financial statements that illustrated the ten potential changes was drafted. Using the sample notes, the Board conducted a survey of financial statement users, preparers, and auditors to obtain their opinions on the potential changes to note disclosures. Users were asked whether the information contained in the potential deletions and additions was useful. Preparers and auditors were asked whether they agreed with the potential changes and to estimate the amount of time necessary to compile and audit the information for the potential additions. Forty-six users and user groups and seventy-five preparers and auditors responded to the survey. Although the Board also was deliberating issues that resulted in the release of Statement 34, the illustration that was used in the survey was based on current reporting so that the respondents could focus on the specific changes that were being considered as part of this project. The Board considered the results of the survey as it developed this Statement. Those results and how the Board modified its tentative decisions are discussed in the context of specific issues in Appendix B, “Basis for Conclusions.”

28. The Exposure Draft on note disclosures was originally scheduled to be released in 1997 pending the completion of Statement 34. However, in the fall of 1997, the Board unanimously agreed to suspend work on this project to allow it to devote additional resources to the Statement 34 project. During this period of activity, the Board added to its conceptual framework project a topic to address forms of communication methods (for example, statements, note disclosures, required supplementary information). Although the conceptual framework project has not yet resulted in a due process document, the findings were used in the development of Statement 34 and of this Statement.
29. When the Board recommenced the project in late 1999, it considered the results of the survey on the ten potential changes to note disclosure requirements. In consideration of the significance of the changes to the basic financial statements associated with Statement 34 that were adopted during the period of inactivity, the Board unanimously decided to reevaluate all disclosure requirements within the scope of the project. The purpose of this reevaluation was to determine whether any disclosures were no longer relevant or useful in the new financial reporting model or needed to be modified to appropriately accompany the basic financial statements.

Exposure Draft

30. In June 2000, the Board issued an Exposure Draft (ED), Certain Financial Statement Note Disclosures. Eighty-one organizations and individuals responded to the ED. In September, October, and November 2000, the Board held three public hearings on the proposals in the ED. Thirty-one individuals representing diverse interests and organizations testified. At the October public hearing a “public forum” was conducted. Although similar to the public hearing format, the public forum empanelled several commenters representing diverse perspectives. The forum was designed to develop a dialogue among the individual commenters and between the members of the Board.

31. As explained in Appendix B, the comments and suggestions from all of these sources, as well as feedback from the Governmental Accounting Standards Advisory Council (GASAC) and the twenty-seven-member note disclosures task force, contributed to the Board’s deliberations and helped form the basis for the final Statement.
Appendix B

BASIS FOR CONCLUSIONS

Introduction

32. This appendix summarizes factors considered significant by the Board members in reaching the conclusions in this Statement. It includes discussion of alternatives considered and the Board’s reasons for accepting some and rejecting others. Individual Board members gave greater weight to some factors than to others.

33. The Board decided to reevaluate only those disclosure requirements that had been in place long enough for financial statement users to integrate the information into their analysis. The Board determined that this included disclosure requirements that were effective for periods ending in 1994 or earlier—generally, pronouncements issued through Statement 18 and Interpretation 1. The disclosure requirements in Statements 3 and 12 were excluded because they are being evaluated as a part of the second phase of the Board’s financial instruments project and part of the Board’s other postemployment benefits project, respectively. The disclosure requirements in Statement 10 were excluded because the requirements for entities other than pools were not effective until after 1994. The disclosure requirements of Statement 14 were also excluded from the scope of this project. The Board determined that the disclosure requirements for component units could not be evaluated separately from the inclusion and display issues of component units scheduled to be reviewed as part of a future technical agenda project. Although it would be ideal to include all disclosure requirements within the scope of the project and to wait until the completion of the conceptual framework project, the Board believes that it would unnecessarily further delay this project.
Consideration of Conceptual Framework Project

34. In the communication methods portion of its conceptual framework project, the Board has considered a tentative definition and criteria for notes to the financial statements. The conceptual framework project has not been completed and has not yet resulted in a concepts Statement. However, the tentative definition and criteria serve as guidelines in setting standards. The communication methods project is intended to describe, among others, the relationships and distinctions between information recognized in financial statements and that disclosed in notes to financial statements. The tentative definition and criteria for notes to financial statements are as follows:

**Tentative Definition**

Notes to 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. Notes may include up to two prior years of similar information, for comparative purposes.

**Tentative Criteria**

1. Notes should have a clear and demonstrable relationship to information in the 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 a 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.

2. 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.
3. Information that meets the definition of and reporting criteria for notes to 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.

35. The Board considered delaying this project until the completion of the conceptual framework project; however, it concluded that the ultimate outcome of the conceptual framework project would not adversely affect any conclusions reached in this project. The Board reached a similar conclusion with Statement 34, which contained both display and disclosure guidance.

36. Another consideration for note disclosure requirements is that the information reported should have characteristics that make it decision-useful. Those characteristics are included in Concepts Statement No. 1, *Objectives of Financial Reporting*, both specifically and by reference to the more detailed discussion in FASB Concepts Statement No. 2, *Qualitative Characteristics of Accounting Information*. The qualitative characteristics are *understandability*, *relevance* (including *predictive value*, *feedback value*, and *timeliness*), *reliability* (including *verifiability*, *neutrality*, and *representational faithfulness*), and *comparability* (including *consistency*). They should be present, to some degree, in all reported information, within the pervasive constraints of materiality and benefits exceeding costs.

37. The Board was also guided by the objectives of financial reporting in GASB Concepts Statement 1 (paragraphs 74–79). Particularly relevant were the notions that financial reporting should (a) demonstrate compliance with finance-related legal or contractual requirements, (b) identify significant nonrecurring financial transactions, (c) describe how the government met its cash requirements, (d) communicate information
about debt obligations, and (e) provide information regarding risks of potential loss of resources.

Summary of Significant Accounting Policies

Fund Types and Activities of Funds

38. One of the potential changes presented in the 1997 survey was deletion of the fund-type description disclosures recommended by the guidance in the appendix of NCGA Interpretation 6. According to the results of that survey, users have been obtaining general information about the activities of a government from the fund-type description disclosures. This indicates, however, that specific information about activities would be more relevant to a user’s understanding of financial statements. Focus group research also indicated that descriptions of individual funds should replace descriptions of generic fund types. Understanding the nature of the activities of a particular government is essential to understanding and evaluating its financial position and changes in financial position.

39. Statement 34 changed the focus of fund financial statements from fund types to major funds, aggregated nonmajor governmental and enterprise funds, the internal service fund type, and the four fiduciary fund types. The title of a major fund, as presented in the fund financial statements, may not completely describe the nature of the activities that are accounted for within that fund. The title “Roads and Bridges,” for example, could represent a fund that collects tolls to finance maintenance and preservation of a particular section of roadway, could represent a fund that accounts for a portion of gasoline tax that may be used solely for maintenance, or could represent a capital projects fund that accounts for safety improvements funded through bond proceeds. Other columns in the fund financial statements—internal service funds and the four fiduciary fund types—
indicate why certain funds were aggregated but do not provide understanding of the specific use of those funds by the government. Although the requirements of this disclosure could be inferred from current accounting literature (specifically, Accounting Principles Board Opinion No. 22, Disclosure of Accounting Policies, and GASB Statement 34), the Board believes that clarifying this disclosure requirement will enable users to understand more fully the activities reported in the basic financial statements. The Board’s research indicates that the cost to prepare and audit this disclosure is not significant.

40. Two respondents to the ED questioned whether the requirement applied to special-purpose governments and what level of detail would be required. In previous discussions, the Board had concluded that a general description of the government should not be a disclosure requirement. If this requirement were applied to special-purpose governments reporting in a single column, the result would be, in effect, to require disclosure of a general description of the government. Therefore, the Board clarified the language of the standard to exclude primary governments that report in a single column.

