



# **ICCTFOA Accounting Manual**

**Prepared in Cooperation with the Idaho State Controller's Office  
Keith Johnson, Idaho State Controller**

**ICCTFOA Institute  
September 2003**

**Idaho City Clerks, Treasurers and Finance Officers Association  
3100 S. Vista Ave. Ste. 310  
Boise, ID 83705  
Ph: (800) 344-8594 or (208) 344-8594  
Fax: (208) 344-8677  
[www.idahocities.org](http://www.idahocities.org)**



# **Acknowledgements**

The Idaho City Clerks, Treasurers and Finance Officers Association wishes to acknowledge the contributions of several individuals who made publication of this manual possible.

**Shelly Enderud, Finance Director for the City of Post Falls and  
Chair of the ICCTFOA Accounting Manual Committee**

**Richard Horner, Finance Officer for the City of Rexburg**

**Ginette Manwaring, City Treasurer, City of Blackfoot**

**Dave Swindell, Chief Financial Officer, City of Pocatello**

**Keith Johnson, Idaho State Controller**

**Steve Allison, Idaho State Controller's Office**

**Marion Demer, Idaho State Controller's Office**

**Darla Rankin, Idaho State Controller's Office**



# Preface

This manual is a substantial update and revision of the *Uniform Accounting and Reporting Manual for Idaho Cities*. The *ICCTFOA Accounting Manual* is designed to provide all city officials (elected and staff) with a thorough understanding of municipal accounting, financial reporting, internal controls and auditing. A basic understanding of these issues is critical for every city official, because all must function within the city's systems of accounting and internal controls. Consequently, the proper functioning of these systems is the responsibility of each and every city official.

This manual is also intended to acquaint Idaho city officials with the requirements of Statement No. 34: *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* adopted by the Governmental Accounting Standards Board in June 1999. GASB 34 has been described as “the biggest change in the history of public-sector accounting and financial reporting.” This manual provides in-depth explanation of new requirements for management's discussion and analysis, government-wide financial reporting, major fund reporting, depreciation of capital assets, budgetary comparisons and many other areas. It is important to note at the outset that ***these requirements are not mandated for Idaho cities***—only those cities seeking compliance with generally accepted accounting principles (GAAP) need to comply with GASB 34. Nonetheless, we strongly encourage all Idaho cities to move toward GAAP compliance. Cities with GAAP compliant accounting and financial reporting benefit through lower interest rates on debt, but more importantly, GAAP compliance gives citizens additional assurance that the affairs of the city are being conducted in a professional manner.

We hope you find this manual helpful in understanding municipal accounting, financial reporting, internal controls and auditing. For technical assistance on these issues, do not hesitate to contact the Association of Idaho Cities at (800) 344-8594.

# Table of Contents

## Chapter 1: The Basics of Governmental Accounting .....1

Accounting and Financial Reporting Defined .....	1
Public Versus Private Sector Accounting.....	1
Fund Accounting.....	2
Measurement Focus and Basis of Accounting.....	3
Budgetary Reporting.....	4
GAAP—What are They and Where Do They Come From? .....	4
The GAAP Hierarchy .....	5
Compliance with GAAP Requirements.....	6
Understanding Fund Types.....	6
Understanding Measurement Focus and Basis of Accounting.....	9
Recognition of Revenues and Expenditures in Governmental Funds .....	11
Accounting for Expenditures in Governmental Funds .....	12
Fiscal Year .....	13
Chart of Accounts .....	13

## Chapter 2: Financial Reporting.....15

Understanding GASB 34 .....	16
Defining the Financial Reporting Entry.....	19
Understanding Your CAFR .....	21
Introductory Section.....	22
The Financial Section .....	24
Independent Auditor’s Report.....	24
Management’s Discussion & Analysis .....	24
The Financial Statements.....	27
Government-Wide Financial Statements .....	28
Government-Wide Statement of Net Assets.....	28
Government-Wide Statement of Activities.....	31
Governmental Fund Financial Statements.....	33
Governmental Fund Balance Sheet.....	33
Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance.....	36
Governmental Fund Budgetary Comparison Statement .....	37
Proprietary Fund Financial Statements.....	38
Proprietary Fund Statement of Net Assets.....	38
Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Assets .....	39
Proprietary Fund Statement of Cash Flows .....	40
Fiduciary Fund Financial Statements.....	43
Statement of Fiduciary Net Assets.....	43
Statement of Changes in Fiduciary Net Assets.....	44
Notes to the Financial Statements.....	45
Required Supplementary Information.....	48

Combining and Individual Fund Presentations and Supplementary Information.....	50
Statistical Section.....	51
Conversion of Governmental Fund Data for Governmental-Wide Financial Reporting.....	54
Capital Assets and Infrastructure Reporting.....	61

## **Chapter 3: Internal Controls .....69**

Introduction.....	69
Internal Controls Defined .....	69
Idaho Statutory Requirements.....	70
The Limitations of Internal Controls .....	71
Striking the Right Balance .....	71
The Components of Internal Control .....	71
Control Environment .....	72
Risk Assessment .....	73
Control Activities.....	75
Information and Communication.....	77
Monitoring .....	78
Internal Controls and Purchasing Cards .....	80
Conclusion .....	80

## **Chapter 4: Auditing.....81**

What is an Audit?.....	81
Types of Auditors .....	82
Statutory Audit Requirements.....	82
Audit Scope.....	84
Reportable Conditions and Material Weaknesses in Internal Controls .....	85
Audit Criteria .....	86
The Federal Single Audit.....	90
Audit Reports .....	92
Findings.....	93
Questioned Costs .....	94
Auditor’s Letter to Management.....	95
Single Audit Reporting Package.....	95
Selecting an Auditor .....	95
Auditor Rotation .....	96
The Role of the Audit Committee.....	96

## **Glossary of Accounting and Finance Terms .....97**

## **Appendices.....115**

Appendix A: Chart of Accounts .....	115
-------------------------------------	-----

Appendix B: Example Financial Statements and Other CAFR Components.....	121
Letter of Transmittal—City of Blackfoot .....	122
Organizational Chart—City of Blackfoot.....	123
Independent Auditor’s Report—City of Post Falls.....	124
Management’s Discussion & Analysis—City of Blackfoot .....	131
Government-Wide Statement of Net Assets—City of Blackfoot.....	139
Government-Wide Statement of Activities—City of Blackfoot.....	140
Governmental Fund Balance Sheet—City of Blackfoot.....	142
Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance—City of Blackfoot.....	143
Proprietary Fund Statement of Net Assets—City of Post Falls.....	145
Proprietary Fund Statement of Revenues, Expenditures and Changes in Net Assets— City of Post Falls.....	147
Proprietary Fund Statement of Cash Flows—City of Blackfoot .....	148
Fiduciary Fund Statement of Net Assets—City of Blackfoot .....	149
Notes to the Financial Statements—City of Post Falls.....	150
Statistical Section—City of Post Falls.....	169
General Fund Expenditures and Other Financing Uses by Function—Last Ten Years .....	169
General Fund Revenues by Source—Last Ten Years.....	170
Property Tax Levies and Collections—Last Ten Years .....	171
Assessed Valuation and Tax Rate—Last Ten Years .....	172
Property Tax Rates—Direct and Overlapping Governments—Last Ten Years .....	173
Assessments Receivable and Collected—Last Ten Years.....	174
Bonded Debt—Direct and Overlapping Governments .....	175
New Construction and Additions—Last Six Years .....	176
Major Taxpayers .....	177
Statistical Information—Water Fund.....	178
Statistical Information—Wastewater Fund.....	179
Miscellaneous Statistics .....	180
Computation of Legal Debt Margin.....	183
Listing of Insurance .....	184
Schedule of Sewer Revenue Bond Coverage—Last Ten Years .....	185
Schedule of Water Revenue Bond Coverage—Last Ten Years .....	186
Ratio of Annual Debt Service Expenditures for General Bonded Debt to General Government Expenditures—Last Ten Years.....	187
Ratio of General Bonded Debt to Assessed Value and Bonded Debt Per Capita— Last Ten Years .....	188

# Chapter 1

## The Basics of Governmental Accounting

### Accounting and Financial Reporting Defined

---

Simply defined, accounting is a system of keeping track of financial transactions and verifying, analyzing and reporting the results of these transactions. The Governmental Accounting Standards Board (GASB) has determined that governmental accounting systems must fulfill two primary requirements:

- The need to present fairly and with full disclosure the financial position and results of financial operations of the funds and accounting groups of the city in conformity with generally accepted accounting principles; and
- The need to determine and demonstrate compliance with finance-related legal and contractual provisions.

Financial reporting involves the creation of reports summarizing a city's financial activities over the past fiscal year. Readers of a city's financial reports include city officials, citizens, local newsmedia, creditors, bond rating agencies and others. Some cities prepare a Comprehensive Annual Financial Report (CAFR), including a variety of financial statements and other relevant information.

### Public Versus Private Sector Accounting

---

Public and private sector accounting share many similarities; however, the differences are significant and should be understood by every city official. There are two primary characteristics that define the unique nature of governmental accounting:

- First, government services are not a means toward an end, they are an end in themselves; and
- Second, governments operate in a realm where *accountability* is the paramount consideration.

The differences between governmental and business accounting are most clearly evidenced by the divergent purposes of public and private organizations.

All private-sector businesses set out to make money by providing goods or services to customers at the maximum price the market will bear, which must be at least enough to cover the cost of providing the goods or services. How much a customer pays varies in proportion to the amount of goods or services the customer receives. Moreover, business transactions are essentially voluntary, depending on a potential customer's need or desire for the goods or services being offered...

Most government activities, however, function quite differently than private-sector businesses. First, government services are not a means to an end (profit); rather, [government services] are an end in themselves. That is, a government's goal is to maximize service, not revenue. Second, for governmental (tax-supported) activities, there is normally no direct relationship between how much a taxpayer pays and the services that taxpayer receives... Finally, participation in governmental activities is essentially involuntary, at least from the viewpoint of the individual taxpayer.<sup>1</sup>

Governmental accounting is also defined by accountability:

- **Fiscal Accountability**, i.e. the responsibility of the city to comply with internal and external restrictions on revenues and expenditures (such as the annual appropriations ordinance or restrictions established by a grantor); and
- **Operational Accountability**, i.e. the responsibility of the government to provide services efficiently and effectively.

Certainly businesses are accountable to their board of directors, stockholders, and creditors. However, the constituency of a government encompasses every citizen living within the jurisdiction. These citizens have the right to know that the financial affairs of the city are being handled in a professional manner. Governments also operate within the framework of “separation of powers,” where the legislative authority enacts a budget that sets a ceiling on the level of expenditures. For private sector businesses, the budget is a spending target; for governments, appropriations have the force of law and may not be exceeded without the approval of the legislative body.

The differing characteristics of public and private sector accounting and financial reporting manifest in three primary differences in practice: **fund accounting**, **basis of accounting** and **budgetary accounting**.

## **Fund Accounting**

---

Private businesses present financial statements for a single, consolidated, unitary entity encompassing the parent company and all subsidiaries. Governments also present consolidated, government-wide financial statements; however, these are accompanied by presentations for individual funds. Fund accounting began as a reaction to widespread mismanagement and corruption during the late 19<sup>th</sup> and early 20<sup>th</sup> Centuries. In order to ensure that monies were spent for approved purposes, governments established separate checking accounts. Today, multiple checking accounts are a thing of the past for most governments; however, the idea of accounting separately for different categories of resources remains the foundation of governmental accounting.

---

<sup>1</sup> Gauthier, Stephen J. *Governmental Accounting, Auditing and Financial Reporting*. Government Finance Officers Association, 2001, p. 3 (hereafter cited as “GAAFR”).

A fund can be defined as “a fiscal and accounting entity with a self-balancing set of accounts recording cash and other resources, together with all related liabilities and residual equities or balances, and changes therein, that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.”<sup>2</sup>

Cities provide many different services, often including fire, police, water, sewer, sanitation, streets, libraries, parks and recreation, planning and building services and administration. Different types of resources are used to provide for these different services. Involuntary resources, including property taxes, are used to fund services such as police, fire, streets and administration. Voluntary resources, such as water, sewer and sanitation fees, are used to fund utility services. Different funds are needed to account for and report the various sources and uses of these monies. Each fund must make expenditures in accordance with its specific purpose—for example, a city street fund could not be used to make expenditures for wastewater treatment equipment (the expenditure should instead be made from the city’s sewer fund).

While there is no limit on the number of individual funds a government may use for accounting and financial reporting, a basic tenet of governmental accounting (known as the ***number of funds principle***) provides that governments should establish and maintain only those funds required by law and principles of sound financial administration. Unnecessary funds “result in inflexibility, undue complexity and inefficient financial administration.”<sup>3</sup> In practice, most cities have less than a couple dozen funds.

## **Measurement Focus and Basis of Accounting**

---

For “proprietary” or business-type activities (such as water, sewer or sanitation service, which are mainly supported by user fees) and for the preparation of government-wide financial statements, governments follow the basic accounting practices of the private sector. Here, the measurement focus is on the ultimate effect of transactions as shown in the change in net assets. For these activities, the accrual basis of accounting is used, and revenues are recorded when they are earned (whether or not cash is received at that time) and expenditures are recorded when goods or services are received (whether cash is paid at that time or not).

For “governmental” activities (such as administration, police and fire, which are mainly supported by tax revenues) the measurement focus is on the government’s short-term fiscal position, shown in changes in current financial resources. For these activities, the modified accrual basis of accounting is used, and expenditures (other than accrued interest on general long-term debt) are recorded at the time liabilities are incurred and revenues are recorded when received in cash (except for material and available revenues that should be accrued to reflect taxes levied and revenues earned).

---

<sup>2</sup> *GAAFR*, p. 629.

<sup>3</sup> NCGA Statement 1, paragraph 4.

## Budgetary Reporting

---

A key difference between public and private sector accounting involves the role of the budget. In the private sector, the budget is a spending target, and there is no requirement for businesses to present budget-to-actual comparisons in their financial reporting. For cities, the appropriations ordinance enacted by the City Council sets a ceiling on the level of expenditures for each fund. The ordinance has the force of law and may not be exceeded unless the Council votes to amend the appropriations ordinance. Needless to say, demonstrating compliance with budgetary restrictions is a key element of governmental accounting and financial reporting. GAAP prescribe that cities should compare their actual results for each fiscal period against both the original and amended budget. This budget-to-actual comparison may accompany the basic financial statements as required supplementary information or may be presented as a basic financial statement.

## GAAP—What are They and Where Do They Come From?

---

The acronym GAAP stands for “generally accepted accounting principles,” which are the conventions, rules and procedures that serve as the norm for the fair presentation of the financial statements. GAAP compliance is not mandated by law, but many cities choose to issue GAAP compliant financial statements. The benefits of GAAP compliance include lower interest rates on debt and the ability to demonstrate to citizens that the financial affairs of the city are being handled in a professional manner.

GAAP are promulgated by three primary organizations:

- The **Financial Accounting Standards Board (FASB)**, which determines GAAP for private-sector businesses and non-profit organizations;
- The **Federal Accounting Standards Advisory Board (FASAB)**, which determines GAAP for the federal government; and
- The **Governmental Accounting Standards Board (GASB)**, which determines GAAP for state and local governments.

The GASB was formed in 1984, and like its private sector counterpart, it operates under the auspices of the Financial Accounting Foundation (FAF). The FAF appoints the seven member GASB board, but the GASB is completely independent in the standard-setting process. The GASB is a professional organization including full-time staff, a full-time chair and part-time, paid board members. Assisting the GASB is the Governmental Accounting Standards Advisory Council (GASAC), an advisory body including representatives from groups with a stake in governmental accounting and financial reporting.

The decisionmaking process used by the GASB is designed to solicit commentary from a broad range of constituent groups providing the board with a wealth of information and insight. The first step of the process is the identification of potential issues, which may be raised during public hearings, by members of the GASAC or by constituent groups. The board may choose to add the issue to its technical agenda, either as an addition to a current project or as a new item. Once added to the agenda, the GASB staff begins studying the issue and may be assisted by a special task force of experts appointed by the chairman of the board. When staff research has concluded, the staff issues an “Invitation to Comment” or “Discussion Memorandum” to constituent groups soliciting their comments. Once the input is received from constituent groups, the board lays out its tentative conclusions in an “Exposure Draft,” which may be preceded by a “Preliminary Views” document on especially controversial issues. The final step in the decisionmaking process is the approval of the standard by a majority of the board’s members, which is then set forth in a GASB statement or interpretation.

The process of implementing GASB pronouncements is greatly assisted by the Government Finance Officers Association (GFOA), which regularly publishes *Governmental Accounting, Auditing and Financial Reporting*, also known as the “Blue Book.” The purpose of the Blue Book is to “provide practitioners with detailed and practical guidance on how to implement authoritative standards.”<sup>4</sup> The Blue Book is also an important reference for the GFOA’s Certificate of Achievement for Excellence in Financial Reporting award. The most recent Blue Book was published in 2001 to cover the new financial reporting model initiated by GASB Statement No. 34.

## The GAAP Hierarchy

---

While the GASB has an important role in defining GAAP, it is not the only authoritative source of GAAP for state and local governments. Furthermore, not all documents issued by the GASB have the same authoritative status. Accordingly, GAAP for state and local governments are organized into a hierarchy of four levels, with higher-ranking sources (e.g. Level 1) taking precedence over lower-ranking sources in cases of potential conflict.

- **Level 1 GAAP:** includes GASB statements and interpretations (not superceded by subsequent pronouncements), the pronouncements of the National Committee on Governmental Accounting (GASB’s predecessor) and certain private-sector standards; including those incorporated by reference and private sector authoritative guidance issued before December 1, 1989 for business-type activities (such as water or sewer service) and for governmental activities when reported as part of the government-wide financial statements.
  
- **Level 2 GAAP:** includes GASB Technical Bulletins and publications of the American Institute of Certified Public Accountants (AICPA), including *Audits of State and Local Governmental Units* and “Statements of Position” that have been cleared for issuance by the GASB.

---

<sup>4</sup> Gauthier, Stephen J. “Then and Now: 65 Years of the Blue Book.” *Government Finance Review*. June 2001.

- **Level 3 GAAP:** includes AICPA Practice Bulletins cleared for issuance by the GASB.
- **Level 4 GAAP:** includes GASB Implementation Guides, AICPA Audit Guides, Statements of Position and Practice Bulletins specific to state and local governments but not cleared by GASB and, in the absence of other authoritative sources of GAAP, “widely recognized and prevalent practice,” which reflects generally accepted accounting principles.
- **Other Sources of GAAP:** includes textbooks, professional publications, position papers of professional organizations, GFOA Concepts Statements and FASB guidance that is not authoritative for governments.