**Accounting Policy for Encumbrances**

41. Paragraph 92 of NCGA Statement 1 includes a requirement to disclose the method of accounting for encumbrances. When that Statement was issued in 1979, governments had recently made the transition to a reporting model in which encumbrances were no longer considered expenditures in accordance with generally accepted accounting principles (GAAP). The Board believes that sufficient time has passed since the previous accounting standards for encumbrances were established; because there are no options for accounting and reporting for encumbrances, the disclosure requirement is not necessary.
42. The length of time selected by a government during which revenues are considered available, which typically falls between thirty days and one year, defines the critical aspect of when revenues are recognized in a governmental fund. The selection of this time period may have an effect on financial position and changes in financial position of the governmental funds. The Board’s research indicates that when users are made aware of the implications of different revenue recognition policies, they consider the information essential to their understanding of governmental financial statements. The Board’s research performed in conjunction with Statement No. 11, *Measurement Focus and Basis of Accounting—Governmental Fund Operating Statements*, identified variations in revenue availability criteria selected by governments. The selection of the revenue availability criterion is one of management’s accounting policies, which according to APB Opinion 22 are “the specific accounting principles and the methods of applying those principles that are judged by the management of the entity to be the most appropriate in the circumstances.” The Board believes that the disclosure enhances understandability of revenues reported in the governmental fund financial statements, promotes comparability between governments, and assists users in determining whether the policy has been consistently applied by the government. The Board’s research indicates that the cost to prepare and audit this disclosure is not significant.

43. The proposal in the ED had used the term *period of availability* when describing the length of time used to define *available* for purposes of revenue recognition. Some respondents noted that *period of availability* is a term with a specific meaning in the
context of federal awards. The Board modified the language of the requirement to avoid the use of terms associated with federal award requirements.

**Budget Policies**

44. The appendix to NCGA Interpretation 6, a part of nonauthoritative guidance, lists general budget policies within the suggested disclosure sequence. Many governments have disclosed the budgetary calendar and the legal level of budgetary control as their general budget policies. When codified, this Statement will remove general budget policies from the nonauthoritative guidance provided by that appendix. Many respondents to the survey indicated that general budget policies were not relevant to understanding financial position or changes in financial position. Users review budgetary information to determine the extent that supplementary appropriations were approved during the year, to compare budgetary-basis information to GAAP-basis information, and to assess compliance with legal provisions. The Board believes that the requirements to report budgetary comparison schedules, reconcile budgetary information to GAAP information, disclose the budgetary basis of accounting, and disclose violations of legal provisions provide that information.

**Violations of Finance-related Legal or Contractual Provisions**

45. The disclosure requirement found in subparagraph 4g of NCGA Interpretation 6 is limited to the violation of finance-related legal and contractual provisions. The Board’s research indicates that information about actions taken during the year or subsequent to year-end to address the violation provides greater ability to understand the impact of the violation upon the government. The Board believes that a government’s financial position may be assessed differently if the government had resolved a technical default within the
grace period, rather than if the government had not addressed the violation and bondholders were still able to accelerate bond due dates. The Board’s research indicates that the cost to prepare and audit this disclosure is not significant.

**Debt and Lease Obligations**

46. NCGA Interpretation 6, subparagraph 4h, states that “debt service requirements to maturity” should be disclosed, but it does not specify which details should be included. Under that standard, governments may aggregate principal and interest requirements and may combine and disclose debt service requirements beyond five years as a single, aggregated balance. The Board’s research indicates that current disclosures of debt service requirements are not adequate for users to determine whether there are any balloon payments or other unevenness in the annual debt service payments. Debt service requirements to maturity should provide information on the timing of future cash flow requirements and provide more detail about a balance on the statement of net assets than can be displayed in the statement. Many users of financial statements are interested in time horizons beyond the five years subsequent to the date of the issued financial statements. Although some users wanted debt service requirements to be disclosed separately for every issue for every year, the Board believes that detail in five-year increments is sufficient to disclose the final maturity date and to identify significant fluctuations in requirements. The Board’s research indicates that the cost to prepare and audit this disclosure is not significant.

47. Some respondents to the ED suggested that schedules detailing annual debt service requirements are available in a government’s official statement and that the users that need that type of information already know where that information can be obtained. The
Board believes that detailed information regarding debt service requirements available in an official statement should not replace debt service requirements in notes to the financial statements. Official statements are only prepared in conjunction with issuances of debt by a government and, therefore, may not be available annually. Although financial community users have been identified most frequently as the users who are interested in detailed debt service disclosures, information that can be used to identify balloon payments can be used by other types of financial statement users. Other respondents made suggestions for changing the level of detail of principal and interest disclosure. The suggestions included disclosing balloon payment provisions on an exception basis only; disclosing debt service payments for every year, rather than in five-year increments; and disclosing principal payments and total debt service or only total debt service. The Board concluded that limiting the disclosure to individual years for the first five years and in five-year increments thereafter, as proposed in the ED, provides the appropriate balance between the unique needs of a specific group of users and the common needs of all users.

48. To provide debt service repayment schedules for all forms of outstanding debt, the Board requires interest requirements for variable-rate debt to be disclosed based on the rate effective at the end of the reporting year. The Board believes that this disclosure provides the most objective estimate of future payments and promotes comparability. In order for users to be able to assess the amount of variability to which the government may be subject, the terms under which interest rates may change should also be disclosed.

49. Several respondents to the ED suggested that interest rate requirements be calculated using a rate other than the rate in effect at year-end, arguing that the rate at a point in time may be misleading. Budgeted or forecasted rates, average rates, rates using an average
rate and a multiplier, or minimum and maximum rates were also suggested. In discussions at a GASAC meeting, some GASAC members favored forecasted rates and some favored averages over the point-in-time estimate. The disadvantages to each of the methods were noted. Forecasted rates may not be objective. Point-in-time estimates may be affected by unique market events at year-end. Averages do not represent a projection of future rates, but rather a look back at historical rates.

50. The Board retained the provision from the ED that required interest requirements to be computed using the rate in effect at year-end. This measure exhibits more of the qualitative characteristics of financial reporting than the other measures. It is understandable because it is a simple measure. It is reliable in that the rate in effect at year-end is objectively verifiable. This measure also enhances consistency and comparability. The relevance of the point-in-time measure had been questioned. Some have suggested that interest rates at year-end or possibly even quarter-end are distorted due to economic phenomena such as window-dressing financial statements and contract-expiration dates. The Board’s research on interest rate fluctuations over the past ten years noted no apparent unusual interest rate behavior at quarter- or year-ends.

51. The Board also extended the requirement to disclose long-term obligations for each of the subsequent five years, and in five-year increments thereafter, to disclosures of capital and noncancelable operating lease obligations. These lease obligations represent a government’s future commitments of cash flows, and the Board believes that any balloon payments or unevenness in payment schedule will be identified in the five-year-increment disclosure. The Board’s research indicates that users make the same evaluations for obligations under leases as they do for long-term debt obligations.
Short-term Debt

52. The Board believes that information about changes in financial position related to the use of short-term debt during the year that is not included elsewhere in the financial statements should be disclosed. For financial reporting to be comprehensive, the Board believes that changes in balances presented in the statements of net assets and balance sheet that are not reflected elsewhere in the financial statements should be explained in the notes to the financial statements. Capital assets and long-term debt are examples of balances for which changes are not reported in the statement of activities or the statements of revenues, expenditures/expenses, and changes in fund balances/net assets. Consequently, the Board has required that changes in these balances be presented in notes to financial statements. Borrowings and repayments of short-term debt are recorded directly in the accounts presented in the statements of net assets and balance sheet and do not appear in the statement of activities or the statements of revenues, expenditures/expenses, and changes in fund balances/net assets. The Board’s research indicates that users consider financial statements incomplete without additional information about short-term debt and that they would use this information to assess cash flows, liquidity, and solvency. The Board’s research also indicates that the cost to prepare and audit this disclosure is not significant.

53. The ED did not describe what was meant by short-term debt. Because the term could be expansively construed, the Board revised the requirement to indicate that short-term debt results from borrowings characterized by anticipation notes, use of lines of credit, and similar loans. The requirement does not apply to obligations under reverse repurchase agreements and securities lending arrangements.
Disaggregation of Receivable and Payable Balances

54. The Board believes that additional detail for balances of receivables and payables presented on the statement of net assets or the balance sheet should be provided when major components have been obscured by aggregation. The Board considered prescribing the manner in which receivable and payable balances should be disaggregated, but decided that professional judgment should be applied to determine which components are most significant in the circumstances. The components provided as examples in the standard could be considered. Categories derived from Statement 34, paragraph 47—
(a) parties within the government itself, such as employees; (b) parties outside the government’s citizenry, such as other governments, institutions, or claimants; (c) parties who purchase, use, or provide goods and services to or from the government, such as accounts receivable or vendors payable; and (d) taxpayers—could also be considered. Additionally, receivable balances not expected to be collected within one year should be identified. The Board expects that for some governments, the most efficient and understandable method of disclosure will be additional disaggregation on the face of the fund financial statements.

55. Users have long expressed an interest in more information about receivables and payables. The Board’s 1988 Research Report on the usefulness of disclosures (Hay) found an interest in disclosure of the age and expected collectibility of each significant receivable, so that users have enough information to evaluate the adequacy of allowances for estimated uncollectibles. In the Board’s 1997 survey, users were asked whether disclosure of aged receivables would be useful. Response from users was supportive.
However, in that survey, preparers and auditors indicated that aged receivables should not be required and indicated a high cost to develop this information.

56. The Board noted that additional detail is already required of investment types (Statement 3, paragraph 68), capital asset classes and long-term liabilities (Statement 34, paragraphs 117 and 119), and reserved fund balances (Statement 34, paragraph 84). In consideration of the Board’s research and existing requirements to provide detail of certain accounts, the proposal in the ED required detail for all balances on the statement of net assets while limiting that detail to individual accounts whose nature is obscured through aggregation. This proposal was a change from the additional detail posed in the 1997 survey and was expected to reduce the cost of developing the information by limiting the disclosure to significant accounts. The ED proposal extended the requirement for disclosure to all balances in the statements of net assets and balance sheet, including, for example:

a. Receivables containing accounts with different risks, liquidity, and collectibility characteristics
b. Payables containing accounts with different cash flow requirements, such as when a government is able to significantly defer payment because of its relationship with a vendor
c. Deferred revenues containing accounts representing cash collected in advance of revenue recognition or accounts representing revenue that is not available.

57. The ED asked respondents to comment on whether the language of this proposal was sufficiently clear and whether it was more appropriate to require display of the information in the financial statements rather than disclosure of the information in the notes to the financial statements. Respondents were divided on the issue of clarity. Some expressed concern that the level of detail required and the nature of the components to be disclosed were unclear. These respondents questioned whether different governments in
similar situations would produce similar disclosures. Other respondents, however, believed that the examples provided sufficient guidance for application of the requirement and that governments should be permitted to exercise professional judgment with respect to this disclosure. Most respondents indicated that the appropriate manner of conveying the information, whether display or disclosure, should be determined only upon consideration of the circumstances of an individual government. Neither method would be preferable in all circumstances.

58. In order to address the concerns about clarity, the Board decided to focus the requirement on receivable and payable balances, rather than all balances, in the statements of net assets and balance sheet. The Board also decided to provide examples and illustrations of significant components, rather than provide examples of characteristics of balances. After discussing the characteristics of these balances and about whether and why information about these characteristics would be important to users, the Board concluded that no single set of characteristics would appropriately describe the receivables and payables of all governments. The Board decided that the level of detail described in paragraph 56 would not be required. Governments should consider their activities and circumstances and ascertain the components, if any, that best describe their receivables and payables. The discussion about characteristics of receivable and payable balances and a review of the research on the issue identified liquidity as one characteristic essential to understanding financial position. The Board cited this characteristic specifically in the standard, identifying one year as the threshold for liquidity. Although users have expressed interest in understanding the timing of cash flows within a year, the Board considers this level of detail to be beyond the scope of general purpose financial reporting.
The disclosure of liquidity applies to only receivable balances because existing reporting and disclosure requirements for long-term liabilities provide sufficient equivalent information about payables. Users will be able to identify balances of long-term liabilities not expected to be paid within one year from the disclosures required by paragraph 119 of Statement 34. The Board believes that most payables not expected to be paid within one year would have average maturities greater than one year and would therefore meet the requirements in paragraph 31 of Statement 34 to be reported as long-term liabilities.

59. The Board considered disclosure of significant components of receivable and payable balances to be essential to understanding financial position and changes in financial position. This disclosure will provide details of often-sizeable balances on the face of the statements that some users have had a difficult time understanding. Readers of financial statements may be able to use these disclosures to perform trend analysis and to determine if any balances and trends are unusual as the basis for further research and inquiry. As noted earlier, this requirement is similar to the existing requirements for long-term liabilities, capital assets, and investments. Receivables and payables are commonly the next most sizable balances on statements of net assets and balance sheets. Detail on receivables may provide general information on credit risk similar to that provided for investments and may provide insight into liquidity issues. Detail on payables may assist in identifying involuntary loans and may provide information on how the government finances its activities. Because detail of the major components of receivables and payables would be disclosed in the notes to the financial statements, the government may be more likely to explain the reasons for changes in these balances in management’s discussion.
and analysis. The Board believes that the benefits provided by this disclosure are greater than the cost to prepare and audit this disclosure.

**Interfund Balances and Transfers**

60. The Board believes that disclosure of the fund or grouping of funds that is indebted for interfund balances provides additional essential detail that is not presented in the financial statements. The Board’s research indicates that this information would be used to assess the nature of the flows of resources between funds and to assess collectibility of the balances. Interfund balances arise for a variety of reasons, including loans, sales of goods and services, and unpaid reimbursable expenses. The disclosure of the purpose for the balance would indicate, for example, whether the balance resulted from initial financing, was used to finance certain programs or services, or arose through sales of goods and services. The Board’s research indicates that the cost to prepare and audit this disclosure requirement, especially in relation to the existing interfund balance disclosure requirement, is not significant.

61. The proposal in the ED required identification of the fund indebted for interfund balances for all balances, while requiring a description of the purpose of balances only for those balances not expected to be repaid within one year from the date of the financial statements. The Board had originally considered that additional information on balances that are expected to be repaid in the following year, such as those that arise from routine sales of goods and services or the occurrence of reimbursable expenses, was not needed to assess their impact on financial position. Several respondents, while agreeing that disclosure of information related to noncurrent interfund balances was valuable, did not agree that details about routine current balances yielded any useful information. The
Board deliberated whether any information about routine current interfund balances should be required. Through that process, the Board recognized that the definition of routine current interfund balances varies from government to government. Some governments process the payment for interfund activities at the same time the transaction is initially recorded. Thus at year-end, interfund balances represent interfund transactions that occurred before year-end but were processed after year-end. Other governments do not have routine procedures for making payments between funds. And other governments fall between the two extremes. The Board concluded that not only was identification of the funds owing the balances essential to understand financial position, understanding of the purpose of the balances was also essential. Therefore, the requirement for a general description of the purpose of the balances was modified to include all interfund balances.