## **Compliance with GAAP Requirements**

---

GAAP-compliant accounting and financial reporting for city governments is not a requirement of state or federal law. In the realm of private-sector accounting, the federal Securities and Exchange Commission (SEC) has taken a leading role in requiring GAAP accounting and financial reporting by companies with publicly-traded securities; however, the SEC has no jurisdiction over state or local governments and there is no comparable federal agency with such jurisdiction. The Single Audit Act of 1984 requires that an auditor’s opinion (for the “Single Audit,” mandated for all governments receiving more than \$300,000 in federal grant funds) be expressed on the basis of GAAP, but does not require GAAP compliance.

However, there are regulations and sanctions promulgated by professional organizations. The American Institute of Certified Public Accountants (which has designated the GASB, FASB and FASAB as the authoritative standard-setting bodies for GAAP in their respective sectors) has specified in its Code of Professional Conduct that it is an ethical violation for an auditor to report that financial statements are fairly presented in conformity with GAAP if those statements materially violate GASB, FASB or FASAB guidance, and also places on an auditor the burden of proof to justify any material departures from the guidance found in levels 2, 3 or 4 of the GAAP hierarchy.

## **Understanding Fund Types**

---

Funds originated during the early 20<sup>th</sup> Century as a means to ensure compliance with the adopted budget. Despite numerous, significant changes to budgeting, accounting and financial reporting in recent decades, funds remain the foundation of governmental accounting and financial reporting.

There are 11 different types of funds, which are classified into three main categories: ***governmental funds***, ***proprietary funds*** and ***fiduciary funds***. Each fund has its own asset and liability accounts and its own revenue and expenditure accounts.

- **Governmental Funds:** these are used to account for tax-supported or “governmental” activities (as opposed to “proprietary” or business-type activities). The various types of governmental funds include: the ***general fund***, ***special revenue funds***, ***debt service funds***, ***capital projects funds*** and ***permanent funds***.

- **General Fund:** the general fund is the chief operating fund of the city, and is used to account for all financial resources except those required to be accounted for (by GAAP, legal requirements or principles of sound financial administration) in another fund. GAAP provides that each city may only establish a single general fund.
  - **Special Revenue Funds:** these funds are used to account for financial resources that are set aside for specific purposes, generally because of restrictions imposed by city officials or requirements of the state or federal government. For instance, city revenue from development impact fees may be segregated in a special revenue fund because state law requires the revenue to be spent on capital construction projects to benefit new development in the city. A city may have several special revenue funds, each for its own specific, designated purpose. The use of special revenue funds is typically permitted rather than required; however, GAAP require the use of a special revenue fund to account for the general fund of a legally separate component unit (such as an urban renewal agency).
  - **Debt Service Funds:** these funds are used to set aside revenues for principal, interest and other payments on bonded indebtedness. For instance, cities typically establish debt service funds for deposit of special assessment revenues from local improvement districts and to make principal and interest payments on local improvement district bonds. As with special revenue funds, use of debt service funds is normally permitted rather than required; however, GAAP mandate the use of a debt service fund if legally required or if monies are being accumulated for principal and interest payments more than a year in the future. Debt service payments that do not involve the accumulation of resources (such as lease-purchase agreements) are commonly accounted for in the general fund or a special revenue fund. Principles of sound financial management require the use of a separate debt service fund for each debt issue—however, a number of separate funds may be consolidated into a single debt service fund for the purpose of simplifying general-purpose external financial reports.
  - **Capital Projects Funds:** these funds are used to report *major* capital purchases and construction projects. Segregation of capital projects into separate funds helps city officials have a greater understanding of these important expenditures and helps avoid the distortions that occur when capital and operating expenditures are included in the same fund. GAAP provide that capital projects funds are used to account for financial resources used for the construction or purchase of major capital facilities other than those financed by proprietary funds or trust funds. Unless legally required, the use of these funds is permitted rather than compulsory.
  - **Permanent Funds:** these funds are used to report endowment-type activities, where the resources are legally restricted so that only the earnings from the endowment (and not the principal) may be used to support the city's programs. For instance, a permanent fund would be used to account for a perpetual care endowment of a city cemetery.
- **Proprietary Funds:** funds used to account for the business activities of governments including *enterprise funds* and *internal service funds*.

- **Enterprise Funds:** these funds are used to account for activities that charge a fee for goods or services. GAAP require the use of enterprise funds for activities whose principal revenue sources include: debt backed solely by user fees and charges (such as revenue bonds that are not secondarily secured by the full faith and credit of the government); or revenue received from services in which the government is legally required or has a policy to recover the costs of providing the service with user fees or charges (including capital costs such as depreciation or debt service). Enterprise funds are created for water, sewer and sanitation. In practice, the service may be only partially funded by user fees; however, the use of enterprise funds is important because they highlight the cost of providing the service and any subsidy of the service borne by property taxpayers.
- **Internal Service Funds:** commonly, cities will centralize certain services that are provided to city departments on a cost-reimbursement basis (such as utility billing, vehicle maintenance shop, copying, information systems and purchasing). The use of an internal service fund is never required by GAAP. If the government does not intend to recover the full cost of providing the goods or services (including some measure of the cost of capital assets), then use of an internal service fund is not appropriate.
- **Fiduciary Funds:** these funds are used to report assets held by cities in a trustee or agency capacity on behalf of others that cannot be used to support the city's programs. There are four types of fiduciary funds, including: *pension (and other employee benefit) trust funds*, *investment trust funds*, *private-purpose trust funds* and *agency funds*. The key distinction between trust and agency funds is that trust funds normally are subject to a trust agreement that details the degree of management involvement and the length of time the resources are held.
- **Pension (and Other Employee Benefit) Trust Funds:** GAAP provide that pension trust funds are used to report resources required to be *held in trust* for the members and beneficiaries of pension plans and other employee benefit plans. However, just because a government offers pension or other benefits does not mean that the government must report a pension trust fund. The critical factor is whether the government is holding resources *in trust* for that purpose; thus, in the case of a state-administered pension system (Idaho cities participate in the state-administered pension system known as "PERSI," the Public Employee Retirement System of Idaho) the state, not the participating governmental employers, reports the pension trust fund. GAAP require the use of separate trust funds for each individual pension plan—if certain assets are legally restricted to the payment of certain members or beneficiaries, then separate trust funds should be used. When a pension plan administers post-employment healthcare benefits, healthcare-related resources must be accounted for in a fund separate from resources accumulated for pension benefits.

- **Investment Trust Funds:** these funds are used in situations where a government *sponsors* an investment pool for the benefit of all participants (such as the Local Government Investment Pool offered through the Idaho State Treasurer’s office). GAAP also provide that governments holding investments on behalf of other entities must also report these resources in an investment trust fund.
- **Private-Purpose Trust Funds:** GAAP provide that a private-purpose trust fund may be used to report any trust arrangement not properly reported in a pension trust fund or an investment trust fund where the principal and income benefits individuals, private organizations and other governments. If some (but not all) of the monies may be used to fund the government’s programs, then only the amount not permitted to support the government’s programs is reported in a private-purpose trust fund.
- **Agency Funds:** these funds do not involve formal trust agreements and are used in situations where the government has a temporary custodial role (all assets reported in an agency fund are offset by a liability to the party on whose behalf they are held). Agency funds are most commonly used to account for taxes collected by one government on behalf of other governments. For example, a county would use an agency fund to account for property taxes collected on behalf of cities, school districts and special districts.

## **Understanding Measurement Focus and Basis of Accounting**

---

One of the fundamental issues in governmental accounting and financial reporting is the differentiation of “governmental” and “proprietary” activities, which manifests in differences in measurement focus and basis of accounting.

- **Measurement Focus:** the types of transactions and events reported in a fund’s operating statement.

For proprietary activities, the operating statement focuses on *changes in economic resources* (as is the case for private-sector businesses) as shown by the change in net assets (*total assets minus total liabilities*). Thus, the goal of a proprietary fund’s operating statement is to answer the question “What transactions and events have increased or decreased the fund’s total economic resources during the period?” The operating statement includes all revenues, expenditures, gains and losses, but does not include certain transactions that have no effect on net assets, including:

- **Issuance of Debt:** the issuance of debt does not result in an increase or decrease in net assets because the increase in cash (asset) is offset by the increase in debt (liability);
- **Debt Service Principal Payments:** the repayment of principal does not increase or decrease net assets because the reduction in cash (asset) is offset by the reduction of debt outstanding (liability); and

- **Capital Outlay:** capital purchases do not increase or decrease net assets because cash (asset) is exchanged for the purchase or construction of the capital asset, in essence trading one asset for another. However, over each year of the life of a capital asset, a decrease in net assets is reported as a depreciation expense in a proprietary fund's operating statement.

The operating statement of a governmental fund focuses on changes in **current financial resources**. “Most decisions involving governmental (tax-supported) activities are made in the context of the annual...appropriated operating budget, where the focus is on meeting a government's near-term financing needs. Governmental funds, with their distinctive emphasis on inflows and outflows of spendable resources, provide information uniquely useful for making decisions in a budgetary context.”<sup>5</sup> Governmental funds report certain transactions that are significant from a budgetary perspective, that are not reported by proprietary funds or in the government-wide statement of activities, including:

- **Issuance of Debt:** the issuance of debt does not have an effect on the government's net assets; however, it does increase the government's current financial resources, and therefore, is reported in the operating statement of a governmental fund.
- **Debt Service Principal Payments:** payment of long-term debt principal has no effect on net assets, but does require payment of cash, decreasing the resources available for spending, which is reported in the operating statement of a governmental fund.
- **Capital Outlay:** because the purchase/construction of a capital asset is essentially trading one asset (cash) for another (the capital asset), it has no effect on net assets; however, it does mean trading assets that can be spent for assets that cannot be spent, thereby resulting in a net decrease in spendable resources reported in a governmental fund's operating statement. Depreciation of capital assets, which does not affect spendable resources, is not reported in the operating statement of a governmental fund.

It is important to note that the net effect of the differences in measurement focus between governmental and proprietary funds eventually becomes identical—see the chart below.

**Differences in Measurement Focus between Governmental and Proprietary Funds**

Transaction or Event	Governmental Funds	Proprietary Funds
<b>Issuance of Debt</b>	+\$20,000	No Effect
<b>Capital Outlay</b>	-\$20,000	No Effect
<b>Debt Service Principal Repayment</b>	-\$20,000	No Effect
<b>Depreciation Expense</b>	No Effect	-\$20,000
<b>Ultimate Net Effect on Operating Statement</b>	-\$20,000	-\$20,000

Once the appropriate measurement focus has been determined for a particular fund, one must ascertain the appropriate basis of accounting.

---

<sup>5</sup> Gauthier, Stephen J. *An Elected Official's Guide to the New Governmental Financial Reporting Model*. Government Finance Officers Association, 2000, p. 45.

- **Basis of Accounting:** the timing of recognition of transactions and events for financial reporting purposes.

It is important to understand that measurement focus and basis of accounting are inseparably linked: proprietary funds using the total economic resources measurement focus use the accrual basis of accounting—governmental funds using the current financial resources measurement focus use the modified accrual basis of accounting.

- **Accrual Basis of Accounting:** the method of accounting where revenues are recorded when they are earned (whether or not cash is received at that time) and expenditures are recorded when goods or services are received (whether cash is paid at that time or not).
- **Modified Accrual Basis of Accounting:** the method of accounting where expenditures are recognized in the period in which the liabilities are both measurable and incurred, and are payable out of current financial resources. Revenues are recognized in the accounting period in which they are both measurable and available to finance expenditures made during the current fiscal period. “Measurable” means that the amount of the revenue or expenditure may be objectively determined. “Available” means that the revenues are due or past due and receivable within the current fiscal year, and collected within the current fiscal year or soon enough thereafter to be used to pay liabilities of the current fiscal year. What constitutes “soon enough” is defined by each city, and is generally 30 or 60 days after the close of the fiscal year. The one exception to this rule is property taxes: GAAP provide that property taxes are considered available up to 60 days following the end of the fiscal year.

In order to simplify discussion of measurement focus and basis of accounting, only governmental and proprietary funds have been mentioned. Fiduciary funds cannot be categorized quite this easily. All trust funds utilize the economic resources measurement focus and employ the accrual basis of accounting, just as proprietary funds. However, agency funds report only assets and liabilities (thus they cannot be said to have a measurement focus), but they do use the accrual basis of accounting to recognize payables and receivables.

## **Recognition of Revenues and Expenditures in Governmental Funds**

---

The following examples illustrate the recognition of revenues and expenditures in the modified accrual basis of accounting for governmental funds.

- **Property Taxes:** property taxes are recorded as revenue when the taxes are levied and the revenues are available to the city. The receivable is recorded and revenue is accrued for those taxes applicable to and collectible within the current fiscal year, or within 60 days of the end of the fiscal year. Property tax revenue is recorded net of uncollectibles—the property taxes receivable account is debited for the full amount of the taxes levied, with estimated uncollectibles recorded separately in an allowance account reported as a contra account to the receivable.
- **Revenue Sharing:** revenue sharing funds should be accrued in the fiscal year in which they are available.

- **Miscellaneous Revenue:** revenues such as license/permit fees, fines, parking meter revenue, etc. are generally recorded when cash is received because of the difficulty of accurately predicting these sources of revenue.
- **Grants:** grant revenues received from other governments are recognized as revenue in the fiscal year in which all eligibility requirements have been met and the revenue is available to liquidate liabilities of the current fiscal year. This generally occurs when the grant is approved; however, in practice many local governments wait until cash is received. In the case of reimbursement grants, revenues should be recognized when the expenditure is made and all other eligibility requirements have been met.
- **Interest on Investments and Delinquent Taxes:** interest on investments or delinquent property taxes is accrued in the fiscal year in which it is earned and available to finance expenditures.
- **Personnel Expenditures:** wages, salaries and benefits are recognized in the current fiscal year because they are normal, recurring expenditures.
- **Purchases of Goods/Services:** these purchases are recorded as expenditures in the fiscal year in which they are received.
- **Capital Outlay:** purchases of equipment, buildings and other capital expenditures are recorded as expenditures in the fiscal year of acquisition.
- **Interest Payable on Long-Term Debt:** interest is recognized in the fiscal year in which it is legally payable.

### **Accounting for Expenditures in Governmental Funds**

---

The expenditure process in governmental funds proceeds according to the four following steps:

- **Appropriation:** the city's appropriations ordinance provides expenditure authority for each of the city's funds. These limitations may not be exceeded without approval of the city council.
- **Encumbrance:** encumbrances are a unique element of governmental accounting, where they serve to ensure that expenditures do not exceed appropriations during the fiscal year. When an order for goods or services is placed, the budgeted appropriation is encumbered for the estimated cost of the order. Encumbrances are of the greatest use when a period of time lapses between the placing of the order and the delivery of the goods/services. Payroll costs, immaterial costs and costs for goods/services acquired from within the city are not encumbered because these are normal and recurring expenditures and may be effectively forecast according to past experience.

- **Expenditure:** an expenditure and a corresponding liability are recorded when the city receives the goods/services—the encumbrance entry is reversed for the amount encumbered and the expenditure is recorded for the actual cost to the city. Although the actual cost is generally very close to the encumbered amount, some differences may exist due to partially completed orders, less expensive replacements or unforeseen costs.
- **Disbursement:** a disbursement is the payment of cash for expenditures. Prior to making any disbursements, the council must review and approve the voucher and supporting documentation for the expenditure.

## **Fiscal Year**

---

The fiscal year for Idaho cities begins October 1, as provided by Idaho Code 50-1001.

### **50-1001. FISCAL YEAR.**

The fiscal year of each city shall commence on the first day of October.

## **Chart of Accounts**

---

The chart of accounts is simply a listing of every individual account (sometimes referred to as “line-items”) used in a city’s accounting system (see Appendix A for a model chart of accounts). The accounts are coded in a systematic fashion, providing a framework to enable the extraction, summarization and reporting of data.

The nature and extent of the chart of accounts will vary with the size and complexity of the city. It is important to ensure that the account structure can easily accommodate new elements and future modifications as a result of new funds, departments or activities.

# Chapter 2

## Financial Reporting

The data collected and maintained by a city's accounting system is far too detailed to be useful for most potential users. Therefore, financial reporting exists to aggregate this data into a user-friendly format that is designed to meet the needs of a broad range of financial statement readers.

There are three basic types of financial reporting:

- **Internal Financial Reporting:** these reports serve the needs of a city's elected officials and top staff, and are produced to monitor compliance with legal/contractual restrictions on the use of city funds and also for strategic and budgetary planning purposes. Because internal reporting serves the needs of only a few key individuals in each city, management is free to choose whatever format it finds most useful. Generally, these reports are produced monthly, which assists elected officials in their fiscal oversight responsibility (Idaho Code 50-708 provides that the city council is responsible for examining the city's finances on at least a quarterly basis).
- **Special-Purpose External Financial Reporting:** these reports may be required by a federal agency as a condition of receiving grant funds. This category also includes reporting legally mandated by state law, such as the quarterly city financial statements published in the official newspaper (Idaho Code 50-1011) and the annual city street finance report (Idaho Code 40-708). The information required and the timing of reporting is determined by the external entity requiring the reports.
- **General-Purpose External Financial Reporting:** the primary users of these reports include: elected officials and city staff, citizens, the press, investors, creditors, municipal security underwriters, bond rating agencies, bond insurers and financial institutions. Given this broad array of users, there is no single financial report capable of meeting their diverse reporting preferences. Rather, general-purpose external reports serve to provide the essential information needed by all users to make a fair assessment of the city's finances. The criteria used to determine what is necessary for the fair presentation of a city's finances are known as generally accepted accounting principles (GAAP).

The primary objective of general-purpose external financial reporting is *accountability*, which includes fiscal and operational accountability:

- **Fiscal Accountability:** the city's responsibility to justify that its actions in the fiscal year have complied with public decisions concerning the raising and spending of public moneys in the short term.

- **Operational Accountability:** the city’s responsibility to report the extent to which operating objectives have been met efficiently and effectively, using all resources available for that purpose, and whether objectives can continue to be met for the foreseeable future.

The objectives of general-purpose external financial reporting are outlined in the chart on the following page.