62. Disclosure of transfers provides additional detail about the flow of resources between funds. The survey research indicates that users need information to assess the impact of one fund’s subsidizing another fund. Because the disclosure identifies the fund providing the subsidy, the information assists users in assessing whether this fund has the ability to continue making subsidies. Additionally, users are concerned with determining where transfers from funds with unrestricted revenues have gone, so that they may trace internal resource movements. This information provides additional assurance that transfers were made in compliance with applicable restrictions. A description of the government’s principal purposes of transfers is required because it provides context for the other transfer disclosures. Interfund subsidies, transfers into debt service or capital projects funds, and annual payments in lieu of taxes are examples of common transfers that could be included in this general description.
63. The Board considered requiring disclosure of the purpose for *all*, rather than only *certain*, transfers. Respondents to the survey indicated that the cost to provide this information for all transfers was high. Further analysis of survey responses indicated that users would review the purpose for all transfers to identify transfers that have the characteristics described in paragraph 15. Moreover, the Board concluded that the volume of information created by the requirement to disclose the purpose for *all* transfers could obscure the purpose of the transfers in which users are interested. The requirement is limited, in part, to *significant* transfers not expected to occur on a routine basis. The Board considered requiring disclosure of *all significant* transfers, but rejected this idea because it would have resulted in the disclosure of large numbers of routine, ordinary transfers. The Board considered other limiting terms such as *nonrecurring transfers* or *infrequent transfers*, but rejected them because the terms as defined or applied in the accounting literature were considered too restrictive in terms of transfers that would require disclosure.

64. Because the Board was concerned about the cost of preparing and auditing comprehensive interfund transfer disclosures, the ED proposed that the principal purposes for transfers and a description of only certain types of transfers should be disclosed. These types were described as significant transfers not expected to occur on a routine basis and transfers whose purposes were inconsistent with the activities of the funds making the transfers. Because of concern about the clarity of the proposal, the Board asked respondents to the ED to comment whether it was sufficiently clear which transfers were to be disclosed. As a result of this feedback, the requirement to disclose principal purposes of transfers was revised to indicate that a general description of the government’s transfers
would meet the requirement. That disclosure is followed by a description of significant transfers that do not occur on a routine basis and transfers inconsistent with the activities of the fund making the transfers. The Board noted that nonroutine transfers are to be determined in the context of transfers as made by that government, and not perceived industry norms.

65. As already discussed, one reason the Board reduced transfer disclosures was cost concerns. In the ED, the Board asked preparers and auditors to estimate the cost to prepare or audit the proposed disclosure. Attestors responded that audit costs would be small, because they already apply audit procedures to these transactions. Some preparers indicated that costs would be inconsequential. On the other hand, other preparers, especially the largest governments, indicated that there might be significant costs. The Board acknowledges the potential additional cost of this requirement to certain preparers. In conducting this analysis, the benefits were also considered. The Board’s research indicates that this disclosure will permit users to assess the impact and potential continuity of interfund subsidies, trace internal resource movements, and provide additional assurance that transfers comply with applicable restrictions. These benefits, in the judgment of the Board, outweigh the costs of preparing the information.
Other Issues

66. The Board considered various disclosures that are commonly made by governments, but are not required by authoritative pronouncements (for example, a description of the government). However, the Board decided not to require any of these disclosures.

Materiality

67. Research conducted during this project has indicated that disclosure of immaterial information can be misleading. The Board continues to believe that the following guidance in paragraph 6 of NCGA Interpretation 6 is relevant:

The notes to financial statements should not be cluttered with unnecessary and immaterial disclosures. Attendant circumstances and materiality must be considered in assessing the propriety of the notes to the financial statements disclosures.

Disclosure Requirements Not Changed

68. As noted earlier, during the course of this project the Board reexamined authoritative disclosure requirements contained in GASB pronouncements issued through Statement 18 and Interpretation 1, except for Statements 3, 10, 12, and 14. The Board determined that with the exceptions for changes made in this Statement, those disclosure requirements are still relevant and useful. The following table identifies the disclosure requirements considered during the course of this project that were not modified or eliminated.

<table>
<thead>
<tr>
<th>Disclosure Requirement</th>
<th>Source(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounting policies—general</td>
<td>NCGA Interpretation 6, paragraphs 4, 5, and 8</td>
</tr>
<tr>
<td>Advance refundings</td>
<td>GASB Statement 7, paragraphs 11–14</td>
</tr>
<tr>
<td>Basis of accounting</td>
<td>NCGA Statement 1, paragraph 69</td>
</tr>
<tr>
<td>Bond, revenue, and tax anticipation notes*</td>
<td>NCGA Interpretation 9, paragraph 12 and footnote 5</td>
</tr>
</tbody>
</table>

*This Statement augments this disclosure requirement.
**Disclosure Requirement** | **Source(s)**
---|---
Budgetary control | NCGA Interpretation 10, paragraph 13
Cash and cash equivalents—policy of definition | GASB Statement 9, paragraph 11
Construction and other commitments | NCGA Interpretation 6, paragraph 4
Contingent liabilities/contingencies | NCGA Statement 1, paragraph 46; NCGA Interpretation 6, paragraphs 4 and 5
Debt extinguishments | GASB Statement 7, paragraphs 11–14
Debt service requirements* | NCGA Statement 1, paragraph 72; NCGA Interpretation 6, paragraph 4
Deficit fund balances | NCGA Interpretation 6, paragraph 4
Demand bonds | GASB Interpretation 1, paragraphs 11 and 12
Designations | NCGA Statement 1, paragraph 120
Encumbrances | NCGA Statement 1, paragraph 91; NCGA Interpretation 6, paragraph 4
Fixed assets valued at estimated cost | NCGA Statement 1, paragraph 49
Interest cost capitalization | NCGA Statement 1, paragraph 48
Interfund receivables and payables* | NCGA Interpretation 6, paragraph 4
Landfill closure and postclosure care costs | GASB Statement 18, paragraphs 17 and 18
Leases* | NCGA Statement 1, paragraph 40; NCGA Statement 5, paragraphs 11, 26, and 27; NCGA Interpretation 6, paragraph 5
Noncapitalized lease commitments | NCGA Statement 1, paragraph 40; NCGA Statement 5, paragraphs 11, 26, and 27; NCGA Interpretation 6, paragraph 4
Property taxes | NCGA Interpretation 3, paragraphs 8–11
Related-party transactions | NCGA Interpretation 6, paragraph 5
Revenue recognition | NCGA Statement 1, paragraph 69
Significant effects of subsequent events | NCGA Interpretation 6, paragraph 4
Special assessment debt* | GASB Statement 6, paragraphs 20 and 21
Summary of significant accounting policies | APB Opinion No. 22; NCGA Interpretation 6, paragraph 4
Violations of legal provisions* | NCGA Statement 1, paragraph 11; NCGA Interpretation 6, paragraph 4

*This Statement augments this disclosure requirement.

69. Through due process, the Board received comments supporting the retention of the preceding existing requirements. The Board also received comments suggesting deletions. Because the review of existing disclosures will be revisited in the future, suggested deletions have been indexed for future reference. The requirements of due process—for
example, exposure of proposed changes to accounting standards by the Board—would not permit additional deletions other than what was proposed in the ED.

**Effective Date**

70. The Board encourages early implementation. However, because paragraphs 6, 14, and 15 of this Statement address disclosures at the level of detail presented in the basic financial statements required by Statement 34, those paragraphs should be implemented only upon the adoption of Statement 34.

71. Phase 1 governments are required to implement Statement 34 for fiscal periods beginning after June 15, 2001. At that time, the information required by paragraphs 12 through 15 of this Statement may not be readily available. Therefore, the Board provided phase 1 governments an additional year to implement those paragraphs.