Effective financial reports share five common characteristics:

- **Understandability:** the information in financial reports should be easily comprehensible to all primary users; however, lack of familiarity with accounting and financial reporting by the public can make this goal impossible to attain. Therefore, financial statements should be understandable by those with a general knowledge of accounting principles.
- **Reliability:** financial data must be reliable (which is to say verifiable or reproducible), free of bias, and comprehensive.
- **Relevance:** information is useful for financial report readers only to the extent that it helps them better understand a problem, condition or event. Irrelevant data distracts attention and impairs rather than enhances reporting.
- **Timeliness:** reports should be issued soon enough after the close of the fiscal year to ensure that the audit and public dissemination of the financial reports occur in a timely manner.
- **Consistency:** accounting principles should be applied consistently over time, which is essential for sound trend data, and similar events, transactions and activities should be treated similarly.

## **Understanding GASB 34**

---

In June 1999, the Governmental Accounting Standards Board (GASB) approved Statement No. 34: *Basic Financial Statements—and Management’s Discussion and Analysis—For State and Local Governments*, commonly referred to as the “new financial reporting model.” GASB 34 is a watershed change in state and local government financial reporting, and it is essential for all city officials to understand these changes and their impact on financial reporting.

The adoption of GASB 34 has resulted in seven major changes to state and local government financial reporting.

- **Management’s Discussion and Analysis:** the MD&A is now an element of the required supplementary information (RSI) section of the comprehensive annual financial report (CAFR). The MD&A should highlight and summarize the city’s finances over the past fiscal year in a format that is objective and easily comprehensible for lay readers.

## Objectives of General-Purpose External Financial Reporting

General Objectives	Specific Objectives	Primary Type of Accountability
Financial reporting should assist in fulfilling government's duty to be publicly accountable and should enable users to assess that accountability.	Financial reporting should provide information to determine whether current-year revenues were sufficient to pay for current-year services. This also implies that financial reporting should show whether current-year citizens received services but shifted part of the payment burden to future-year citizens; whether previously accumulated resources were used up in providing services to current-year citizens; or, conversely, whether current-year revenues not only were sufficient to pay for current-year services, but also increased accumulated resources.	Operational Accountability
	Financial reporting should demonstrate whether resources were obtained and used in accordance with the city's legally adopted budget. It should also demonstrate compliance with other finance-related legal or contractual requirements.	Fiscal Accountability
	Financial reporting should provide information to assist users in assessing the service efforts, costs, and accomplishments of the city. This information, when combined with information from other sources, helps users assess the economy, efficiency, and effectiveness of government and may help form a basis for voting or funding decisions. The information should be based on objective criteria to aid interperiod analysis within a city and comparisons among similar cities. Information about physical resources should also help to determine the cost of services.	Operational Accountability
Financial reporting should assist users in evaluating the city's operating results for the year.	Financial reporting should provide information about sources and uses of financial resources. Financial reporting should account for all outflows by source and type, and the extent to which inflows met outflows. Financial reporting should identify material nonrecurring financial transactions.	Fiscal Accountability
	Financial reporting should provide information about how the city financed its activities and met its cash requirements.	Fiscal Accountability
	Financial reporting should provide information necessary to determine whether the city's financial position improved or deteriorated as a result of the year's operations.	Fiscal Accountability
Financial reporting should assist users in assessing the level of services that can be provided by the city and its ability to meet its obligations as they become due.	Financial reporting should provide information about the financial position and condition of the city. Financial reporting should provide information about resources and obligations, both actual and contingent, current and noncurrent. The major financial resources of most cities are derived from the ability to tax and issue debt. As a result, financial reporting should provide information about tax sources, tax limitations, tax burdens and debt limitations.	Operational Accountability
	Financial reporting should provide information about a city's physical and other nonfinancial resources having useful lives that extend beyond the current year, including information that can be used to assess the service potential of those resources. This information should be presented to help users assess long- and short-term capital needs.	Operational Accountability
	Financial reporting should disclose legal or contractual restrictions on resources and risks of potential loss of resources.	Fiscal Accountability

- **Government-Wide Financial Statements:** two new statements—the statement of net assets and the statement of activities—are required to provide information about the government as a whole (excluding fiduciary activities). These statements are prepared using full accrual accounting, and include information for the city’s component units (e.g., an urban renewal agency).
- **Changes in Funds and Fund Reporting:** the new financial reporting model has made changes to the basic types of funds: expendable and nonexpendable trust funds have been replaced by permanent funds and private-purpose trust funds. Concerning financial reporting, cities now report major funds in separate columns in the fund financial statements and aggregate minor funds in a single column. Major funds are those with assets, liabilities, revenues or expenditures of more than 10 percent of the total of governmental or enterprise funds, respectively and which constitute at least 5 percent of total assets, liabilities, revenues or expenditures for all governmental and enterprise funds combined. This allows for simplification of fund reporting by focusing on major funds.
- **Capital Assets and Accumulated Depreciation:** cities must begin depreciating capital assets immediately upon purchase, and must also report accumulated depreciation of all capital assets on the government-wide statement of net assets.
- **Infrastructure Assets and Historical Cost of Existing Infrastructure:** cities must capitalize and report major infrastructure assets acquired in fiscal years ending after June 30, 1980, as well as assets that underwent major renovation, restoration or improvement during the same period. The timeline for reporting varies according to the size of the government involved. Phase 3 cities are not required to report infrastructure retroactively (see below).
- **Budget-to-Actual Comparisons:** the financial reports should include both the original and final amended appropriations ordinance and include budget to actual comparisons for both the original and final appropriations ordinance. This demonstrates that the city is in compliance with the adopted budget.
- **Reconciliation of Statements:** to help financial statement readers understand and assess the relationship between fund-based and government-wide financial statements, governments should present a summary reconciliation showing the interaction between the two types of statements.

GASB 34 requirements take effect in three phases, which are designated based on the city’s total annual revenues in the first fiscal year ending after June 15, 1999.

- **Phase 1:** governments with \$100 million or more in total annual revenues must follow GASB 34 in their financial statements for fiscal years beginning after June 15, 2001 (retroactive infrastructure reporting requirements begin after June 15, 2005).
- **Phase 2:** governments with \$10 to \$100 million in total annual revenues must follow GASB 34 in their financial statements for fiscal years beginning after June 15, 2002 (retroactive infrastructure reporting requirements begin after June 15, 2006).

- **Phase 3:** governments with less than \$10 million in total annual revenues must follow GASB 34 in their financial statements for fiscal years beginning after June 15, 2003 (these cities are not required to do retroactive infrastructure reporting—however, prospective infrastructure reporting is required).

## **Defining the Financial Reporting Entity**

---

The structure of local government in each state is determined by the state's constitution and statutes. Not surprisingly, states have developed widely varying local government structures, including differing combinations of general-purpose governments (i.e. counties and cities) and special-purpose governments (e.g. school districts, special districts and public authorities). These special-purpose governments may be legally independent or may serve as creatures of general-purpose local governments. Because of the bewildering array of local government structures, GAAP prescribes that financial statement preparers must look beyond legal form and define a **financial reporting entity** that accurately reflects the financial accountability of a city's elected officials.

**Financial Reporting Entity:** includes a primary government (such as a state, county or city), organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Thus, a city must include as part of its financial reporting entity both itself and any other legally separate entities for which the city's elected officials are financially accountable. These separate entities are known as **component units**.

**Component Unit:** a legally separate organization for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

It is important to note that component units are legally separate entities—entities that are not legally separate from the city are incorporated in the financial reporting entity as an integral part of the city's government.

There are four tests for determining whether a legally separate entity is a component unit for the purposes of the city's financial reporting entity:

- **Corporate Status:** does the entity have separate legal standing, meaning that it is created pursuant to enabling legislation with the power to sue and be sued, enter into contracts and other corporate powers?

- **Financial Independence:** is the entity financially independent of the city? An entity is financially independent if it has the authority to: adopt and modify its own budget (without approval by the city council), levy taxes or set rates or charges (without council approval) and issue bonded debt (without council approval).
- **Financial Accountability:** the city is financially accountable for the organization if it appoints a voting majority of the organization's governing board and (1) is able to impose its will on the organization or (2) if there is the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the city.
- **Omission Resulting in Potentially Misleading Reporting:** in special situations, legally separate entities may be included in the city's financial reporting entity if failure to include the entity could render the city's financial statements incomplete or potentially misleading.

The way in which data from the component unit is combined with data from the primary government depends on the nature of the relationship between the two entities. In certain instances, the functions of the component unit are so intertwined with the primary government that data from the component unit is blended with the primary government's data for financial reporting purposes. These are said to be ***blended component units***. Data from blended component units is presented just as though it were a fund of the primary government (although the general fund of a blended component unit is presented as a special revenue fund in order to comply with the GAAP provision requiring only one general fund to be presented for each financial reporting entity).

Other component units have more operational autonomy from the primary government, and in such instances, GAAP prescribe that the data from the component unit be presented together with, but separately from, the data of the primary government. These are known as ***discretely presented component units***. Data from discretely presented component units is reported in one or more columns at the far right side of the government-wide financial statements. Data from nonmajor discretely presented component units normally is presented in the aggregate in an ***other component units column*** on the government-wide financial statements. Fund information is normally not presented for each discretely presented component unit, but users desiring such information should be directed to separately issued financial statements of the entity in the notes to the financial statements.

Because component units are legally separate entities, there is a presumption that they should be discretely presented; however, GAAP identifies two situations where blending is appropriate:

- **Shared Governing Board:** if the governing boards of the two entities are "substantively the same," meaning that a voting majority of the primary government also serves as a voting majority of the component unit's board; or
- **Exclusive or Nearly Exclusive Benefit to the Primary Government:** the data of a component unit should be blended with data of the primary government if:

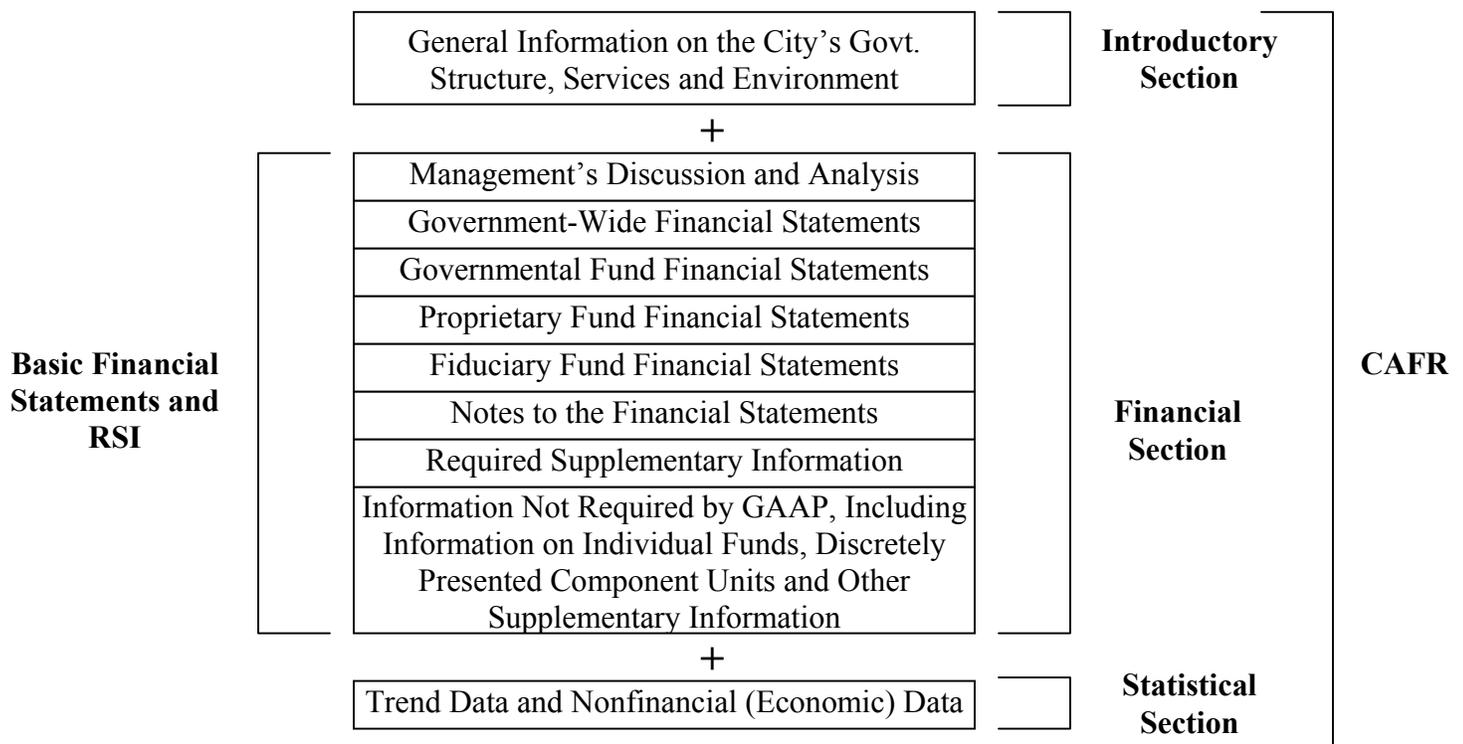
- The component unit provides services entirely or nearly entirely to the primary government; or
- If the component unit otherwise exclusively or nearly exclusively benefits the primary government (even though not directly providing services).

## Understanding Your CAFR

---

GAAP provide the criteria for determining whether a financial report is fairly presented according to generally accepted accounting principles. The minimum requirement for GAAP compliant financial reporting is a complete set of basic financial statements, including accompanying note disclosures and presentation of certain required supplementary information (RSI). However, cities are encouraged to present a comprehensive annual financial report (CAFR) that presents more detailed information on the city's finances (see the table below). The CAFR serves as the annual report for a city, providing a wealth of information on the city's current fiscal position. The CAFR encompasses all funds and legally separate component units of the city (such as an urban renewal agency), and is structured as shown below.

### The Comprehensive Annual Financial Report and its Relationship to the Basic Financial Statements and Required Supplementary Information



## Introductory Section

---

The introductory section of the CAFR provides background and context necessary for financial statement readers to effectively use the financial statements. While this information is not audited, the auditor is required to read the introductory section and ensure that no information is misleading or inconsistent with the audited financial statements.

The introductory section includes the following:

- **Cover Page:** the cover should indicate the name of the city and state, the title “comprehensive annual financial report,” and the fiscal year covered by the report.
- **Title Page:** the title page should present all the information included on the cover, and also name the city department responsible for preparing the CAFR.
- **Table of Contents:** a general table of contents should indicate the page number and full title for each statement and schedule, and also the beginning page numbers for the introductory, financial and statistical sections.
- **Certificate of Achievement for Excellence in Financial Reporting:** if the city has been awarded the GFOA Certificate of Achievement for the preceding year’s CAFR, the city should include a copy of the award in the current year’s CAFR, generally placed following the letter of transmittal.
- **List of Principal Officials:** a list of the mayor, city council and department heads is included in the introductory section. Some cities incorporate the list on the title page rather than on a separate page.
- **Organizational Chart:** an organizational chart reflecting the departments and lines of authority within the city is usually included. If the names of the city’s officials are included on the organizational chart, then a list of officials is unnecessary.
- **Audit Committee Letter:** a formal letter issued by the city’s audit committee may be included after the letter of transmittal.
- **Letter of Transmittal:** the most significant element of the introductory section is the Letter of Transmittal, which has four main purposes:
  - **Serve as the Formal Transmittal of the CAFR:** the transmittal letter serves to introduce the CAFR to its intended users. Often, the letter will discuss the legal requirements for financial reporting and auditing and the role of the auditor in providing independent assurance that the financial statements are fairly presented. The city’s management should expressly accept responsibility for the content and presentation of the CAFR. The letter can also serve to direct readers to other relevant information, such as the auditor’s reports and the narrative introduction, overview and analysis found in the MD&A at the beginning of the financial section.

- **Provide Readers with a Profile of the City and its Financial Reporting Entity:** because the readers of a city's CAFR are often unfamiliar with the city and may be from across the country, it is recommended that the city provide a brief description of its governmental structure, services, geography, population and history. The letter may also briefly describe any component units that are included in the financial reports (readers desiring a more detailed understanding of the financial reporting entity should be directed to the discussion in the notes to the financial statements). The letter may also briefly summarize the budgeting process and state laws governing the budgetary process.
  
- **Enlighten Readers with Information Useful for Assessing the City's Financial Condition:** the basic financial statements focus of the city's financial position (i.e. its existing resources and claims on those resources) but these may be more effectively understood by assessing the city's financial condition (which considers both current and future resources and claims on resources). For example, two cities may be in very similar financial position (having similar current resources and claims against these resources), but may have significant differences in economic base, capital planning and other factors that affect their financial condition. The following information may be presented to assist readers in evaluating the city's financial condition:
  - ✓ Economic information, including major industries, diversification, and future projections;
  - ✓ Long-range planning efforts, including strategic and capital planning;
  - ✓ Cash management and investment earnings;
  - ✓ Risk financing;
  - ✓ Pension benefits; and
  - ✓ Postemployment benefits.
  
- **Highlight Awards or Acknowledgements:** cities that are awarded the GFOA Certificate of Achievement for the preceding year's CAFR should note this distinction in the letter of transmittal, and also note if the current year's CAFR has been submitted and that management believes that it, too, meets the criteria for the award. Other awards for financial management (such as GFOA's Award for Distinguished Budget Presentation and GFOA's Popular Annual Financial Reporting Award) may be mentioned in the transmittal letter as well. The letter may also acknowledge the efforts of city staff in assembling the CAFR, and also recognize the support of the mayor and council.

The transmittal letter is generally written from (and signed by) the city’s chief financial officer—either the city clerk, treasurer or finance officer—to the mayor or city manager. The letter is printed on the city’s official letterhead and should be addressed to the mayor (or city manager), city council and citizens of the city. Preferably, the letter is dated on the date the CAFR is first made available to the public (in no instance should the date be earlier than the report of the independent auditor).

It is recommended that the letter be brief and written in a style accessible to lay readers, avoiding jargon wherever possible. “Governments should avoid taking a mechanical approach to preparing the letter of transmittal. Failure to do so may cause readers to dismiss the letter of transmittal as ‘boilerplate,’ thereby depriving management of a unique opportunity to communicate with CAFR users.”<sup>6</sup>

## **The Financial Section**

---

The second section of the CAFR is the financial section, which includes the following:

- The independent auditor’s report on the audit of the financial statements,
- Management’s discussion & analysis,
- The basic financial statements,
- Required supplementary information (other than the MD&A), and
- Combining and individual fund presentations and supplementary information.

Each of these components is discussed in detail below.

## **Independent Auditor’s Report**

---

Although management is primarily and ultimately responsible for the fair presentation of the basic financial statements, readers desire independent assurance that the statements are fairly presented. This independent assurance is provided through the examination of the financial reports by the independent auditor. The auditor’s report is discussed in greater detail in the chapter on auditing.

## **Management’s Discussion & Analysis**

---

The purpose of the MD&A is to provide financial statement readers with a narrative introduction, summary and analysis of the city’s financial statements. MD&A originated in the private sector, where the Securities and Exchange Commission (SEC) has long required it as a component of the financial reports of publicly traded companies.

---

<sup>6</sup> *GAAFR*, p. 250.

GAAP prescribe that the MD&A should address the following list of specific topics to the extent they are relevant to a city's particular circumstances. The MD&A may not address additional topics not included in this list, but the city is free to provide whatever level of detail it determines appropriate in addressing the following issues.

- **City Finances:** the MD&A should answer the following questions relating to the city's finances:
  - Did the total cost of the city's programs exceed that of the prior fiscal year? If so, what was the cause of the increased expenditures?
  - Were any costs beyond the city's control, such as federal or state mandates, natural disasters or other one-time events, etc.?
  - What changes have impacted governmental and enterprise operations, respectively?
  - Have any major changes affected the city's programs, revenue sources, facilities/infrastructure, etc.?
  - What was the impact of managerial decisions (made by the mayor and/or council) relating to the budget, accounting system, internal controls, etc.?
  
- **The City's Financial Statements and Their Relationship to One Another:** the MD&A should provide a brief discussion of the city's financial statements, highlighting the differences between government-wide and fund statements and the kind of information that each provides. This discussion should also focus on the relationship between governmental funds and governmental activities (as reported in the government-wide financial statements).
  
- **Condensed Comparative Financial Information:** condensed government-wide financial statements of the city's net assets and activities should be prepared comparing the current and prior fiscal years, including schedules showing:
  - Total assets, separating capital and other assets.
  - Total liabilities, separating long-term liabilities and other liabilities.
  - Total net assets, distinguishing between amounts invested in capital assets, net of related debt; restricted amounts; and unrestricted amounts.
  - Program revenues by major source.
  - General revenues by major source.
  - Total revenues.
  - Program expenses by function (at a minimum).
  - Total expenses.
  - Excess or deficit before contributions to term and permanent endowments or permanent fund principal, special and extraordinary items, and transfers.
  - Special and extraordinary items, such as proceeds from a sale of land or the cost of cleaning up a natural disaster.
  - Contributions.
  - Transfers.
  - Change in net assets.
  - Ending net assets.

Presentation of this comparative data is not required during the first year of GASB 34 implementation, since this data is not available in the same format from the prior fiscal year.

- **Overall Analysis:** the MD&A should analyze the city's overall financial position and the results of its operations, specifically addressing whether the city's overall financial position has improved or deteriorated. Analysis should focus on the reasons for the change, rather than merely disclosing the extent of the change, and should cover both governmental and proprietary activities. Also, this section should include analysis of important economic factors significantly affecting the city's operating results during the fiscal year. Although comparative data are presented, the analysis should emphasize the current fiscal year.
- **The City's Condition by Major Fund:** the MD&A should analyze the operation of individual major funds, focusing on reasons for significant changes in fund balance (for governmental funds) or fund net assets (for proprietary funds). The analysis should include information on any significant limitations on the future use of fund resources.
- **Variations between General Fund Appropriations and Expenditures:** the MD&A should address significant differences between: (1) the original adopted appropriation and the final amended appropriation for the general fund, and (2) the final amended appropriation and actual general fund expenditures. If these variances are expected to significantly affect either future services or liquidity, the analysis should include the reasons for the variances (if known).
- **Capital Assets and Long-Term Debt:** the MD&A should identify significant changes in capital assets and long-term debt, including commitments for capital expenditures, changes in credit ratings, and debt limitations that could affect the financing of planned facilities or services. This should serve as a summary of the more detailed information in the notes to the financial statements and refer readers to the notes for more extensive information.
- **Infrastructure Assets:** this section should describe the city's capitalization policy, the condition of its infrastructure, the cost of maintaining existing infrastructure, the amount of depreciation recognized for each type of asset, and the impact of any extraordinary occurrences (e.g., floods, fires, etc.) on the city's infrastructure and future budgets.

If the city is reporting infrastructure under the "modified approach," as an alternative to depreciation, the analysis should describe significant changes in the condition levels of infrastructure assets, how current condition levels compare with target condition levels established by the city and significant differences between the amount estimated to be necessary for maintaining and preserving infrastructure assets at target condition levels and the actual expenditures incurred for that purpose during the current fiscal year.

- **Other Potentially Significant Information:** the MD&A should also address any other “currently known facts, decisions, or conditions that are expected to have a significant effect on financial position (net assets) or results of operations (revenues, expenses and other changes in net assets).” “Currently known” means known by management as of the date of the independent auditor’s report on the financial statements. Governmental activities should be discussed separately from proprietary activities. Examples of information that should be disclosed include: award and acceptance of a major grant, a significant lawsuit, natural disasters, economic changes, etc.
- **Contact Information:** the city clerk/treasurer/finance officer should be listed as the official able to provide further information, with the city’s address, telephone, fax and email.

The MD&A is a component of required supplementary information, but unlike the remainder of RSI (which is located immediately following the notes to the financial statements in the CAFR) it is located in front of the basic financial statements, which allows the MD&A to serve its intended purpose as a narrative introduction to the financial statements. The city may include any charts, graphs, tables or other information useful to enhance the presentation of the MD&A, but these items may not serve as a substitute for reporting the actual information in narrative form. It is also important to ensure that the MD&A does not duplicate information contained in the city’s CAFR transmittal letter. Because the MD&A is subject to a limited degree of auditor involvement, more subjective information should be included in the letter of transmittal rather than the MD&A.

## **The Financial Statements**

---

The government financial reporting model involves a combination of fund-based financial statements and government-wide financial statements. A city may need to present up to four different types of financial statements:

- Government-wide financial statements,
- Governmental fund financial statements,
- Proprietary fund financial statements, and
- Fiduciary fund financial statements.

The various presentations combine to form a single, integrated set of financial statements, and these, together with the appropriate note disclosures, constitute the basic financial statements.

## **Government-Wide Financial Statements**

---

Under GASB 34, cities are required to include two government-wide financial statements in the basic financial statements: a statement of net assets and a statement of activities. The purpose of these reports is to provide information on:

- Whether the city's financial position has improved or deteriorated as a result of the year's operations;
- How much was paid for the services received in the current year;
- Whether functional activities are supporting, or being subsidized by, general revenues;
- Whether costs are being shifted to future years; and
- How well the city has invested in capital assets, including infrastructure.

## **Government-Wide Statement of Net Assets**

---

The statement of net assets is the basic government-wide statement of position, illustrating the basic accounting relationship that assets minus liabilities equal net assets. The statement reports the assets that a government owns (including capital assets and infrastructure) and the liabilities that it owes on the last day of the fiscal year. Net assets are those remaining after liabilities have been paid off or otherwise satisfied. The statement of net assets is prepared using the economic resources measurement focus and full accrual basis of accounting.

The statement may be presented in one of two ways:

- 1) **The Net Assets Approach:** (assets – liabilities = net assets)
- 2) **The Balance Sheet Approach:** (assets = liabilities + net assets)

In either case, the presentation should be labeled the statement of net assets (rather than the balance sheet) and the difference between assets and liabilities should be referred to as net assets (rather than equity).

The first column of the statement lists assets and liabilities in order of relative liquidity, reflecting how readily each may be converted to cash or will require the use of cash.

## Relative Order of Liquidity of Assets and Liabilities

Assets	Liabilities
Cash.	Current liabilities, such as amounts owed to employees and vendors.
Investments easily converted to cash, including certificates of deposit and U.S. Treasury Notes and Bonds.	Long-term liabilities (those greater than one year), amounts borrowed.
Accounts receivable.	Long-term liabilities such as claims, judgments and benefits to employees. The amounts may not be precisely known at the time the financial statements are prepared; the city must estimate these amounts and disclose its methodology in the notes to the financial statements.
Long-term capital assets, including land, buildings and equipment.	Liabilities from bonds and tax and revenue anticipation notes should be listed in order of liquidity—see NCGA Interpretation #9—Certain Fund Classifications and Balance Sheet.

Net assets are listed in the first column below liabilities, and are subdivided into three categories:

- **Capital Assets Net of Related Debt:** because the government-wide financial statement reports all government assets (including capital assets and infrastructure), this amount helps financial statement readers to identify the portion of net assets invested in capital assets. The amount is calculated by subtracting amounts for accumulated depreciation and outstanding principal of related debt from the total amount of capital assets.
- **Restricted Net Assets:** restrictions on certain assets may be imposed by creditors, grantors, contributors, and laws/regulations of other governments. Sometimes, restricted net assets are directly associated with particular liabilities (for example, water system revenues used to pay off revenue bonds for a treatment facility). These restricted assets, less any related liabilities, are reported as restricted net assets. Normally, assets subject to self-imposed restrictions (such as “earmarking”) are not reported as restricted net assets.
- **Unrestricted Net Assets:** this amount reflects the difference between total net assets and the preceding two categories. This amount may reflect a deficit if the city has chosen to fund certain long-term obligations as they come due rather than when they are incurred.

GAAP provide that cities must report separate columns for governmental and business-type activities in the statement of net assets. “Governmental activities” include those reported in the governmental fund financial statements and “business-type activities” include activities reported as enterprise funds in the proprietary fund financial statements. The residual balances of internal service funds should be included in either governmental or business-type activities, depending on which type of activity primarily benefits from the services the funds provide.

Following the columns for governmental and business-type activities is a total column for the primary government. The total column does not include internal payables/receivables, and financial statement preparers have the option of reporting internal balances on a single line (within the assets section of the statement, for example), making the zero balance in the total column self-evident or attaching a notation to separate lines for internal payables and receivables, explaining to readers that the total column has been adjusted to remove the effect of internal balances.

Discretely presented component units should be presented as separate columns to the right of the total column for the primary government. GAAP prescribe that the basic financial statements include separate information for each major discretely presented component unit, which may be met in one of the three following ways:

- Including separate columns for each major discretely presented component unit on the face of the statement of net assets with a single aggregated column for nonmajor component units.
- Including a combining statement of net assets for major discretely presented component units within the basic financial statements, with a single aggregated column for nonmajor component units and a total column supporting the presentation on the face of the government-wide statement of net assets.
- Providing condensed financial statements for each major component unit in the notes to the financial statements.

The following guidelines should be followed in preparing the statement of net assets:

- **Measurement Focus and Basis of Accounting:** the statement of net assets is prepared using the economic resources measurement focus and full accrual basis of accounting. Cities should report capital assets, depreciation, fines receivable, prepaid inventories and other accrued obligations such as employee benefits. Additionally, interfund payables and receivables should be eliminated.
- **Fines Receivable with Allowance for Uncollectible Accounts:** the city should estimate the amount of fines outstanding as well as uncollectible amounts based on past experience.
- **Inventories and Prepaid Amounts:** the city must recognize the cost of the portion of its inventories consumed during the year. Similarly, prepaid amounts such as insurance must be allocated to the period they were used.
- **Unmatured Long-Term Debt, Net of Unamortized Premiums and Discounts:** the city should calculate the amount for the year and report the amount in the current liability section of the statement of net assets.
- **Accrued Interest Payable:** the city should calculate and report the applicable interest amount for the fiscal year.

- **Accrued Obligations:** the city should report the present values of future payments for employee compensable leave and net pension obligations that are long-term in nature.
- **Assets of Internal Service Funds:** the city should merge internal service funds with the primary government and treat them like other city assets. Assets of internal service funds should be capitalized and amortized over their useful lives.

## **Government-Wide Statement of Activities**

---

The purpose of the statement of activities is to track yearly revenues and expenses that affect the city's net assets. The statement focuses on the net cost of each city function, comparing expenses to revenues generated and clearly illustrating how each function either subsidizes, or is subsidized by, general revenue.

The first column on the left of the statement of activities presents the various functions of the city, including: general government, streets, public safety, water, sewer, sanitation, and parks and recreation. Governmental functions are listed first, followed by business-type functions, then a line for total expenses of the primary government. On the bottom of the left-hand column are separate lines for the city's discretely presented component units, including a total line (if multiple component units are presented).

The second column of the statement of activities shows the direct expenses associated with each functional area. "Direct expense" is defined as an expense specifically associated with a particular service, program or department, and thus, is clearly identifiable to a particular governmental function.

Direct expenses include depreciation on capital assets that are clearly associated with a particular functional activity or shared between particular functional activities. There is no requirement to allocate depreciation on capital assets that serve essentially all of a city's functional activities (such as city hall), and such depreciation may be reported as part of the general government functional activity or as a separate line item (labeled "unallocated depreciation expense"). Depreciation of infrastructure assets is normally reported in the functional activity associated with the acquisition and maintenance of the asset (e.g. public works). Alternatively, it may also be reported as unallocated depreciation expense. In no instance, however, should depreciation on infrastructure be allocated to the various functional activities of the city.

Generally, interest on debt and capital leases cannot be meaningfully associated with individual functional activities, and is reported as a separate line on the statement of activities. However, in situations when borrowing is essential to creating or continuing a program it would be misleading to exclude related interest expense from direct program expenses. In such cases, the portion of interest expense is allocated to a particular functional activity, and the line reporting the balance of interest expense is labeled "unallocated interest expense."

Material losses on the sale of capital assets should be reported as an expense in the general government function rather than in the function reporting related depreciation expense. Immaterial losses may be handled as an adjustment to the current period's depreciation expense.

GAAP do not require cities to allocate indirect expenses (those not specifically associated with a given service, program or department) to the various functional activities. Instead, they may be included as part of the general government functional activity or (in the case of unallocated depreciation expense and unallocated interest expense) reported as a separate line item.

To the right of the expenses column, three columns show program revenues obtained through charges for services, operating grants and contributions, and capital grants and contributions. “Program revenues” include all revenues derived directly from the program itself or from sources other than the city’s taxpayers or citizens—they reduce the net cost of the function that is financed from the city’s general revenues.

General revenues are reported separately from program revenues on the bottom of the statement. “General revenues” include all revenues that are not required to be reported as program revenues (e.g. property taxes and revenue sharing). On the right side of the statement are columns for net revenue and changes in net assets for governmental and business-type activities, as well as a total column for the primary government. To the right of this information are columns for any discretely presented component units.

The following guidelines should be followed in preparing the statement of activities:

- **Consolidation:** consolidation is required for the government-wide statement of activities, just as for the government-wide statement of net assets. However, certain modifications are necessary to ensure that the statement achieves the goal of providing information on the cost of each individual functional activity.
  - **Overhead Charges:** any interfund charges for overhead should be eliminated in the process of preparing the statement of activities. For example, if the general fund pays for insurance for the city and charges the departments, the original charge to the general fund is eliminated by an offset to revenue, leaving only the internal charge to the appropriate activities.
  - **Interfund Services:** sales of goods or services between functions should be reported as revenue for the selling function and as an expenditure for the purchasing function. Any unpaid amounts at the end of the fiscal year should be reported as a receivable for the selling function and as a payable for the purchasing function.
- **Endowment and Permanent Fund Contributions:** contributions to term and permanent endowments and permanent endowment fund principal should be reported as a separate line item immediately following general revenues. No distinction is necessary between term and permanent endowments.
- **Special and Extraordinary Items:** these should be reported after endowment and permanent fund contributions, on separate lines if both occur within the fiscal year.

- **Special Items:** significant transactions or other events within the control of management that are either unusual in nature (possessing a high degree of abnormality and clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the city) or infrequent in occurrence (not reasonably expected to recur in the foreseeable future, taking into account the environment in which the city operates).
  - **Extraordinary Items:** transactions or other events that are both unusual in nature *and* infrequent in occurrence.
- **Transfers:** transfers are the last item reported on the government-wide statement of activities before the total change in net assets.
  - **Change in Accounting Principles:** the net cumulative effect of a change in accounting principles should be reported as a restatement of beginning net assets.

## **Governmental Fund Financial Statements**

---

GAAP prescribe two basic governmental fund financial statements: the balance sheet and the statement of revenues, expenditures and changes in fund balances. Both statements include the city's general fund as well as all of its special revenue funds, capital projects funds, debt service funds and permanent funds.

## **Governmental Fund Balance Sheet**

---

The balance sheet is the basic statement of position for governmental funds, and uses a current financial resources measurement focus and modified accrual basis of accounting. Accordingly, only financial assets are reported in the balance sheet. An asset is considered financial if it satisfies any of the three following conditions:

- **The Asset is a Form of Cash:** cash includes currency on hand as well as deposits with banks and other financial institutions. Cash also includes deposits in investment pools where withdrawals may occur at any time without prior notice or penalty.
- **The Asset will Convert to Cash in the Ordinary Course of Operations:** These include receivables and investments as well as capital assets acquired for the purpose of resale.
- **The Asset Represents Inventories or a Prepayment:** inventories and prepayments may be reported as expenditures immediately upon purchase; however, GAAP also allow cities to record inventories and prepaids as assets in the governmental funds, thereby deferring recognition of an expenditure until the period that directly benefits from the outlay.

Assets that are not financial in nature should not be reported in governmental funds. These include general capital assets (land, buildings and improvements, equipment, and infrastructure) and intangible assets (such as water rights). Likewise, governmental funds do not report liabilities for unmatured principal and interest on the city's long-term debt. However, this only applies to debt owed to parties external to the city: interfund loans to governmental funds must be reported as a liability of the fund receiving the proceeds, regardless of when the loan is expected to be repaid. In the case of other liabilities that normally are not liquidated immediately with current financial resources (such as claims and judgments, compensated absences, special termination benefits, landfill closure and postclosure care costs) a liability is recognized in the governmental funds only as amounts become due.

The following guidelines should be followed in preparing the governmental fund balance sheet.

- **Order of Presentation of Assets and Liabilities:** assets and liabilities should be presented in order of relative liquidity.
- **Presentation of Equity:** the difference between assets and liabilities of governmental funds is reported as fund balance, which is subdivided into reserved and unreserved amounts. Unreserved fund balance is considered available for new expenditures during the ensuing fiscal year. Commonly found examples of reserved fund balance include:
  - **Reserved for Long-Term Loans and Advances:** receivables related to long-term loans are always matched by a reservation of fund balance to alert financial statement readers that a receivable reported in the governmental fund is not a current financial resource because receipt is not expected in the near future. Fund balance should not be reserved for long-term receivables that are already offset by a liability for deferred revenue (such as special assessments receivable, or capital leases receivable).
  - **Reserved for Legal Restrictions:** current financial resources are not considered available for expenditure if they are legally restricted for a specific purpose. The same guidelines apply as those used for determining restricted net assets for the government-wide statement of net assets.
  - **Reserved for Inventories and Prepaids:** inventories and prepaids are reported as assets in governmental funds whenever the consumption approach is used. However, these assets are not available for new spending—therefore, governments typically report reserved fund balance for material balances of inventories and prepaids reported in governmental funds using the consumption method.