**Illustrations**

72. The ED contained a complete set of financial statements as a means to depict the scope of the project and provide perspective to the changes. In the final Statement the illustrations have been limited to the changes effected by the Statement. This change permits multiple illustrations on each provision of the Statement.
Appendix C

ILLUSTRATIONS

73. This appendix illustrates disclosures required by this Statement. The facts assumed in these examples are illustrative only and are not intended to modify or limit the requirements of the Statement or to indicate the Board's endorsement of the situations or specific methods illustrated. Application of the provisions of this Statement may require disclosures and formats other than those illustrated here.

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ILLUSTRATION 1

Activities in Funds [Paragraph 6]—Activities in Major Funds, Internal Service Funds, and Fiduciary Fund Types Are Described

Assumptions

This state government does not consider any fund titles to be sufficiently descriptive of the activities in the fund.

Disclosure

The state reports the following major governmental funds:

**General fund.** This is the state’s primary operating fund. It accounts for all activities of the general government, except those required to be accounted for in another fund.

**Transportation fund.** This fund accounts for the construction, maintenance, and policing of state highways, and loans made to local governments for construction and resurfacing of highways.

**Health and welfare fund.** This fund accounts for public assistance, medical care, foster care, child support enforcement, and other relief to eligible citizens.

**School aid fund.** This fund accounts for land and proceeds from the sale of land that have been dedicated to the support of public schools. Principal of the fund must be held in perpetuity, and only earnings from the investments may be expended.

The state reports the following major enterprise funds:

**Lottery fund.** This fund accounts for the activities of the lottery. The net proceeds are dedicated to supporting local public education.

**State insurance fund.** This fund accounts for the operations of the insurance division that provides workers’ compensation insurance to employers in the state.

The state reports the following fund types:

**Internal service funds.** These funds account for vehicle and transportation services, printing services, and telecommunication and information technology services provided to other departments on a cost-reimbursement basis.

**Pension trust funds.** These funds account for Teacher Retirement System, State Employee Retirement System, Law Enforcement and Firefighter Retirement System, and Judicial Retirement System pension benefits.
**Investment trust fund.** This fund accounts for the local government investment pool operated by the state treasurer.

**Private-purpose trust fund.** This fund accounts for property escheated to the state held for private individuals.

**Agency funds.** These funds account for assets held by the state as an agent for inmates pending their release and local sales taxes collected for other governments.

**ILLUSTRATION 2**

**Activities in Funds [Paragraph 6]—Local Government in Which Activities of Some Funds Are Self-evident from the Fund Title**

**Assumptions**

This city government reports the general, HUD programs, debt service, community redevelopment, Route 7 construction, water and sewer, and parking facilities funds as major governmental and enterprise funds. It additionally reports columns for nonmajor governmental funds, internal service funds, a private-purpose trust fund, and agency funds in its fund financial statements. The city considers the titles of the general, debt service, water and sewer, and parking facilities funds to be sufficiently descriptive of the activities in these funds.

**Disclosures**

The city reports the following major funds and fund types whose activities are not self-evident from the title of the fund:

**HUD programs.** This fund accounts for grants received from the Department of Housing and Urban Development. Grants are restricted for accomplishing objectives of the Community Development Block Grant Program, rental rehabilitation and related loan activities, and residential redevelopment.

**Community redevelopment.** This fund accounts for revenue received from tax-increment financing and bond proceeds to be used for redevelopment projects. These funds are restricted to carrying out redevelopment in the designated area.

**Route 7 construction.** This fund accounts for grants and bond proceeds restricted to the construction and improvement of Route 7.
Internal service funds. These funds account for data processing, printing, fleet management, and telecommunications services and for general liability, workers’ compensation, and property insurance coverages provided to other departments on a cost-reimbursement basis.

Private-purpose trust fund. This fund reports a trust arrangement under which principal and income benefit a local historical society.

Agency funds. These funds account for assets held by the city as an agent for various local governments participating in the expansion of and improvements to a regional sewage treatment plant and for ad valorem taxes collected and distributed to another local government.

ILLUSTRATION 3

Revenue Recognition [Paragraph 7]—Accounting Policy

Assumptions

This illustration assumes that it directly follows the disclosure of the basis of accounting for governmental funds and the definition of the modified accrual basis of accounting.

Disclosure

The city considers receivables collected within sixty days after year-end to be available and recognizes them as revenues of the current year.

ILLUSTRATION 4

Violations of Finance-related Legal or Contractual Provisions [Paragraph 9]—Bond Reserve Requirements

Assumptions

This illustration provides both a description of the violation of a finance-related legal or contractual provision and the action taken to address the violation.

Disclosure

At December 31, 2002, the city was not in compliance with the provisions of the Series 1995 parking facility revenue bond covenants that require assets to be accumulated in a
restricted account for the payment of future debt service. The covenants require, at a minimum, that an amount equivalent to one year's debt service payments (currently $1,525,000) be maintained at all times. As of year-end, the city had restricted cash and investments of only $1,052,000. In January 2003, the city transferred an additional $473,000 to this restricted account to correct this deficiency.

ILLUSTRATION 5

Violations of Finance-related Legal or Contractual Provisions [Paragraph 9]—Deficit Fund Balances That Are a Violation of State Statute

Assumptions

This illustration provides both a description of the violation of a finance-related legal or contractual provision and the action taken to address the violation.

Disclosure

At December 31, 2002, the following funds reported deficits in fund balance or fund net assets, which are violations of state statute:

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governmental fund:</td>
<td></td>
</tr>
<tr>
<td>Local gas tax</td>
<td>$(456,000)</td>
</tr>
<tr>
<td>Internal service fund:</td>
<td></td>
</tr>
<tr>
<td>Health insurance</td>
<td>$(850,000)</td>
</tr>
</tbody>
</table>

The 2003 budget for the local gas tax fund authorizes expenditures in an amount $500,000 less than the amount authorized for revenues. The City Council also has approved a 10 percent increase in the charges assessed by the health insurance fund.

ILLUSTRATION 6

Violations of Finance-related Legal or Contractual Provisions [Paragraph 9]—Rate Covenant Violation

Assumptions

This illustration provides both a description of the violation of a finance-related legal or contractual provision and the action taken to address the violation.
Disclosure

At December 31, 2002, the county was not in compliance with the provisions of the 1990 sewer system revenue bond covenants which require charges and assessments collected in each fiscal year to be greater than the sum of (1) operating and maintenance expenses and (2) 115 percent of debt service. Charges and assessments were $2,000,000 less than required under the covenant. The County Board of Supervisors has approved an ordinance effective July 1, 2003, increasing sewer charge rates an average of 17 percent for all customers of the system.

ILLUSTRATION 7

Debt and Lease Obligations [Paragraphs 10 and 11]—Debt Service Requirements and Variable-rate Terms

Assumptions

All debt of the governmental activities is general obligation debt. The government reports both the water and sewer fund and the parking facilities fund as major enterprise funds. The general obligation debt and the water and sewer fund debt have fixed rates; the parking facilities fund debt is variable-rate.
Disclosure

Debt service requirements at December 31, 2002, were as follows (amounts in 000s):

<table>
<thead>
<tr>
<th>Year Ended December 31,</th>
<th>Governmental Activities</th>
<th>Business-type Activities—Revenue Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>General Obligation</td>
<td>Water and Sewer</td>
</tr>
<tr>
<td></td>
<td>Principal</td>
<td>Interest</td>
</tr>
<tr>
<td>2003</td>
<td>$ 3,769</td>
<td>$ 4,042</td>
</tr>
<tr>
<td>2004</td>
<td>4,135</td>
<td>3,854</td>
</tr>
<tr>
<td>2005</td>
<td>5,640</td>
<td>3,647</td>
</tr>
<tr>
<td>2006</td>
<td>6,135</td>
<td>3,365</td>
</tr>
<tr>
<td>2007</td>
<td>5,962</td>
<td>3,058</td>
</tr>
<tr>
<td>2008–2012</td>
<td>26,625</td>
<td>10,472</td>
</tr>
<tr>
<td>2013–2017</td>
<td>15,645</td>
<td>5,188</td>
</tr>
<tr>
<td>2018–2022</td>
<td>6,175</td>
<td>2,460</td>
</tr>
<tr>
<td>2023–2027</td>
<td>4,850</td>
<td>1,082</td>
</tr>
<tr>
<td>2028–2032</td>
<td>1,904</td>
<td>238</td>
</tr>
<tr>
<td>Total</td>
<td>$80,840</td>
<td>$37,406</td>
</tr>
</tbody>
</table>

Interest on the variable-rate parking facility revenue bonds is paid at The Bond Market Association™ Municipal Swap Index rate and is reset semi-annually.

Obligations of governmental activities under capital leases at December 31, 2002, were as follows (amounts in 000s):

<table>
<thead>
<tr>
<th>Year Ended December 31,</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>$ 496</td>
</tr>
<tr>
<td>2004</td>
<td>366</td>
</tr>
<tr>
<td>2005</td>
<td>319</td>
</tr>
<tr>
<td>2006</td>
<td>278</td>
</tr>
<tr>
<td>2007</td>
<td>218</td>
</tr>
<tr>
<td>2008–2012</td>
<td>894</td>
</tr>
<tr>
<td>2013–2015</td>
<td>71</td>
</tr>
<tr>
<td>Total minimum lease payments</td>
<td>2,642</td>
</tr>
<tr>
<td>Less: Amount representing interest costs</td>
<td>(1,093)</td>
</tr>
<tr>
<td>Present value of minimum lease payments</td>
<td>$ 1,549</td>
</tr>
</tbody>
</table>
ILLUSTRATION 8

Short-term Debt [Paragraph 12]—Tax Anticipation Notes

The city issues tax anticipation notes in advance of property tax collections, depositing the proceeds in its general fund. These notes are necessary because the city’s payments to the school system and other local agencies are made on January 1 and July 1, whereas tax collections are received shortly before their April 1 and October 1 due dates.

Short-term debt activity for the year ended December 31, 2002, was as follows (amounts in 000s):

<table>
<thead>
<tr>
<th></th>
<th>Beginning Balance</th>
<th>Issued</th>
<th>Redeemed</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax anticipation notes</td>
<td>$0</td>
<td>$11,000</td>
<td>$(11,000)</td>
<td>$0</td>
</tr>
</tbody>
</table>

ILLUSTRATION 9

Short-term Debt [Paragraph 12]—Revolving Line of Credit

The county uses a revolving line of credit to finance a variety of public projects, including financing construction projects prior to issuance of the related bonds and financing general operations during periods of uneven sales tax collection. The county’s general fund and Route 7 construction fund participated equally in the borrowing.

Short-term debt activity for the year ended December 31, 2002, was as follows (amounts in 000s):

<table>
<thead>
<tr>
<th></th>
<th>Beginning Balance</th>
<th>Draws</th>
<th>Repayments</th>
<th>Ending Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Line of credit</td>
<td>$0</td>
<td>$173,704</td>
<td>$(138,627)</td>
<td>$35,077</td>
</tr>
</tbody>
</table>

ILLUSTRATION 10

Disaggregation of Receivable and Payable Balances [Paragraph 13]—Significant Components Disclosed in the Financial Statements, Narrative Disclosure of Liquidity Characteristics

Assumptions

This government disaggregates significant components of receivables and payables in the financial statements. The only receivables not expected to be collected within the subsequent year are $10 million of notes and liens in the housing program funds.
Disclosure

Receivables

The only receivables not expected to be collected within one year are $10 million of notes and liens receivable in the housing program funds.

ILLUSTRATION 11

Disaggregation of Receivable and Payable Balances [Paragraph 13]—Significant Components of a Local Government Presented in a Narrative

Assumptions

This local government reports a limited number of funds. The number of significant components of receivable and payable balances is small. The only receivables not expected to be collected within the subsequent year are the notes and liens in the housing program funds.

Disclosure

Receivables

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

Payables

Payable balances in each fund are 56 percent accrued salaries and benefits and 44 percent payables to vendors, with the following exceptions: (1) payables in the capital improvement fund are 88 percent current payables to contractors and 12 percent retention payable upon project completion and (2) payables in the risk management fund are primarily claims payable.
ILLUSTRATION 12

Disaggregation of Receivable and Payable Balances [Paragraph 13]—Significant Components of a City Government Presented in a Table

Assumptions

This city reports the general, utilities services tax, gas tax, community redevelopment, wastewater, and solid waste funds as major funds. Receivable balances in the community redevelopment fund and payable balances in the utilities services tax fund were determined to be immaterial and are, therefore, included in the other governmental funds rows in the tables below. The allowance for doubtful accounts is immaterial for disclosures. Special assessments are the only receivables not expected to be collected within one year.

Disclosure

Receivables

Receivables at December 31, 2002, were as follows:

<table>
<thead>
<tr>
<th>Governmental activities:</th>
<th>Accounts</th>
<th>Taxes</th>
<th>Special Assessments</th>
<th>Due from Other Governments</th>
<th>Other</th>
<th>Total Receivables</th>
</tr>
</thead>
<tbody>
<tr>
<td>General</td>
<td>$10,935,000</td>
<td>$4,457,000</td>
<td>$ —</td>
<td>$5,004,000</td>
<td>$235,000</td>
<td>$20,631,000</td>
</tr>
<tr>
<td>Utilities services tax</td>
<td>2,676,000</td>
<td>—</td>
<td>1,990,000</td>
<td>—</td>
<td>4,666,000</td>
<td></td>
</tr>
<tr>
<td>Gas tax</td>
<td>347,000</td>
<td>—</td>
<td>22,000</td>
<td>1,841,000</td>
<td>—</td>
<td>2,210,000</td>
</tr>
<tr>
<td>Other governmental</td>
<td>141,000</td>
<td>—</td>
<td>—</td>
<td>653,000</td>
<td>182,000</td>
<td>976,000</td>
</tr>
<tr>
<td>Internal service</td>
<td>215,000</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>215,000</td>
</tr>
<tr>
<td>Total—governmental activities</td>
<td>$14,314,000</td>
<td>$4,457,000</td>
<td>$2,012,000</td>
<td>$7,498,000</td>
<td>$417,000</td>
<td>$28,698,000</td>
</tr>
</tbody>
</table>

Amounts not scheduled for collection during the subsequent year

<table>
<thead>
<tr>
<th>Accounts</th>
<th>Taxes</th>
<th>Special Assessments</th>
<th>Due from Other Governments</th>
<th>Other</th>
<th>Total Receivables</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ —</td>
<td>$ —</td>
<td>$1,650,000</td>
<td>$ —</td>
<td>$ —</td>
<td>$1,650,000</td>
</tr>
</tbody>
</table>

Business-type activities:

| Wastewater | $3,789,000 | $ — | $ — | $1,825,000 | $323,000 | $5,937,000 |
| Solid waste | 1,199,000 | — | — | — | 1,199,000 |
| Other proprietary | 435,000 | — | — | 89,000 | — | 524,000 |
| Total—business-type activities | $5,423,000 | $ — | $ — | $1,825,000 | $412,000 | $7,660,000 |
**Payables**