- **Reserved for Encumbrances:** often, governments enter into contracts and purchase orders that are not fulfilled until the following fiscal year. Although the contract or purchase order creates a legal commitment, the city incurs no liability until the goods or services are received. When a city intends to honor outstanding commitments in subsequent fiscal years, such amounts are said to be encumbered. While some governments keep their budget open for some time after the close of the fiscal year to allow for liquidation of encumbrances, it is more common for governments to automatically re-appropriate for encumbrances outstanding in the budget for the subsequent fiscal year. Obviously, these resources are not available for new expenditures, which is why governments often report reserved fund balance for encumbrances.
- **Disclosure of the Purpose of Reservations:** the financial statements (or accompanying notes) should provide sufficient detail to disclose the purposes of the reservations.
- **Designation of Unreserved Fund Balance:** unreserved fund balance, in turn, may be subdivided into designated and undesignated amounts. Designations reflect management's intended use of the resources and should reflect actual plans approved by the city.
- **Major Fund Reporting:** GAAP prescribe that governmental fund data be presented separately for each major governmental fund, with nonmajor governmental funds aggregated into a single column. By definition, the general fund is always considered a major fund. At a minimum, GAAP requires that other funds be presented as major funds if they meet both of the following criteria:
  - **Ten Percent Criterion:** an individual governmental fund reports at least 10 percent of any of the following: total governmental fund assets, total governmental fund liabilities, total governmental fund revenues or total governmental fund expenditures.
  - **Five Percent Criterion:** an individual governmental fund reports at least 5 percent of the total for *both governmental and enterprise funds* of any of the items for which it met the 10 percent criterion (i.e. total governmental and enterprise fund assets, total governmental and enterprise fund liabilities, total governmental and enterprise fund revenues or total governmental and enterprise fund expenditures).

Cities may report additional major funds whenever it is determined that the funds are of particular importance to financial statement readers. If an individual fund meets the criteria for inclusion as a major fund in some years, but not others, it is desirable to report the fund as major to enhance the consistency of the financial statements from year to year.

- **Nonmajor Funds Column:** the column reporting nonmajor governmental funds should report separately the portion of unreserved fund balance attributable to each *fund type* represented within the column.

- **Total Column and Reconciliation:** a total column is required for the governmental fund balance sheet. For the most part, the activities reported in the governmental fund balance sheet mirror those reported in the governmental activities column of the government-wide statement of net assets. However, there are two important differences:
  - **Classification Differences:** the residual balances of internal service funds are typically included under governmental activities in the government-wide financial statements, even though internal service funds are proprietary funds. Thus, one important difference between the total column for the governmental fund balance sheet and the governmental activities column of the government-wide statement of net assets is the amount of the residual balances of internal service funds included in the latter.
  - **Measurement Focus and Basis of Accounting:** Governmental funds use the current financial resources measurement focus and modified accrual basis of accounting. The government-wide financial statements use the economic resources measurement focus and full accrual accounting.

Because the government-wide and fund presentations are designed to function as a single, integrated set of financial statements, GAAP require that a summary reconciliation be provided between the total column reported on the governmental fund balance sheet and the governmental activities column reported in the government-wide statement of net assets. This reconciliation may be presented on the face of the governmental fund balance sheet or as an accompanying schedule.

## **Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances**

---

The governmental fund statement of revenues, expenditures and changes in fund balances is the basic statement of activities for governmental funds.

The first column on the left of the statement lists the following:

- Revenues, listed by source, with a line for total revenues;
- Expenditures, listed by function and character, with a line for total expenditures;
- Excess (deficit) of revenues over expenditures;
- Other financing sources/uses, which are reported separately from revenues and expenditures to avoid distorting trend data. Other financing sources include: issuance of long-term debt, new capital leases, interfund transfers, proceeds from the sale of capital assets, and payments on demand bonds reported as fund liabilities. Other financing uses include: interfund transfers, refunding of debt, reclassification of demand bonds as a fund liability, and issuance discounts on long-term debt.
- Special items;

- Extraordinary items;
- Net change in total fund balance;
- Fund balance at beginning of period; and
- Fund balance at end of period.

As with the governmental fund balance sheet, the statement of revenues, expenditures and changes in fund balance reports major governmental funds in separate columns and nonmajor governmental funds aggregated in a single column. GAAP provide that the statement must include a total column on the right side of the statement.

The government-wide statement of activities and the governmental fund statement of revenues, expenditures and changes in fund balances exhibit the same types of differences in classification, measurement focus and basis of accounting as those described for the government-wide statement of net assets and the governmental fund balance sheet.

GAAP prescribe that a summary reconciliation between the government-wide statement of activities and the governmental fund statement of revenues, expenditures and changes in fund balances must be provided, either on the face of the latter, or as an accompanying schedule.

### **Governmental Fund Budgetary Comparison Statement**

GAAP provide that a budgetary comparison must be included for the general fund and each major special revenue fund. The comparison may be presented as either the third of the basic governmental fund financial statements or as required supplementary information. At a minimum, the comparison must include the following:

- Original appropriations,
- Final amended appropriations, and
- Actual revenues and expenditures.

GAAP encourage cities to present a variance column to highlight the differences between actual revenues and expenditures and the final amended appropriations ordinance.

Cities may present the budgetary comparison in one of two ways:

- In budgetary format, with the same terminology and classifications used in the budget document; or
- In financial statement format, using the same terminology and classifications used for the governmental fund statement of revenues, expenditures, and changes in fund balances.

With either approach, if the budgetary basis of accounting differs from GAAP, a reconciliation must be provided.

## **Proprietary Fund Financial Statements**

---

GAAP prescribe three basic financial statements for proprietary funds: the statement of net assets (balance sheet); the statement of revenues, expenses, and changes in fund net assets/equity; and the statement of cash flows.

## **Proprietary Fund Statement of Net Assets**

---

The statement of net assets is the basic statement of position for proprietary funds, and like the government-wide statement of net assets, may be presented in either balance sheet format or net assets format.

The following guidelines should be followed in preparing proprietary fund statements of net assets.

- **Presentation of Assets and Liabilities:** GAAP require that the statement classify assets and liabilities as current and long-term, as opposed to the relative order of liquidity approach.
- **Major Fund Reporting:** the same major fund reporting is used for proprietary funds as for governmental funds. Each major enterprise fund must be reported in a separate column on the face of the proprietary fund statement of net assets, and nonmajor proprietary funds (if any) are aggregated in a separate “other enterprise funds” column. However, GAAP prescribe that internal service funds are never reported as major funds. Accordingly, the 10 percent and 5 percent criteria are applied to the total for all enterprise funds and the total for all governmental plus enterprise funds, respectively.
- **Separate Reporting for Internal Service Funds:** although internal service funds are proprietary funds, they are normally consolidated as part of governmental activities, because their primary customers typically are the governmental funds. Therefore, internal service funds should be reported in a separate aggregated column on the proprietary fund statement of net assets, immediately following the total column for all enterprise funds, so the amounts reported may be traced more easily to the business-type activities column of the government-wide statement of net assets.
- **Consolidation:** there is no requirement for eliminating interfund balances from the proprietary statement of net assets, although cities are free to eliminate such internal balances if they wish.

- **Reconciliation to the Government-Wide Statement of Net Assets:** because proprietary funds share the same measurement focus and basis of accounting as used in the government-wide financial statements, there are few (if any) differences between the two statements. Reconciliation may be necessary in connection with consolidating the activities of internal service funds. The reconciliation may be presented either on the face of the proprietary statement of net assets or as an accompanying schedule.

## **Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Assets**

---

The proprietary fund statement of revenues, expenses and changes in fund net assets is the basic statement of activities for proprietary funds. However, unlike the governmental fund statement of activities, the focus is on expenses, rather than expenditures. The following guidelines should be followed in preparing the statement of revenues, expenses and changes in fund net assets:

- **Operating/Nonoperating Revenues and Expenses:** GAAP prescribe that the statement must distinguish operating from nonoperating revenues and expenses. These are not defined in the authoritative accounting and financial reporting literature; however, financial statement preparers are advised to consider the definition of operating activities for cash flows reporting in establishing their own definition (see discussion of statement of cash flows below). Operating activities generally result from providing services and producing and delivering goods, and include all transactions and other events that are not defined as capital and related financing, noncapital financing, or investing activities.
- **Presentation of Revenues:** revenues are reported by major source. GAAP provide that revenues used as security for revenue bonds must be identified separately. The presentation of revenues should reflect the effect of discounts and allowances, which may be accomplished by reporting revenues net of discounts and allowances (which are disclosed separately, either parenthetically or in the notes to the financial statements) or by reporting gross revenues with a deduction for discounts and allowances to arrive at net revenues.
- **Order of Presentation:** the following order is used for the left-hand column on the statement of revenues, expenses and changes in fund net assets:
  - Operating revenues,
  - Operating expenses,
  - Operating income (loss),
  - Nonoperating revenues and expenses,
  - Income before... (as appropriate),
  - Capital contributions (from grantors, developers, etc.),
  - Additions to endowments,
  - Special items,
  - Extraordinary items,
  - Transfers,
  - Increase (decrease) in net assets,
  - Net assets—beginning of period, and

- Net assets—end of period.
- **Major Fund Reporting:** cities should apply the same principles of major fund reporting as in the proprietary fund statement of net assets.
- **Separate Reporting for Internal Service Funds:** internal service funds should be reported separately on the statement of revenues, expenses and changes in fund net assets, following the total column for enterprise funds. This simplifies tracing amounts between the fund financial statements and the government-wide financial statements.
- **Consolidation:** there is no requirement for elimination of interfund activities from the total column for enterprise funds; however, cities are free to consolidate interfund activity, if desired.
- **Reconciliation to the Government-Wide Statement of Activities:** generally, the amount appearing in the proprietary fund statement of revenues, expenses and changes in fund net assets will equal the amount in the business-type activities column of the government-wide statement of activities. If there are differences, however, a reconciliation should be provided, either on the face of the statement or as an accompanying schedule. Detailed information on the elements of the reconciliation may be provided in the notes to the financial statements.

### **Proprietary Fund Statement of Cash Flows**

---

The statement of cash flows comprises the third basic financial statement for proprietary funds. Here, the focus may be directed at cash *or* cash and cash equivalents. Cash includes:

- Cash on hand,
- Cash on deposit,
- Cash in restricted accounts,
- A position in an investment pool which allows resources to be deposited or withdrawn at any time without notice or penalty.

Cash equivalents are defined as short term, highly liquid investments that are readily convertible to known amounts of cash and mature within three months of the date of acquisition. For example, a six-month U.S. Treasury bill bought within three months of maturity would qualify as a cash equivalent; however, a six-month Treasury bill purchased six months before maturity would not be a cash equivalent, even in its last three months. The determination as to whether an asset is a cash equivalent is made only once, when the asset is first acquired.

Inclusion of cash equivalents is optional, and cities may establish their own definition of cash equivalents, provided the definition is more restrictive than the GAAP definition. However, cities do not have similar discretion to narrow the scope of the definition of cash.

Because the statement of cash flows is concerned with flows of cash and its equivalents, only transactions affecting a city's cash account should typically be reported in the statement. The following transactions would not be reported in the statement of cash flows:

- Receipt of the proceeds of refunding bonds, if the refunded debt qualifies for defeasance and the cash is placed directly in escrow.
- Receipt of bond proceeds related to financing authorities if the proceeds are delivered directly to the intended recipients rather than to the financing authority.
- Commodities and similar noncash items, even though they may be reported as revenues and expenses in the statement of revenues, expenses and changes in fund net assets.
- Rollovers of certificates of deposit.

There are certain exceptions to the rule that only cash and cash equivalents are reported on the statement of cash flows, including:

- Checks and warrants, which are considered cash flows when issued rather than when presented for payment.
- Transactions creating or increasing a negative position in a pooled cash account are considered as borrowing cash and are reported as a cash flow.
- Changes in the fair value of investments subject to fair value reporting and classified as cash equivalents should be recognized as cash flows from investing activities when they occur.

Generally, GAAP require that cash flows be reported gross, rather than net; however, in the following instances, GAAP provide that cash flows may be reported at their net amounts:

- Items with quick turnover, large amounts and short maturities (certain investments, loans receivable and debt), provided the original maturity of the asset or liability is three months or less.
- Governmental enterprises whose assets are (for the most part) highly liquid investments and that have little or no debt outstanding during the period.

Cash flows are classified in one of the four following categories:

- **Cash Flows from Operating Activities:** this includes all cash flows related to transactions and events reported as components of operating income in the statement of revenues, expenses and changes in fund net assets and, additionally, any cash flow that cannot properly be classified in one of the three remaining categories. Cash flows in this category must be reported by major categories of receipts and payments, including (at a minimum): receipts from customers, receipts connected with interfund services, payments to suppliers of goods or services, payments to employees for services, and payments connected with interfund services.

- **Cash Flows from Noncapital Financing Activities:** this includes borrowing and repayments (principal and interest) of debt that is clearly not attributable to capital purposes. For example, borrowings to finance program loans would properly be reported in this category. Similarly, the category is also used to report grant proceeds not specifically restricted to capital purposes, as well as grant payments (both capital and otherwise) to other entities. The category also includes transfers to and from other funds (except when a transfer is received for capital purposes). Finally, tax receipts not attributable to capital purposes also are reported in this category, along with interest paid on noncapital-related vendor payables.
- **Cash Flows from Capital and Related Financing Activities:** this category includes the borrowing and repayment (principal and interest) of debt clearly attributable to capital purposes. This category also is used to report the proceeds of capital grants and contributions, as well as transfers from other funds for capital purposes. Payments related to the acquisition, construction or improvement of capital assets are also reported in this category. Additionally, this category serves to report cash flows resulting from the sale or involuntary conversion of capital assets (e.g. insurance proceeds resulting from the loss of a capital asset). Likewise, cash flows from capital-type special assessments are reported in this category. Interest payments should be reported as interest payments rather than as capital acquisition, even though the payments may be capitalized in the statement of position and not reported as interest expense in the statement of revenues, expenses and changes in fund net assets.
- **Cash Flows from Investing Activities:** this category includes receipt of interest (except on certain program loans), loan collections (except for certain program loans), proceeds from the sale of investments, receipt of interest on customer deposits, and changes in the fair value of investments subject to fair value reporting and classified as cash equivalents. Cash outflows in the investing activities category include loans made to others (except program loans) and the purchase of investments.

The following guidelines should be followed in preparation of the statement of cash flows.

- **Reconciliation:** typically, there are differences between cash flows from operating activities (as reported on the statement of cash flows) and operating income (as reported on the statement of revenues, expenses and changes in fund net assets). In such instances, GAAP require a reconciliation to highlight the differences, presented either on the face of the statement of cash flows or as an accompanying schedule.
- **Noncash Investing, Capital or Financing Transactions:** financial statement readers need information on certain noncash activities that otherwise would fail to be reported either in the statement of revenues, expenses and changes in fund net assets or the statement of cash flows. Specifically, information is needed regarding noncash transactions that meet two criteria: the transaction affects recognized assets or liabilities, and had it involved cash, the transaction would not properly have been classified as cash flows from operating activities. The information may be presented in either narrative or tabular form on a separate schedule accompanying the statement of cash flows. When a single transaction involves both cash and noncash components (e.g. the initiation of a capital lease involving a down payment) this

schedule should clearly describe the cash and noncash aspects of the transaction. A good example of a noncash transaction that would require disclosure on this schedule but that might easily be overlooked: net appreciation/depreciation in the value of investments reported at fair value (but not classified as cash equivalents).

- **Traceability to the Statement of Fund Net Assets:** GAAP provide that total amounts of cash and cash equivalents at the beginning and end of the fiscal year shown in the statement of cash flows should be easily traceable to similarly titled line items or subtotals shown in the statements of financial position as of those dates. Accordingly, one of four approaches must be taken when cash and cash equivalents are included as part of restricted assets:
  - Report the portion of restricted assets that represents cash and cash equivalents as a separate line item on the statement of position.
  - Report the amount of cash and cash equivalents included as part of restricted assets parenthetically on the statement of position.
  - Report the amount of cash and cash equivalents included as part of restricted assets parenthetically on the statement of cash flows.
  - Provide a reconciliation on the face of the statement of cash flows.

## **Fiduciary Fund Financial Statements**

---

GAAP prescribe up to two basic financial statements for fiduciary funds:

- The statement of fiduciary net assets (required for all fiduciary funds), and
- The statement of changes in fiduciary net assets (required for all fiduciary funds except agency funds).

## **Statement of Fiduciary Net Assets**

---

The statement of fiduciary net assets is the basic statement of position for fiduciary funds. Unlike the government-wide and proprietary statements of position, there is no option of substituting a balance sheet format.

The following guidelines should be followed in preparing the statement of fiduciary net assets.

- **Presentation of Assets and Liabilities:** assets should be subdivided into major categories (such as cash and cash equivalents, receivables, investments, and assets used in operations). In the case of pension (and other employee benefit) trust funds, the principal subdivisions of receivables and investments also should be reported. GAAP do not specify the appropriate order for listing assets and liabilities, although the relative order of liquidity is most commonly used. The statement should include only accounting liabilities—no liabilities should be reported for unfunded actuarial accrued liability of pension trust funds.

- **Presentation of Net Assets:** GAAP prescribe that net assets be reported in three categories on both the government-wide and proprietary fund statements of position: invested in capital assets, net of related debt; restricted; and unrestricted. This requirement does not apply to the fiduciary fund statement of position. Instead, net assets should be reported as “assets held in trust for pension benefits (if a pension trust fund is reported), pool participants (if an investment trust fund is reported) and other purposes (if a private-purpose trust fund is reported).” However, there should be no net assets associated with agency funds, because all assets must be offset by a corresponding liability.
- **Reporting by Fund Type:** GAAP provide that governmental and enterprise fund financial reporting focuses on major funds; however, fiduciary funds are never reported as major funds. The statement of fiduciary net assets reports fiduciary funds aggregated according to fund type (pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds), with each type reported in a separate column.