Payables at December 31, 2002, were as follows:

<table>
<thead>
<tr>
<th>Governmental activities:</th>
<th>Vendors</th>
<th>Salaries and Benefits</th>
<th>Accrued Interest</th>
<th>Other</th>
<th>Total Payables</th>
</tr>
</thead>
<tbody>
<tr>
<td>General</td>
<td>$3,892,000</td>
<td>$3,651,000</td>
<td>$ —</td>
<td>$415,000</td>
<td>$7,958,000</td>
</tr>
<tr>
<td>Gas tax</td>
<td>536,000</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>536,000</td>
</tr>
<tr>
<td>Community redevelopment</td>
<td>4,328,000</td>
<td>11,000</td>
<td>—</td>
<td>—</td>
<td>4,339,000</td>
</tr>
<tr>
<td>Other governmental</td>
<td>561,000</td>
<td>51,000</td>
<td>—</td>
<td>75,000</td>
<td>687,000</td>
</tr>
<tr>
<td>Internal service</td>
<td>1,197,000</td>
<td>204,000</td>
<td>2,169,000</td>
<td>—</td>
<td>3,570,000</td>
</tr>
<tr>
<td>Reconciliation of balances in fund financial statements to government-wide financial statements</td>
<td>—</td>
<td>—</td>
<td>1,681,000</td>
<td>—</td>
<td>1,681,000</td>
</tr>
<tr>
<td>Total—governmental activities</td>
<td>$10,514,000</td>
<td>$3,917,000</td>
<td>$3,850,000</td>
<td>$490,000</td>
<td>$18,771,000</td>
</tr>
</tbody>
</table>

| Business-type activities: | | | | | |
| Wastewater                | $6,523,000 | $289,000 | $3,525,000 | $65,000 | $10,402,000 |
| Solid waste               | 870,000   | 132,000 | — | — | 1,002,000 |
| Other proprietary         | 1,490,000 | 196,000 | 523,000 | — | 2,209,000 |
| Total—business-type activities | $8,883,000 | $617,000 | $4,048,000 | $65,000 | $13,613,000 |

**ILLUSTRATION 13**

**Disaggregation of Receivable and Payable Balances [Paragraph 13]—Significant Components of a State Government Presented in a Table**

**Assumptions**

This state reports the general, health and human services, and unemployment funds as major funds. All receivable balances are expected to be received within the subsequent year.
Disclosure

Receivables

Receivables at December 31, 2002, were as follows (amounts in 000s):

<table>
<thead>
<tr>
<th>Governmental Funds</th>
<th>Health and Human Services General</th>
<th>Other Governmental Receivables</th>
<th>Total Governmental Receivables</th>
<th>Unemployment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes</td>
<td>$7,101,075</td>
<td>$302,174</td>
<td>$7,403,249</td>
<td>$—</td>
</tr>
<tr>
<td>Due from federal government</td>
<td>—</td>
<td>3,688,587</td>
<td>4,478,097</td>
<td>—</td>
</tr>
<tr>
<td>Accounts</td>
<td>582,944</td>
<td>789,510</td>
<td>1,489,324</td>
<td>1,212,113</td>
</tr>
<tr>
<td>Total receivables</td>
<td>7,684,019</td>
<td>3,688,587</td>
<td>13,370,670</td>
<td></td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(944,875)</td>
<td>(153,344)</td>
<td>(1,098,219)</td>
<td></td>
</tr>
<tr>
<td>Receivables, net</td>
<td>$6,739,144</td>
<td>$3,688,587</td>
<td>$12,272,451</td>
<td>$1,212,113</td>
</tr>
</tbody>
</table>

Payables

Payables at December 31, 2002, were as follows (amounts in 000s):

<table>
<thead>
<tr>
<th>Governmental Funds</th>
<th>Health and Human Services General</th>
<th>Other Governmental Payables</th>
<th>Total Governmental Payables</th>
<th>Unemployment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due to local governments</td>
<td>$1,746,836</td>
<td>$280,741</td>
<td>$3,241,203</td>
<td>$—</td>
</tr>
<tr>
<td>Tax refunds</td>
<td>3,952,358</td>
<td>65,917</td>
<td>4,018,275</td>
<td>—</td>
</tr>
<tr>
<td>Salaries and employee benefits</td>
<td>2,332,299</td>
<td>100,063</td>
<td>4,650,734</td>
<td>—</td>
</tr>
<tr>
<td>Aid to individuals</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>527,160</td>
</tr>
<tr>
<td>Other</td>
<td>295,744</td>
<td>500,309</td>
<td>810,242</td>
<td>—</td>
</tr>
<tr>
<td>Total payables</td>
<td>$8,327,237</td>
<td>$947,030</td>
<td>$12,270,454</td>
<td>$527,160</td>
</tr>
</tbody>
</table>

ILLUSTRATION 14

Interfund Balances [Paragraph 14]—Matrix Presentation

Assumptions

This government reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds and for proprietary funds.
Disclosure

Interfund balances at December 31, 2002 consisted of the following (amounts in 000s):

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

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

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

ILLUSTRATION 15

Interfund Balances [Paragraph 14]—Schedule Presentation

Assumptions

This government reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The sum of all balances presented in the table agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds and for proprietary funds.
Disclosure

Interfund balances at December 31, 2002 consisted of the following (amounts in 000s):

Due to general fund from:
  Internal service funds $ 8,815

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

Due to general fund from:
  Highway fund 6,000
  Redevelopment agency fund 6,145
  All others 1,777
Total due to general fund from other funds $22,737

Due to nonmajor governmental funds from:
  General fund $ 7,181
  Redevelopment agency fund 2,867
Total due to nonmajor governmental funds from other funds $10,048

Due to internal service funds from:
  General fund $ 5,000
  Highway fund 7,415
  Redevelopment agency fund 3,834
  All others 1,136
Total due to internal service funds from other funds $17,385

Due to all other funds from:
  All others $ 1,424

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

ILLUSTRATION 16

Interfund Transfers [Paragraph 15]—Matrix Presentation

Assumptions

This government reports interfund transfers between many of its funds. Some of the transfers are considered immaterial and are aggregated into a single column or row titled All Others. The sum of all transfers presented in the table agrees with the sum of
interfund transfers presented in the governmental and proprietary fund financial statements. The transfers from the water and sewer fund to the general fund and the community development fund to the debt service fund are considered nonroutine and are inconsistent with the activities of the fund making the transfer.

Disclosure

Interfund transfers for the year ended December 31, 2002, consisted of the following (amounts in 000s):

<table>
<thead>
<tr>
<th>Transfer to</th>
<th>General Fund</th>
<th>Community Development</th>
<th>Nonmajor Governmental</th>
<th>Water and Sewer</th>
<th>All Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>General fund</td>
<td>–</td>
<td>$3,500</td>
<td>$35,942</td>
<td>$1,933</td>
<td>$3,500</td>
<td>$41,375</td>
</tr>
<tr>
<td>Debt service</td>
<td>–</td>
<td>9,800</td>
<td>4,227</td>
<td>–</td>
<td>–</td>
<td>14,027</td>
</tr>
<tr>
<td>Education</td>
<td>81,203</td>
<td>–</td>
<td>4,836</td>
<td>–</td>
<td>–</td>
<td>86,039</td>
</tr>
<tr>
<td>All others</td>
<td>2,105</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>2,105</td>
</tr>
<tr>
<td>Total</td>
<td>$83,308</td>
<td>$4,227</td>
<td>$50,578</td>
<td>$3,500</td>
<td>$1,933</td>
<td>$143,546</td>
</tr>
</tbody>
</table>

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

In the year ended December 31, 2002, the city made a one-time transfer of $3,500,000 from the water and sewer fund to the general fund to subsidize, in part, the city’s share of the Perry Valley Regional Fire Protection District’s capital program and transferred the residual equity of $4,227,000 of the community development fund to the debt service fund.