### **Statement of Changes in Fiduciary Net Assets**

---

The statement of changes in fiduciary net assets is the basic statement of activities for fiduciary funds. The statement is unique in that all changes in net assets are classified as either additions or deductions. The difference between additions and deductions is then reported as the net increase (or decrease) in fiduciary net assets. In the case of pension trust funds, GAAP prescribe that contributions be reported separately by source (e.g. contributions from employers, contributions from plan members, and contributions from other sources). Likewise, the following components of net investment income should be reported within the additions category for both pension and investment trust funds:

- Net appreciation (depreciation) in the fair value of investments;
- Interest income, dividend income, and other income not included as part of the net appreciation (depreciation) in the fair value of investments. For this purpose, interest income would be based exclusively on the stated rate of interest; and
- Total investment expense (such as investment management fees, custodial fees, and all other significant investment-related costs).

GAAP specifically allow governments to report the first two components as a single amount.

The deductions section of the statement of changes in fiduciary net assets should include all items that reduce fiduciary net assets except for investment-related expenses, which are properly reported as a reduction in the additions category, rather than as a deduction in their own right. Deductions of pension trust funds would include: benefit payments, refunds, and administrative costs. Examples of deductions for investment pools could include dividends to shareholders, shares redeemed, and administrative costs. As with the statement of fiduciary net assets, the statement of changes in fiduciary net assets reports information separately by fund type, rather than by major fund. Agency funds are excluded altogether from this presentation because they do not report net assets.

## Notes to the Financial Statements

---

The CAFR includes various disclosures found in the notes to the financial statements that cover significant accounting policies, detailed notes on all funds, long-term debt, related party transactions, and summary disclosure of significant contingencies, among others.

The following areas should be covered in the disclosure of significant accounting policies:

- A description of the types of activities reported in major funds, fiduciary funds and internal service funds.
- A disclosure of the length of time used in the definition of “available” for the purpose of revenue recognition in the governmental fund statements.
- Details about short-term debt activity during the year, even if no short-term debt is outstanding at the end of the year.
- The city’s policy for first applying restricted or unrestricted resources when an expense is incurred and when restricted and unrestricted net assets are available.
- A description of the government-wide financial statements, noting that neither fiduciary funds nor component units that are fiduciary in nature are included.
- A brief description of component units and their relationship to the city. This information should include a description of the component units’ statement of net assets and statement of activities.
- A description of the city’s business-type activities, if any.
- The measurement focus and basis of accounting used in the government-wide statements.
- The city’s policy for eliminating internal activity in the statement of activities.
- The city’s policy for capitalizing assets and estimating useful lives of capital assets.
- The city’s policy for reporting eligible infrastructure assets under the modified approach, if used.
- A description of transactions included in program revenues.
- A definition of cash and cash equivalents used in the statement of cash flows.
- The city’s definition of operating and non-operating revenues for proprietary funds.

Other appropriate notes to the financial statements include:

- Cash deposits with financial institution investments.
- Significant contingent liabilities.
- Encumbrances outstanding.
- Significant effects of subsequent events.
- Annual pension cost and net pension obligations.
- A disclosure of any actions taken to address significant violations of finance-related legal or contractual provisions.
- Debt service requirement to maturity.
- Construction and other significant commitments.
- Deficit fund balance or net assets of individual funds;
- An explanation of interfund balances. For example, amounts due from individual major funds or nonmajor governmental funds in the aggregate. The purpose for the interfund balance needs to be explained, along with details of any interfund balance not expected to be paid within one year from the date of the financial statements.
- Details about interfund transfers should be given, along with the principal purposes for the transfers. The intended purpose and amount of the transfer should be reported if it does not occur on a routine basis or is inconsistent with the activities of the fund making the transfer.
- Long-term city liabilities reported in the statement of net assets. The information disclosed should be divided into major classes of capital assets and long-term liabilities as well as between those associated with governmental activities and those associated with business-type activities.
- Capital assets and long-term liabilities of component units.
- Segment information—the type of goods or services provided by the segment, a condensed statement of net assets, a condensed statement of revenues, expenses and changes in net assets and a condensed statement of cash flows should be included.<sup>7</sup>

---

<sup>7</sup> “Segment” is defined as an identifiable activity (or group of activities) required to be accounted for separately which is reported as or within an enterprise fund or another stand-alone entity for which one or more revenue bonds or other revenue-backed debt instruments (such as certificates of participation) are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds or other revenue-backed debt and has related expenses, gains and losses, assets and liabilities that can be identified.

- Significant transactions between discretely presented component units.
- City risk management activities.
- Property taxes.
- Condensed financial statements for major discretely presented component units.
- Budget basis of accounting and budget/GAAP reporting differences not otherwise reconciled in the financial statements.
- Short-term debt instruments and liquidity.
- Related party transactions.<sup>8</sup>
- The nature of the city's accountability for related organizations.
- Capital leases.
- Joint ventures and jointly governed organizations.
- Debt refundings.
- Grants, entitlements and shared revenues.
- Methods for estimating fixed asset costs.
- Fund balance designations.
- Interfund eliminations in the fund financial statements that are not apparent from the headings.
- Receivables and payables, usually aggregated in the financial statements, should be separated and explained, such as those due from other governments, vendors, customers, beneficiaries and employees. Also, any receivable balances not expected to be collected within one year should be disclosed.
- Pension plans in both separately issued plan financial statements and employer statements.
- Bond, tax or revenue anticipation notes excluded from fund or current liabilities (proprietary funds).

---

<sup>8</sup> Defined as a transaction that an informed observer might reasonably believe reflects considerations other than economic self-interest based upon the relationship that exists between the parties to the transaction. The term is often used in contrast to an "arm's length transaction."

- In component unit separate reports, identification of the primary government and a description of the component unit's relationship to the city.
- Reverse repurchase and dollar reverse repurchase agreements.
- Securities lending transactions.
- Special assessment debt and related activities.
- Demand bonds.
- Post-employment benefits and other pension benefits.
- Landfill closure and postclosure care.
- On-behalf payments for fringe benefits and salaries.
- City involvement with conduit debt obligations.
- Sponsoring government disclosures about external investment pools reported as investment trust funds.
- The amount of interest expense included in direct expenses.
- Donor-restricted endowments.
- Other notes deemed necessary.

### **Required Supplementary Information**

---

RSI includes the following elements:

- Budgetary comparisons for the general fund and major individual special revenue funds (if not presented elsewhere as a basic governmental fund financial statement),
- Infrastructure condition and maintenance data (for cities using the modified approach for infrastructure reporting), and
- Pension trend data.

Each of these items is discussed in greater detail below.

- **Budgetary Comparisons:** this information provides budget to actual comparisons for the general fund and major individual special revenue funds for both the original and final amended appropriations ordinance. There are two alternative methods of presenting this information: the first is to mirror the appropriations ordinance in the budgetary comparison schedule, and the second is to use the same format as the governmental fund operating statement (which requires presentation of a reconciliation whenever the budgetary basis of accounting and GAAP differ; the reconciliation may be presented as a separate accompanying schedule or in the notes to RSI).
- **Infrastructure Condition and Maintenance Data:** under the new financial reporting model, there are two alternatives for infrastructure reporting: cities may choose to treat infrastructure as other capital assets, by capitalizing these assets at historical cost and subsequently depreciating them over their useful life, or cities may avoid depreciation reporting when the following requirements are met:

The city must have an up-to-date inventory of infrastructure assets within the network or subsystem for which the modified approach is adopted.

- The city must perform or obtain condition assessments on infrastructure assets and summarize the results using a measurement scale. This required condition assessment must be performed at least once every three years. The condition assessments must be conducted using methods that would allow different individuals to reach substantially similar results.
- Each year, the city must estimate the amount needed to maintain and preserve infrastructure assets at a condition level established and disclosed by the city.
- The city must document that infrastructure assets are being preserved at or above the condition level established and disclosed by the city.

Cities choosing to adopt the modified approach for one or more networks or subsystems of infrastructure assets are required to present two types of information:

- The city must present the results of the three most recently completed condition assessments to demonstrate that those assets have, in fact, been maintained at or above the condition level established by the city.
- The city must also disclose its estimate of the amount needed to maintain infrastructure assets at the level established and actual expenditures for each during the past five reporting periods. These schedules should be accompanied by the following disclosures as notes to RSI:
  - ✓ The basis for the condition measurement and the measurement scale used to assess and report condition.
  - ✓ The condition level at which the city intends to preserve its infrastructure assets.

- ✓ Factors that significantly affect the information reported in the required schedules.
  - ✓ If there is a change in the condition level at which the city intends to maintain eligible infrastructure assets, an estimate of the effect of the change on the estimated annual amount to maintain and preserve those assets (for the current period only).
- **Pension Trend Data:** two schedules of actuarial trend information typically must be presented in connection with defined benefit pension plans: a schedule of funding progress and a schedule of employer contributions.
- **Schedule of Funding Progress:** this schedule is designed to show how successful the pension plan has been in setting aside assets sufficient to cover its actuarial accrued liability, which is calculated for this purpose by using the pension plan's funding method (assuming it is consistent with the funding parameters established by GAAP). No schedule is presented when a pension plan uses the aggregate actuarial cost method, because this method does not identify or separately amortize unfunded actuarial liability.
  - **Schedule of Employer Contributions:** this schedule is designed to show the extent to which the employer has actually funded their actuarially determined ARC over time.

### **Combining and Individual Fund Presentations and Supplementary Information**

Because the basic financial statements include detailed information only on major individual governmental and enterprise funds and component units, the purpose of the combining and individual fund presentations is to provide a level of detail necessary for nonmajor governmental and enterprise funds, internal service funds, fiduciary funds and nonmajor discretely presented component units.

A CAFR should include a combining statement to support each column in the basic financial statements that aggregates data from more than one fund or discretely presented component unit. Combining statements are unique in that they aggregate information from individual funds of differing types into a single financial statement. A city may include up to eight sets of combining statements in their CAFR:

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

Combining statements are not required in situations where there is only one fund in any of these categories.

By definition, information on each individual fund and component unit must be provided in either the basic financial statements or the combining financial statements. There is no reason to include individual fund presentations unless they provide information not otherwise available in the basic financial statements and combining financial statements. Examples where individual fund presentations are necessary include:

- **Budgetary Comparisons Not Required in Connection with the Basic Financial Statements:** budgetary comparisons must be presented in connection with the basic financial statements for the general fund and any major special revenue funds. For cities preparing CAFRs, budgetary comparisons are also required for any other individual governmental funds for which annual appropriations have been enacted (including nonmajor special revenue funds, capital projects funds, debt service funds, and permanent funds).
- **Detailed Budgetary Comparisons for the General Fund and Major Special Revenue Funds:** budgetary comparisons for the general fund and major special revenue funds need only present a functional level of detail, which may be inadequate to demonstrate legal compliance. Cities preparing CAFRs are required to present at a sufficient level of detail to demonstrate legal compliance. Thus, additional individual fund financial presentations may be required in the financial section of the CAFR to demonstrate legal compliance for the general fund and major special revenue funds whenever the budgetary comparisons associated with the basic financial statements are inadequate for this purpose.
- **Comparative Data:** cities may wish to provide comparative data from the prior fiscal year for certain funds (particularly enterprise funds). Accordingly, individual fund presentations in the financial section of the CAFR are often used for this purpose.
- **Greater Detail:** individual fund presentations are a means of providing additional detail that may be desired by local officials.

## Statistical Section

---

The final section of the CAFR is the statistical section, which provides trend data and nonfinancial information useful for evaluating the city's financial condition. Although this section is not included within the scope of the independent audit, financial statement users find this section to be essential in assessing the creditworthiness of the government. GAAP prescribe 15 standard statistical tables that should be included in this section if they are relevant to a city's circumstances, including:

- **General Governmental Expenditures by Function Over the Last 10 Fiscal Years:** "general government" may be defined as the general fund, all governmental funds or any combination of governmental funds (the funds included should be noted in the table). If a city elects to include transfers to other funds along with expenditures on this table, the title should reflect that the table includes expenditures and transfers. A total column is recommended, and cities may wish to indicate the percentage of total expenditures represented by each type of functional expenditure.

- **General Governmental Revenues by Source Over the Last 10 Fiscal Years:** “general government” for the purposes of this table should mirror the definition for the general governmental expenditures table described above. If transfers from other funds are included along with revenues, this should be indicated in the title of the table. As with the preceding table, a total column is recommended and cities may wish to indicate the percentage of total revenues represented by each revenue source.
- **Property Tax Levies and Collections Over the Last 10 Fiscal Years:** this table presents the annual property tax levy and collections of each year’s levy, both as a dollar amount and percentage of the year’s levy. Delinquent tax collections are also presented and added to current collections to calculate the city’s total property tax collections for the fiscal year (expressed as both a dollar amount and percentage of the year’s levy). The balance of delinquent property taxes reported in this table should equal that reported on the statement of position.
- **Assessed Value of Taxable Property Over the Last 10 Fiscal Years:** this table reports the assessed market value of property within the city. It is recommended that property exempt from taxation (such as churches) be reported as a separate column, and total assessed value of taxable property should be expressed as a percentage of total actual property value within the city.
- **Property Tax Rates All Overlapping Governments Over the Last 10 Fiscal Years:** this table reports tax rates for all local governments (excluding the city) that levy property taxes within the city. The title of the table should indicate whether the rate is per \$100 or per \$1,000 of assessed value. If part of a local government’s levy is raised for specific purposes (such as debt service), these amounts may be reported separately. If there are numerous local governments, information from smaller governments may be aggregated into a single column. The city may also include its own property tax rates alongside those of overlapping local governments to provide a clearer perspective of the overall property tax burden.
- **Principal Taxpayers:** this table should include the 10 largest property taxpayers, with the assessed and actual value of their property. The city may also wish to express each major taxpayer’s assessed valuation as a percentage of the city’s assessed valuation.
- **Special Assessment Billings and Collections Over the Last 10 Fiscal Years:** a city should present this information for any debt for which the city is obligated in some manner. Additional detail may be provided by distinguishing collections related to current billings from delinquent collections and prepayments.
- **Computation of Legal Debt Margin:** legal debt margin is calculated by determining the city’s legal debt limit and subtracting debt outstanding at the end of the fiscal year. Idaho cities are limited to general obligation debt of no more than 2 percent of assessed market value (the limitation does not apply to bonds issued to acquire, enlarge, extend, repair or improve water, sewer, power facilities or storm sewers).

- **Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita Over the Last 10 Fiscal Years:** this table begins by reconciling total general obligation bonded debt with net general obligation bonded debt, by deducting general obligation debt being repaid with other than general resources (such as general obligation debt associated with proprietary funds or special assessment debt), as well as amounts available in sinking funds for debt repayment. This net amount of general obligation bonded debt is then expressed as a percentage of the total assessed value of taxable property and on a per capita basis.
- **Ratio of Annual General Obligation Debt Service to Total General Government Expenditures Over the Last 10 Fiscal Years:** this table reports principal and interest payments over the last 10 fiscal years for general obligation debt (debt supported by property taxes). Thus, it excludes debt reported in proprietary funds (even if general obligation debt), as well as debt supported by special assessments (such as local improvement districts). As with the first two tables, general government may be defined as the general fund, all governmental funds or any combination of governmental funds, as deemed appropriate by the city. Annual general obligation debt service should be expressed as a percentage of general government expenditures.
- **Computation of Overlapping Debt:** overlapping debt is from local government entities other than the city, supported (at least in part) by city taxpayers. This table may report overlapping debt on either a gross or net basis (net excludes debt financed by special assessments or proprietary funds). When a city's taxpayers are only partially responsible for certain debt, both the full amount of the debt and the portion attributable to city taxpayers are reported. For example, a county has \$1 million in general obligation debt and one of several cities within the county (accounting for 10 percent of the county's tax base) is preparing its CAFR. The table would report the \$1 million in total overlapping debt and multiply that number by 10 percent to determine the portion of the debt attributable to city taxpayers. Cities may, at their option, report the entire debt burden on their taxpayers, including the city's debt and that of other local jurisdictions.
- **Revenue Bond Coverage Over the Last 10 Fiscal Years:** revenue bond covenants often require that the city set rates or charges to maintain income at a predetermined multiple of debt service, known as the bonds' "coverage." Generally, a separate calculation should be reported for each individual debt issue subject to coverage requirements; however, if the same resources may be used for debt service for more than one revenue bond issue, then the coverage for these related issues may be combined in a single presentation.
- **Demographic Statistics:** there is no fixed content or format for demographic information included in the statistical section. Each city must determine the data that will provide readers with a thorough understanding of the city's financial condition. Typical examples of demographic information include: population, per capita income, median age of the population, years of formal schooling, school enrollment, and unemployment rates. County-level data may be presented if city-level data is unavailable, and this should be noted in a brief explanation.

- **Property Value, Construction and Bank Deposits Over the Last 10 Fiscal Years:** this table provides information on the estimated taxable market value of property within the city and information on construction, such as the number of building permits issued and estimated value of new construction. The table also reports amounts on deposit with financial institutions within the city.
- **Miscellaneous Statistics:** cities may use this table to present any additional information deemed useful in helping financial statement readers to assess its financial condition. Often, this section is used to present data on facilities and services provided.
- **Fund Balance Trends (Optional):** cities may wish to provide a table of fund balance, specifying reserved and unreserved, and designated and undesignated fund balance.

Cities may include any additional information they consider appropriate. The most important consideration is comparability of data: to get useful trend information, data must be comparable to previous years. Statistical tables should disclose any factors that impair the comparability of data (generally stated in a footnote at the bottom of the table). Each table should indicate the source of the data.

## **Conversion of Governmental Fund Data for Government-Wide Financial Reporting**

---

Government-wide financial reporting involves more than merely aggregating the balances of individual funds—it is a more extensive process involving conversion of governmental fund data from the current financial resources measurement focus and modified accrual basis of accounting to the economic resources measurement focus and full accrual basis of accounting. There are two key differences between governmental funds (as reported on the governmental fund balance sheet) and governmental activities (as reported in the government-wide statement of activities):

- Governmental funds report only assets and liabilities considered relevant to flows and balances of current financial resources, while the government-wide statement of net assets must report all assets and liabilities associated with governmental activities (with the single exception of liability for earned but deferred revenues), regardless of whether they are relevant to flows and balances of current financial resources.
- Internal service funds are correctly classified as proprietary funds; however, assets and liabilities of internal service funds must be included as part of governmental activities for the purposes of government-wide financial reporting whenever their primary function is to serve governmental funds.

The conversion process from governmental funds to governmental activities is shown in the chart below.

The basic fund financial statements should provide information needed on earned but unavailable deferred revenue. Likewise, the proprietary fund combining and individual fund financial statements should provide all necessary information regarding the assets and liabilities of individual internal service funds. However, fund financial reports do not provide the additional information required for conversion, including capital assets, debt issuance costs, inventories, prepaids, long-term debt, accrued interest, compensated absences, claims and judgments, special termination benefits, landfill closure and postclosure care costs, operating leases with scheduled rent increases and the city's net pension obligation as an employer. Thus, the city should establish and maintain special accounts for these items. Under accrual accounting, most of these asset and liability accounts must be adjusted each year to reflect the effect of the annual accrual adjustments to the trial balance.

- The carrying value of most capital assets must be adjusted for depreciation (accumulated depreciation).
- The deferred charge for issuance costs must be adjusted for amortization.
- Prepaid items must be adjusted for amortization.
- Inventories must be adjusted for consumption.
- Premiums and discounts related to debt, as well as the difference between the carrying value of refunded debt and the reacquisition cost of refunded debt, which must be adjusted for amortization.
- A liability must be accrued for interest outstanding at the end of the period.
- Liabilities at the end of the period for compensated absences, claims and judgments, special termination benefits, landfill closure and postclosure care costs, operating leases with scheduled rent increases, and the city's net pension obligation as an employer must be adjusted to their current balance.

All of these accrual adjustments to asset and liability accounts will be reflected in the accrual-based government-wide statement of activities.

Particular attention must be paid to changes in assets and liabilities resulting from nonfinancial transactions, which often are not reflected in the governmental fund operating statement (such as the donation of a capital asset to the city).

## Conversion from the Governmental Fund Balance Sheet to the Government-Wide Statement of Net Assets

				<i>Adjustments to reconcile fund balance -- governmental funds and net assets -- governmental activities</i>
Assets and liabilities	Reported in governmental fund financial statements?	Reported in government-wide financial statements?	Action required	Start: Fund balance
Capital assets of the general govt. (e.g. land, buildings and improvements, equipment, infrastructure, intangibles)	No	Yes	Report capital assets net of accumulated depreciation/amortization	<b>Add:</b> Carrying value of capital assets
Deferred charges for issuance costs	No	Yes	Report unamortized balance of deferred charge for issuance costs	<b>Add:</b> Unamortized balance of deferred charge for issuance costs
Inventories and prepaids	No (inventories and prepaids are reported in the govt. fund balance sheet if the consumption method is used. Likewise, material balances of inventories accounted for using the purchases method must also be reported on the govt. fund balance sheet)		Report inventories outstanding and unamortized portion of prepaid items	<b>Add:</b> Inventories outstanding and unamortized portion of prepaid items
Unmatured long-term debt (e.g. bonds, notes, capital lease obligations, certificates of participation) net of unamortized premiums, discounts, and similar items	No (the unamatured principal of debt may be reported as a debt service fund liability if amounts are transferred to that fund during the current fiscal year for payments due early in the subsequent fiscal year)		Report unamatured long-term debt net of unamortized premiums, discounts, similar items	<b>Less:</b> Net unamatured long-term debt
Accrued interest	No (accrued interest may be reported as a debt service fund liability if amounts are transferred to that fund during the current fiscal year for payments due early in the subsequent year)		Report liability for accrued interest payable	<b>Less:</b> Accrued interest payable
Certain accrued obligations not normally expected to be liquidated with expendable available financial resources unless they are due for payment in the current period (i.e., claims and judgments, compensated absences, special termination benefits, landfill closure and postclosure care costs, operating leases with scheduled rent increases, and a govt.'s net pension obligation as an employer)	No	Yes	Report accrued liabilities outstanding	<b>Less:</b> Certain accrued liabilities not reported in govt. funds
Assets of internal service funds that primarily serve governmental funds	No	Yes	Report assets of internal service funds	<b>Add:</b> Assets of internal service funds qualifying as govt. activities
Liabilities of internal service funds that primarily serve governmental funds	No	Yes	Report liabilities of internal service funds	<b>Less:</b> Liabilities of internal service funds qualifying as govt. activities
Liability for earned but deferred revenue	Yes	No	Remove liability	<b>Add:</b> Earned but deferred revenue
Liability for unearned deferred revenue	Yes	Yes	No change required	No effect
				<b>End: Net assets -- governmental activities</b>

There are five key differences between governmental funds, as reported in the governmental fund operating statement and governmental activities, as reported in the government-wide statement of activities:

- **Changes in Net Current Financial Resources Versus Changes in Net Assets:** under accrual accounting, only transactions that affect net assets are reported in the statement of activities. The governmental fund operating statement, consistent with its focus on current financial resources, reports a number of transactions that have an impact on net current financial resources but that do not affect total net assets (such as capital outlays, debt service principal payments, and long-term debt issuance).
- **Treatment of Sales of Capital Assets:** governmental funds do not report capital assets; therefore, the proceeds from the sale of a capital asset are not offset in part by the removal of the related asset from the statement of position. As a result, the proceeds from the sale of a capital asset are reflected in their entirety in the governmental fund operating statement. Government-wide financial statements, which do report capital assets, reflect only the gain or loss on the sale of a capital asset.
- **Treatment of Sales of Fund Assets:** governmental funds do not report gains or losses, as such. Instead, the difference between the carrying value of a fund asset and the proceeds from its sale are reported as either a revenue or an expenditure (or reduction of revenue). The government-wide statement of activities reclassifies such items as gains or losses.
- **Timing of Revenue and Expense/Expenditure Recognition:** often, a transaction or event occurs in one period, but its financial impact is felt only in a subsequent period (e.g. unavailable revenues and certain accrued liabilities). The government-wide financial statements report the transaction or event in the year it occurs, while the governmental fund financial statements typically defer recognition of the transaction or event until the period in which its financial impact is first felt.
- **Incorporation of Internal Service Fund Activities:** internal service fund activities serving governmental funds are included as part of governmental activities in government-wide financial statements, even though they are properly classified as proprietary funds in the fund financial statements.

Thus, it is necessary to convert from governmental funds to governmental activities as reported in the government-wide statement of activities (see the chart below).

Again, it is important to remember transactions not involving financial resources, such as donations of capital assets.

There are four types of interactions between funds of the primary government, which must be consolidated in preparation of the government-wide statement of net assets. These four types of interactions include:

- **Interfund Loans:** one fund loans money to another fund;

- **Interfund Services Provided and Used:** one fund furnishes goods or services to another fund for a charge;
- **Interfund Transfers:** one fund may furnish resources to another fund without expectation of repayment; and
- **Interfund Reimbursements:** one fund may reimburse another fund for costs incurred on its behalf.

Interfund receivables and payables may arise in connection with any of the four types of interfund activity. Consolidation of these transactions for the government-wide statement of net assets is a two-step process. The first step is to eliminate interfund receivables and payables within the respective governmental and business-type activities columns. These intra-activity eliminations may be shown on a separate column on the governmental fund balance sheet and proprietary fund statement of net assets. Because governmental activities and business-type activities are reported separately on the government-wide statement of net assets, so too are interfund payables and receivables between governmental and enterprise funds. However, these remaining interfund balances must be eliminated from the total column presented for the primary government.

### Conversion from the Governmental Fund Operating Statement to the Government-Wide Statement of Activities

				<i>Adjustments to reconcile net change in fund balances--governmental funds and change in net assets-- governmental activities</i>
Transaction/Event	Reported in Governmental Fund Financial Statements?	Reported in Government-Wide Financial Statements?	Action Required	<i>Start: Net change in fund balance -- governmental funds</i>
Capital outlays	Yes	No	Remove capitalizable expenditures incurred for the acquisition or construction of capital assets	<b>Add:</b> Capitalizable expenditures incurred for the acquisition or construction of capital assets
Debt service principal payments and refunding payments	Yes	No	Remove expenditures and other financing uses incurred for debt service principal payments and refunding payments	<b>Add:</b> Expenditures and other financing uses incurred for debt service principal payments and refunding payments.
Other financing sources, uses, and expenditures resulting from debt issuance	Yes	No	Remove other financing sources, uses and expenditures resulting from debt issuance	<b>Less:</b> Other financing sources for debt and related premiums <hr/> <b>Add:</b> Other financing uses for discounts <hr/> <b>Add:</b> Expenditures for issuance costs <hr/> <b>Add:</b> Excess of reacquisition cost of refunded debt over carrying value of refunded debt <hr/> <b>Less:</b> Excess of carrying value of refunded debt over reacquisition cost of refunded debt

Donations of capital assets	No	Yes	Record donations of capital assets	<b>Add:</b> Donations of capital assets
Sales of capital assets	Yes, in the amount of the proceeds of the sale	Yes, but only in the amount of the gain or loss on the sale	Replace amount of proceeds by gain or loss on transaction	<b>Less:</b> Sale proceeds <i>less</i> gain  <b>Less:</b> Sale proceeds <i>plus</i> loss
Sales of fund assets	Yes, but reported as revenues or expenditures (or reduction of revenue)	Yes, but reported as gains or losses	Reclassify revenues and expenditures (or reduction of revenue) related to fund asset sales as gains or losses	<b>No effect</b>
Revenues and expenditures related to prior periods	Yes	No	Remove revenues and expenditures related to prior periods	<b>Less:</b> Revenues related to prior periods  <b>Add:</b> Expenditures related to prior periods
Revenues earned during the period but not yet available	No	Yes	Record revenue earned during the period but not yet available	<b>Add:</b> Revenue earned during the period but not yet available
Expenses incurred during the period, but not normally expected to be liquidated with expendable available financial resources (unless they are due for payment in the current period)	No	Yes	Record expenses incurred during the period related to liabilities that are still outstanding at year-end that are not normally expected to be liquidated with expendable available financial resources unless they are due for payment in the current period	<b>Less:</b> Expenses incurred during the period related to liabilities that are still outstanding and not yet due at year-end for: accrued interest, compensated absences, claims and judgments, special termination benefits, landfill closure and postclosure care costs, operating leases with scheduled rent increases, and net pension obligation
Depreciation	No	Yes	Record depreciation expense	<b>Less:</b> Depreciation expense
Amortization of issuance costs, premiums, discounts and similar items	No	Yes	Adjust revenues and expenses for amortizations	<b>Less:</b> Amortization of issuance costs and discounts (and net refunding difference if a debit)  <b>Add:</b> Amortization of premiums (and net refunding difference if a credit)
Consumption of inventories and amortization of prepaids	No (this treatment does not apply to govts. using the consumption method to account for inventories and prepaids reported in govt.funds)	Yes	Record expense for inventories consumed during the period and for amortization of prepaids	<b>Less:</b> Inventories consumed during the period and amortization of prepaids
Activities of internal service funds properly included within govt. activities	No	Yes	Record internal service fund revenues and expenses not subject to consolidation	<b>Add:</b> Net profit (after look-back consolidation)  <b>Less:</b> Net loss (after look-back consolidation)
				<b>End: Change in net assets-- governmental activities</b>

While all four types of interfund activity affect the statement of position, all of them do not affect amounts reported in the various statements of activities:

- **Interfund Loans:** except for interest (if any), interfund loans affect only the statement of position. Therefore, interfund loans need not be considered in preparing a consolidated government-wide statement of activities.
- **Interfund Services Provided and Used:** these increase total amounts of revenues and expenditures reported in the various funds, thereby creating a certain degree of redundancy. However, a stated objective of the government-wide statement of activities is to provide information on the net cost of each government function. Revenues and expenses related to interfund services provided and used between functions constitute an essential component of any such cost calculation. Therefore, GAAP specifically direct that revenues and expenditures arising in connection with interfund services provided and used between functions should not be eliminated in the process of preparing a consolidated government-wide statement of activities.
- **Interfund Reimbursements:** Perhaps the most common example of an interfund reimbursement is allocation of overhead costs among funds. From a GAAP financial reporting perspective, interfund reimbursements should be treated as the allocation of expenditures from one fund to another with no net effect on the total amount of expenditure reported, thereby avoiding the need for consolidation. For internal bookkeeping and budgetary purposes, however, many governments account for interfund reimbursements in much the same way they do for interfund services provided and used (as a revenue and expenditure). In that case, GAAP require that related interfund revenues and expenditures be eliminated from the government-wide financial statements and the fund financial statements.
- **Interfund Transfers:** These should be consolidated using a two-step process. First, interfund transfers among funds reported within the governmental or business-type activities column should be eliminated from that column in the government-wide statement of activities. There is the option of presenting a separate column for this purpose in the governmental fund operating statement and proprietary fund statement of revenues, expenses, and changes in net assets. Second, all interfund transfers should be eliminated from the consolidated total column presented for the primary government on the government-wide statement of activities.

Internal service funds inherently create redundancy because their expenses are reported a second time as expenditures in the funds that are billed for the goods or services they provide. Thus, the operations of internal service funds must be consolidated. The primary assumption underlying the consolidation of internal service fund activities is that these funds should operate on a breakeven basis. Accordingly, any net profit or loss of an internal service operation is allocated to the functions receiving the goods or services on the basis of their proportionate benefit. This is called the “look-back” approach. However, revenues and expenditures associated with services provided to entities outside the city should not be included as part of the allocation of net profit/loss under the look-back approach. Rather, these should be reported as revenues and expenditures of the governmental activities. Because interest expense is not assigned to

individual functions in the government-wide statement of activities, it is important to eliminate interest expenses in calculating the net profit/loss to be used in applying the look-back approach. Also, because interest income (unlike charges to various functions for goods/services rendered) is not a form of duplication, interest income must be accounted for as revenue for governmental activities.

## **Capital Assets and Infrastructure Reporting**

---

Some of the most significant changes implemented by GASB 34 involve the strengthening of capital asset and infrastructure reporting in the government-wide statement of net assets and statement of activities.

Capital assets include:

- Land and improvements,
- Buildings and improvements,
- Easements,
- Vehicles,
- Machinery,
- Equipment,
- Works of art and historical treasures,
- Infrastructure, and
- All other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

Infrastructure assets are defined as long-lived capital assets that normally can be preserved for a significantly greater number of years than most capital assets and are normally stationary in nature, including:

- Streets and roads,
- Bridges,
- Tunnels,
- Drainage systems, and
- Water and wastewater systems.

Infrastructure assets do not include buildings, drives, parking lots or any other asset that is incidental to property or access to property.

GASB 34 does not give a complete definition of a “capital asset.” The definition merely serves as a starting point for cities to establish their own definition based on the following criteria:

- **Estimated Useful Life:** An asset must have an estimated useful life greater than one fiscal year to be considered for capitalization and depreciation. Estimated useful life means the number of months or years that an asset will be able to be used for the purpose for which it was purchased. In determining the useful life of an asset, cities should consider its present condition, the use of the asset, construction type, maintenance policies and how long it is expected to meet service demands. Assets that are consumed, used up, habitually lost or worn out within a year should not be capitalized.
- **Asset Cost:** cities do not need to capitalize every asset with a useful life greater than one year, for this would be an unnecessary burden and would not materially affect financial reporting. Therefore, cities should establish a dollar threshold as the basis for considering an asset for capitalization. Setting the capitalization threshold requires considerable care and expertise: if the threshold is set too low, record keeping becomes too time consuming and expensive and if the threshold is set too high, there is an increased possibility of a material misstatement of the city's financial condition.
- **Associated Debt:** cities should carefully consider the merits of capitalizing assets purchased with debt proceeds. Doing so may minimize the potential of negative net assets being reported in the statement of net assets.
- **Exceptions:** the capitalization policy should address any exceptions, including:
  - Unique items that are tracked and inventoried regardless of cost (e.g. police firearms, electronic equipment, etc.)
  - Groups or classes of assets where the individual assets do not exceed the capitalization threshold, but when all assets of the group are taken into consideration, they exceed the capitalization limit (e.g. library books). These types of assets should be capitalized and depreciated.

Cities should ensure that there are accurate, complete and up-to-date records of capital assets. Each city should have such an inventory beginning in 1980, when NCGA Statement 1 created the General Fixed Asset Account Group. Each inventory record should include:

- A description of the asset,
- The year of acquisition,
- The method of acquisition (purchase, donation, etc.),
- Funding source,
- Purchase cost,
- Salvage value, and
- Estimated useful life.

It is important to ensure that capital asset inventory records are complete, because the information is necessary for calculating depreciation, in addition to ensuring compliance with the city's system of internal controls.

Appropriate capitalization and depreciation depends on the characteristics of the specific asset.

➤ **Infrastructure:** GASB 34 requires cities to:

- Capitalize infrastructure assets constructed or acquired subsequent to the implementation of the new reporting model, as well as cost of any major improvements incurred from that time forward (prospective infrastructure reporting); and
- Retroactively report existing infrastructure assets constructed, acquired or donated since 1980.

Mandatory retroactive reporting is limited to *major networks and subsystems*. GASB 34 defines a network of infrastructure assets as all assets providing a particular type of service—for example, all streets—and a subsystem as all assets making up a similar portion of a network of assets—for example, all arterials. A network is considered major if its costs are expected to be at least 10 percent of the city’s general capital assets in its first fiscal year after June 15, 1999. A subsystem is considered major if its costs are expected to be at least 5 percent of the total cost of all the city’s capital assets reported in the first fiscal year after June 15, 1999.

GASB 34 requires cities to value infrastructure either through depreciation or by reporting on the cost and consequences of preservation through a “modified approach”—an alternative to depreciation for eligible infrastructure assets. The rationale is that cities that preserve their infrastructure should not have to depreciate these assets.

Cities choosing to depreciate their infrastructure must document infrastructure assets at their historical cost, less any accumulated depreciation, by allocating the net cost of depreciable assets over the infrastructure’s estimated useful life in a systematic and rational manner. They must also document initial capitalization as well as accumulated depreciation at the date of implementation.

Cities may use the modified approach as an alternative to depreciation for infrastructure assets meeting certain criteria. The assets must be managed using a qualifying asset management system with an up-to-date inventory of all eligible infrastructure assets. The system must perform condition assessments of the assets and summarize the results using a measurement scale. The system must also be able to estimate the annual amount necessary to maintain the assets at the condition level established and disclosed by the city, and the city must document that the assets are preserved at or above this level.

Cities choosing the modified approach must document that their infrastructure assets are maintained at or above the established condition level for the current year and the two preceding years. The city must also report maintenance and preservation expenditures assessed during the year as incurred. Only costs of construction that increase the efficiency or capacity of the existing network may be capitalized.