ILLUSTRATION 17

Interfund Transfers [Paragraph 15]—Schedule Presentation

Assumptions

This government reports interfund transfers between many of its funds. Some of the transfers are considered immaterial and are aggregated into a single row titled All Other
**Funds.** The sum of all transfers presented in the following table agrees with the sum of interfund transfers presented in the governmental and proprietary fund financial statements. Both of the transfers identified below are considered nonroutine and are inconsistent with the activities of the fund making the transfer.

**Disclosure**

Interfund transfers for the year ended December 31, 2002, consisted of the following (amounts in 000s):

<table>
<thead>
<tr>
<th>Transfers to general fund from:</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonmajor governmental funds</td>
<td>$35,942</td>
</tr>
<tr>
<td>Water and sewer fund</td>
<td>3,500</td>
</tr>
<tr>
<td>All other funds</td>
<td>1,933</td>
</tr>
<tr>
<td><strong>Total transfers to general fund</strong></td>
<td><strong>$41,375</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Transfers to debt service fund from:</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community development fund</td>
<td>$4,227</td>
</tr>
<tr>
<td>Nonmajor governmental funds</td>
<td>9,800</td>
</tr>
<tr>
<td><strong>Total transfers to debt service fund</strong></td>
<td><strong>$14,027</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Transfers to education fund from:</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>General fund</td>
<td>$81,203</td>
</tr>
<tr>
<td>Nonmajor governmental funds</td>
<td>4,836</td>
</tr>
<tr>
<td><strong>Total transfers to education fund</strong></td>
<td><strong>$86,039</strong></td>
</tr>
</tbody>
</table>

| All other transfers                 | $2,105 |

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

In the year ended December 31, 2002, the city made a one-time transfer of $3,500,000 from the water and sewer fund to the general fund to subsidize, in part, the city’s share of the Kristy County Regional Fire Protection District’s capital program and transferred the residual equity of $4,227,000 of the community development fund to the debt service fund.
Appendix D

CODIFICATION INSTRUCTIONS

74. The following sections reflect changes that are being made in addition to the Codification instructions in Statement 34.

[Revise Statement 34 Codification instructions in the following sections:]

GENERALLY ACCEPTED ACCOUNTING SECTION 1200
PRINCIPLES AND LEGAL COMPLIANCE

Sources: [Add the following:] GASB Statement 38

.112 [Insert the following at end of next-to-last sentence:] and actions taken to address such violations. [NCGAS 1, ¶11; GASBS 38, ¶9]

* * *

FUND ACCOUNTING SECTION 1300

Sources: [Add the following:] GASB Statement 38

[Insert new Codification heading and paragraph .125.]

Activities

.125 [GASBS 38, ¶6]

* * *
REPORTING LIABILITIES

SECTION 1500

Sources: [Add the following:] GASB Statement 38

[Insert new Codification heading and paragraph .118.]

Debt Obligations

.118 [GASBS 38, ¶10]

* * *

BASIS OF ACCOUNTING

SECTION 1600

Sources: [Add the following:] GASB Statement 38

.106 [Add the following at end of paragraph:] The length of time used to define available for purposes of revenue recognition in the governmental fund financial statements should be disclosed in the summary of significant accounting policies. [NCGAS 1, ¶62; GASBS 38, ¶7]

* * *

THE BUDGET AND BUDGETARY ACCOUNTING

SECTION 1700

[Delete current Codification paragraph .129.]

* * *
NOTES TO FINANCIAL STATEMENTS  

SECTION 2300

Sources: [Add the following:]  GASB Statement 38

[Insert a new paragraph .103 following paragraph .102 and renumber subsequent paragraphs.]

.103  [GASBS 38, ¶5]

.106a  [Revise subparagraphs to paragraph .105 as follows:]

[Insert new subparagraph (3) following subparagraph (2) and renumber subparagraph (3) to become (4):]

(3) A description of the activities accounted for in each of the following columns—major funds, internal service funds, and fiduciary fund types—presented in the basic financial statements. (See Section 1300, “Fund Accounting,” paragraph .125.)

[Insert new subparagraph (5) after renumbered (4):]

(5) The length of time used to define available for purposes of revenue recognition in the governmental fund financial statements. (See Section 1600, “Basis of Accounting,” paragraph .106.)

[Delete subparagraph (5) and renumber remaining subparagraphs.]

h.  [Revise as follows:] Significant violations of finance-related legal or contractual provisions and actions taken to address such violations. (See Section 1200, “Generally Accepted Accounting Principles and Legal Compliance,” paragraph .112.)

i.  [Add reference to Section 1500, paragraph .118.]

j.  [Add reference to Section 120, paragraph .125.]

o.  [Revise as follows:] Interfund balances and transfers. (See paragraphs .119 and .120, below.)

[NCGAS 1, ¶158; NCGAI 6, ¶4, as amended; GASBS 38, ¶6–¶7, ¶9–¶10, ¶14, and ¶15]
.107 [Revise paragraph .106 as follows:]

   e.   [Add the following at the end of subparagraph:] (See paragraph .118, below.)

   ee.  Disaggregation of receivable and payable balances. (See paragraph .119, below.)

   [NCGAI 6, ¶5, as amended; GASBS 38, ¶13]

   [Add the following paragraphs and related headings:]

   Required Note Disclosures about Short-term Debt

   .118  [GASBS 38, ¶12]

   Disaggregation of Receivable and Payable Balances

   .119  [GASBS 38, ¶13]

   Interfund Balances and Transfers

   .120–.121  [GASBS 38, ¶14 and ¶15]

   NOTES TO FINANCIAL STATEMENTS

   NONAUTHORITATIVE DISCUSSION

   .901

   [Delete subparagraphs F.1 and F.2 from footnote 1 and renumber remaining subparagraphs.]

   [Insert new subparagraph I.D(2) after I.D(1) and renumber remaining subparagraphs:]

   (2) Descriptions of activities accounted for in the major funds, internal service fund type, and fiduciary fund types.
[Add the following at the end of subparagraph I.E(2):]  

, including the length of time used to define available for purposes of revenue recognition.

[Add the following at the end of subparagraph II.A:]  

and actions taken to address such violations.

[Insert new subparagraph III.A(5) after III.A(4) and renumber remaining subparagraphs:]  

(5) Receivable balances.

[Insert new subparagraph III.B(1) before III.B(1) and renumber remaining subparagraphs:]  

(1) Payable balances.

[Insert new subparagraph III.B(7)d after newly renumbered III.B(7)c and renumber remaining subparagraphs:]  

d. Terms of interest rate changes for variable-rate debt.

[Insert new subparagraph III.H:]  

H. Interfund transfers.

[Add the following paragraph after .906:]  

.907 This paragraph illustrates disclosures required by paragraphs .106a(3) and (5), .106h through j, and .117 through .120 of this section. The facts assumed in these examples are illustrative only and are not intended to modify or limit these requirements or to indicate the Board’s endorsement of the situations or specific methods illustrated. Application of these provisions may require disclosures and formats other than those illustrated here.

[Insert Illustrations 1 through 17.] [GASBS 38, ¶73]

* * *
The disclosure requirements of FASB Statement 13 should be followed for financial reporting purposes. Governments should disclose the future minimum payments for each of the five subsequent fiscal years and in five-year increments thereafter for their obligations under capital and noncancelable operating leases. The disclosures should be made by state and local governments in accordance with Section 2300, “Notes to Financial Statements,” paragraphs .106 and .107. [NCGAS 5, ¶27; GASBS 38, ¶11]

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