It is important to note that the requirements for *retroactive infrastructure reporting* are staggered four years behind the implementation dates for the remainder of GASB 34 requirements (including *prospective infrastructure reporting*). The implementation dates for retroactive reporting are as follows:

- **Phase 1:** Governments with \$100 million or more in total annual revenues must implement retroactive infrastructure reporting requirements for fiscal years beginning after June 15, 2005.
  - **Phase 2:** Governments with \$10 to \$100 million in total annual revenues must implement retroactive infrastructure reporting requirements for fiscal years beginning after June 15, 2006.
  - **Phase 3:** Governments with less than \$10 million in total annual revenues are not required to report retroactively (but are required to comply with prospective infrastructure reporting requirements).
- **Land and Improvements:** land is capitalized but not depreciated, since its value does not decline with time and use. It is recorded at historical cost and remains at that cost until disposal. If there is a gain or loss on the sale of land, it is reported as a special item in the government-wide statement of activities. Land improvements include: excavation, non-infrastructure utility installation, driveways, sidewalks, parking lots, flagpoles, retaining walls, fencing, outdoor lighting and other non-building improvements intended to make the land ready for its intended purpose. Land improvements can be further categorized as non-exhaustible and exhaustible.
- **Non-Exhaustible:** expenditures for improvements that do not require maintenance or replacement, expenditures to bring land into condition to commence erection of structures, expenditures for improvements not identified with structures, and expenditures for land improvements that do not deteriorate with use or the passage of time are additions to the cost of land and are generally not exhaustible and therefore not depreciable.
  - **Exhaustible:** other improvements that are part of a site, such as parking lots, landscaping and fencing, are usually exhaustible and are therefore depreciable. Depreciation of site improvements is necessary if the improvement is exhaustible.
- **Buildings and Improvements:** buildings should be recorded at either their acquisition cost or construction cost. The cost of new construction should be carefully evaluated. Usually, projects consist of major components (such as land, improvements, construction (including fees and permits), furniture, fixtures and equipment). Additionally, buildings include components (e.g. roof, air conditioner system, etc.) that should be recorded separately when significant because these components have different useful lives. The value of each component needs to be determined and placed within its own category. Improvements that extend the useful life of a building should be capitalized. Cities should therefore review major maintenance projects for the last several years to determine those that should become

part of the restatement of assets for the purposes of complying with GASB 34. Examples of building improvements include: roofing projects, major energy conservation projects, remodeling, or replacing major building components. A city will need to determine the practicality of identification of these projects and prepare an inventory, including a project description, the year of completion, the funding source and cost of construction/acquisition. Only those projects meeting the capitalization threshold need to be included. Further, as a practical matter, cities should establish cut-off dates for retroactive recognition of site and facility improvements.

- **Construction in Progress:** construction in progress should be capitalized and not depreciated. It should be reported with land and other non-depreciating assets at the government-wide level. Unspent debt proceeds from capital assets related debt should be reported in the net assets section of the statement of net assets as “restricted for capital projects.”
- **Machinery and Equipment:** assets such as furniture, machinery and equipment (that meet capitalization threshold levels) should be identified and inventoried. Some assets, individually, may fall below the capitalization threshold but may be purchased in large quantities by the city (including library books, textbooks and computers). Cities should aggregate these assets and (if these amounts are material and significant) these items should be capitalized either individually or in the aggregate.
- **Library Books:** if library books are considered to have a useful life of greater than one year, they are capital assets and are depreciable. Because most library collections consist of a large number of books with modest values, group or composite depreciation methods may be appropriate. In certain situations, library books may be considered works of art or historical treasures and could be reported using those provisions.
- **Vehicles:** these should be identified, inventoried and (if applicable) depreciated.
- **Easements:** an easement is an interest in land owned by another that entitles its holder to a specific limited use or enjoyment. Therefore, easements are not required to be reported in the financial statements unless the city paid for the easement.
- **Works of Art and Historical Treasures:** these should be recorded at historical cost, and depreciation is not required for collections or works of art that are inexhaustible.

In accounting terms, depreciation is the process of allocating the cost of tangible property over a period of time, rather than deducting the cost as an expense in the year of acquisition. Generally, at the end of an asset’s life, the sum of the amounts charged for depreciation in each fiscal year will equal the original cost less salvage value. Good accounting and financial management practices require that a city take both the cost expiration and the declining value of an asset into consideration. The cost expiration of a city’s assets must be recognized if the cost of providing services is to be realistically reported. Also, the decline in the value of assets must be considered if the city’s net assets are to be stated correctly.

Five factors must be known in order to calculate depreciation of a capital asset:

- **The Date the Asset Was Placed into Service.**
- **The Asset's Cost or Acquisition Value:** capital assets should be reported at historical cost and should include the cost of freight, site preparation, architect and engineering fees, etc. If something other than cash is used to pay for the asset, then the fair market value of the non-cash payment or consideration determines the asset's cost or acquisition value. When the value of the consideration paid can't be determined, the asset's fair market value determines its cost.
- **The Asset's Salvage Value:** salvage value is the amount for which the asset could be sold at the end of its useful life. This value may be based on:
  - General guidelines from a professional organization,
  - Information from state or local governments,
  - Prior experience, or
  - Professional judgment by engineers, architects, etc.
- **The Estimated Useful Life of the Asset:** estimated useful lives of capital assets may be determined by:
  - Guidance from Schedule B of *IRS Publication 946: How to Depreciate Property*,
  - General guidelines from a professional organization,
  - Information from state and local governments, or
  - Professional judgment by engineers, architects, etc.
- **The Depreciation Method:** there are many different methods used to calculate depreciation—some allow more depreciation in early years than in later years, others allow the same percentage each year while the basis declines, and others apply different percentages each year while the basis remains the same. Cities may choose a single depreciation method for all capital assets or different methods for specific categories of assets—however, once a method is chosen for a particular asset, it must be used for the life of the asset. The straight-line method is described in greater detail below.

**Straight-Line Method:** this is the simplest and most commonly used method and can be used for any depreciable property. Under this method, the amount of annual depreciation is determined by dividing the asset's depreciable cost (original acquisition cost minus salvage value) by the years of estimated life. The total amount depreciated can never exceed the asset's original acquisition cost less salvage value, and at the end of the asset's useful life, the salvage value remains.

For example, a \$12,000 copier is placed into service on October 1, 2003. The copier has an estimated useful life of five years and salvage value of \$2,000. Accordingly, the annual depreciation is \$2,000.

In order to avoid the complications of depreciating each asset from the specific date it was placed in service, GAAP provide that cities may establish guidelines that assume that various assets are placed in service or disposed of at designated times. The most commonly accepted guideline is the "full month convention," which assumes that property placed in service at any time during a given month is treated as if it was placed in service on the first day of the month, allowing depreciation to be taken for the entire month the asset was first placed into service. If the asset is disposed of before the end of its estimated useful life, no depreciation is allowed for the month of disposition.

# Chapter 3

## Internal Controls

### Introduction

---

The vast majority of city officials and staff serve as examples of integrity and professionalism. However, cities are not immune from the threat of theft, fraud and other abuses, which is one reason why cities are responsible for establishing and maintaining systems of internal controls designed to prevent and detect such abuses. This chapter will discuss the basic characteristics of internal control systems and their practical application.

### Internal Controls Defined

---

Internal controls are established by the city council and implemented by city staff, and provide *reasonable assurance* that the following objectives are being achieved:

- **Reliability in Financial Reporting:** management has a responsibility to ensure that financial reporting information is fairly presented according to generally accepted accounting principles (GAAP). Information on the operations and fiscal condition of the city must be accurate for these reports to be useful.
- **Effectiveness and Efficiency in Operations:** controls serve to encourage efficient and effective use of resources (including personnel) to optimize achievement of the city's goals. Controls should provide for streamlined work processes and detection of duplication and inefficiencies.
- **Compliance with Applicable Laws and Regulations:** internal controls should provide reasonable assurance that the city is complying with the annual appropriations ordinance, state and federal laws, grant agreements and other requirements.
- **Safeguarding of City Assets:** cash, equipment and other assets can be stolen, misused or accidentally destroyed unless safeguarded by adequate controls.

“People tend to think of internal controls as being an element of city finance,” notes Dave Swindell, Chief Financial Officer for the City of Pocatello. “Sometimes they are, but they also relate to your personnel policy and your systems for validating timecards, reviewing employee performance, managing property and overseeing materials handling, among others.”

## **Idaho Statutory Requirements**

---

Idaho law clearly fixes responsibility for fiscal oversight and internal controls on the city council. Idaho Code 50-708 provides that the council must examine the city's finances on at least a quarterly basis. Idaho Code 50-1017 provides that the council must approve all claims before payment, and that the council is responsible for establishing and maintaining an adequate and reasonable system of internal controls. Idaho Code 50-1018 provides that payments may be made by check, warrant or by electronic transfer following approval by the council and must be signed or authorized by the mayor and clerk/treasurer.

### **50-708. EXAMINATION OF ACCOUNTS OF FISCAL OFFICERS.**

At least once in each quarter of each year, the council shall examine, either in open session or by committee, the accounts and doings of all officers or other persons having the care, management or disposition of moneys, property or business of the city.

### **50-1017. PRESENTATION OF CLAIMS.**

All claims against the city shall be approved by the city council prior to the payment of such claims and the city council shall establish and maintain an adequate and reasonable system of internal accounting controls. No costs shall be recovered against such city in any action brought against it for any unliquidated claim which has not been presented to the city council for payment, nor upon claims allowed in part, unless the recovery shall be for a greater sum than the amount allowed with interest due.

### **50-1018. PAYMENT OF CLAIMS.**

Upon approval of claims by the council, payment may be ordered by warrant or by electronic means, signed by or authorized by the mayor and clerk or by check or by electronic means signed by or authorized by the mayor and treasurer. The order for their payment shall specify the particular fund or appropriation out of which they are payable, as specified in the annual appropriation bill. In the absence of sufficient funds, the council may, by resolution, order payment of claims by money borrowed by either:

- 1) Registered warrants as provided in section 31-2125, Idaho Code, or
- 2) By issuing its tax anticipation notes as provided in section 63-3102, Idaho Code, or
- 3) Short term borrowing not involved with the tax effort in anticipation of approved federal or state grants.

## **The Limitations of Internal Controls**

---

Internal controls are not an absolute safeguard against improper or fraudulent behavior—such a system would be unbelievably expensive and cumbersome for those operating within it. The purpose of internal controls is to provide *reasonable assurance* that a city’s objectives will be met. No matter how effective the internal control system, undesirable events can occur as a result of judgment mistakes, management override of prescribed controls, or collusion. For that reason, no system of internal controls will ever take the place of oversight by department heads and elected officials.

## **Striking the Right Balance**

---

The challenge is to strike a balance between excessive control (which is costly and counterproductive) and too little control (which exposes the city to increased risks). “People always criticize internal controls as slowing things down, as being an extra administrative burden and that is absolutely right,” says Swindell. “There is a tradeoff: the more controls you have, the more sand you throw in the gears, and eventually you are spending way too much time and money on the process and you are not getting your work done. On the other hand, if you let the machine spin freely, it will surely spin out of control. Don’t be surprised when the internal controls that you institute have some administrative costs and that people chafe a bit under them. Expect that, it is part of the cost of doing business.”

## **The Components of Internal Control**

---

There are five components common to all internal control systems:

- **Control Environment,**
- **Risk Assessment,**
- **Control Activities,**
- **Information and Communication, and**
- **Monitoring.**

## Control Environment

---

The control environment represents management's attitudes, actions, policies and procedures concerning internal controls. The control environment is the basis for the other four components, and is critically important to the success of internal controls. "When management believes that internal controls are important to achieving its goals, and it communicates that view to employees at all levels, internal controls are more likely to function well. Conversely, if management views internal controls as unrelated to achieving its objectives, or as an obstacle to that purpose, this attitude almost certainly is communicated to staff at all levels, despite official statements or policies to the contrary."<sup>9</sup>

There are seven elements of the control environment:

- **Integrity and Ethical Values:** any system of internal controls is only as good as the people who manage it. The foundation of effective internal controls lies in the integrity and ethical values of those responsible for establishing, operating within and evaluating the control system. All employees should clearly understand the expectations and standards for their behavior, which should be specified in a written code of ethics. Again, management leads by example in demonstrating a commitment to integrity and ethical values. "Everybody should have to justify their expenses, and there is a system for approval of travel claims," notes Swindell. "The system works for everybody, and you don't get different rules because you are the mayor or a councilmember. Such behavior sets a very bad tone at the top of the organization that the rules are for employees, but not elected officials."
- **Commitment to Competence:** every city employee must have a minimum level of competence to ensure efficiency and effectiveness of operations. Department heads should specify the knowledge, skills and experience necessary for particular positions in written job descriptions.
- **Leadership by Oversight Bodies:** the city council or audit committee plays a significant role in establishing and evaluating the control system, because it operates independently of city administration and is therefore in a better position to evaluate these activities. The importance of oversight bodies is more significant in smaller cities due to the fact that these cities are unable to implement certain key internal controls (such as segregation of duties among several employees).
- **Management Philosophy and Operating Style:** management's attitude toward internal controls and safeguarding of assets will be followed by others in the organization. Management override of internal control policies should not be allowed, but certainly managers should have the flexibility to deal with unique situations that may arise (even the most well thought out internal control policy cannot conceive of all eventualities).

---

<sup>9</sup> GAAFR, p. 322.

- **Organizational Structure:** internal controls require that cities clearly define the duties of each position and lines of authority and responsibility, so that individual performance may be evaluated on a regular basis. Each city should have a procedures manual developed in the context of its organizational structure indicating how each transaction should be initiated, which position should approve it, and which position(s) should record and verify it.
- **Assignment of Authority and Responsibility:** it is essential to have clear, concise lines of authority for each transaction. This authority may be general or specific—for example, a deputy clerk may have general authorization to purchase office supplies up to a certain dollar limit, but transactions in excess of the limit require supervisor authorization. It is important to understand that while delegation of authority is essential for a city to achieve its objectives, excessive delegation can significantly weaken internal controls. With increased delegation of authority, it becomes increasingly important for supervisors to monitor individual performance.
- **Human Resource Policies and Practices:** the city’s human resource policy reveals its values, ethics, managerial philosophy, and other characteristics that influence the control environment. The manner in which these policies are carried out also influences the control environment. Policies that establish expected performance levels and require objective documentation of performance show the city’s commitment to openness and fairness, as well as expected levels of job performance and behavior. Personnel policies detailing procedures for hiring, orientation, training, supervising, evaluation, counseling, promotion, compensation and discipline of personnel should be available to all employees.

## **Risk Assessment**

---

Risk assessment involves the identification and evaluation of factors or conditions that threaten the achievement of the city’s objectives. Risk assessment involves identifying significant internal and external risks to the efficiency and effectiveness of operations, the reliability of financial reporting, and to compliance with applicable laws and regulations. Risk assessment also involves management’s determination of how risks should be managed. Because the risk environment of city government often changes, it is necessary to periodically re-assess whether changes to policies are necessary.

Risks typically arise either as a result of internal or external changes in the city’s operating environment or as a result of inherent risk.

- **Internal Changes:**
  - **Staff Turnover:** changes of key employees, either line or management, can result in changes in attitudes and knowledge of internal controls.
  - **Information Systems and Technology:** new systems and technologies, or major changes to existing systems and technologies can impact operations and financial reporting and require changes to internal control procedures.

- **Structural Changes:** downsizing, decentralization or restructuring often result in decreased staffing and consolidation of operations that require reevaluation of internal control procedures. Rapid population growth and/or delivery of new city services can also render existing controls ineffective.

➤ **External Changes:**

- **Operating Environment:** changes in economic, political and regulatory conditions may put additional stresses on management that could compromise internal control procedures.
- **Accounting Statements:** new or changing statements may require changes in financial reporting.

- **Inherent Risk:** certain activities are inherently riskier than others. Risks are generally greater in activities with a high volume of cash receipts and in complex or highly decentralized activities.

Generally, risk assessment is best performed at the department level by dividing the work of the department into activities and identifying the risks associated with each activity. The process of assessing risks should be guided by the following questions:

- What are our primary objectives?
- What must go right for us to succeed?
- What events can prevent us from achieving these objectives?
- Which of our assets are most liquid or desirable and in most need of protection?
- What information do we rely on to achieve our objectives? What are the threats to obtaining this information?
- What typical decisions are made in our operations? Which of these decisions require the most judgment?
- What are our most complex activities?
- What potential legal liabilities can result from our operations?
- Where do we spend most of our money?
- What changes do we see on the horizon?

Once potential risks have been identified, they may be analyzed by estimating their significance, likelihood of occurrence and necessary corrective action. Risks with little significance and low probability of occurrence may require no action, while those with high significance and frequency require attention. Strategies for managing risks differ, but should provide reasonable assurance that the risk will be deterred or detected and ensure an acceptable ratio of costs to benefits.

## **Control Activities**

---

Control activities represent the means by which internal controls are implemented, and may be broadly classified as one of three types:

- **Preventative Controls:** designed to deter the occurrence of undesirable events.
- **Detective Controls:** designed to identify when undesirable events occur.
- **Corrective Controls:** designed to provide guidance to employees to help achieve the desired objectives of the department.

There are a wide variety of control activities, including:

- **Hiring:** “In the end, the most important internal control involves the people you bring into your organization and their values,” explains Swindell. “What does it take to commit a fraud? It takes motive, opportunity, and the ability to cover it up. Motive is the factor that you can counteract in the hiring process—good people just would not think about committing a fraud. Other internal controls tend to limit the opportunity or the ability to cover up fraudulent activity. Motive is an important component as well, and you can usually check that to some degree by looking into an applicant’s background. Most places will do background checks on police officers, but we don’t always do that with other employees, because there is some time and expense involved. It is good to have background checks even for people who are not handling money or wielding police authority because in the end everybody who works for the city is part of the internal controls system and the culture of the organization. Almost everybody who works for a city will be using city property at some point. Often, people will grow into a position: they may not start out in a purchasing position or have any contact with money initially, but three years later they may move into different responsibilities.”
- **Policies and Procedures:** documented policies and procedures should clearly indicate the job responsibilities of all employees. These should be approved by the council and updated on a regular basis.

- **Properly Designed Records:** accounting records should be sequentially numbered to alert management to missing records. Numbering also helps to ensure that all existing transactions are recorded and makes filing and location of documents much easier. Documents that should be prenumbered include: receipts, purchase orders, bills or invoices, and checks.
- **Managerial Approvals and Authorizations:** as outlined in the city's purchasing policy, certain transactions require supervisory approval before they may be executed. Supervisors should verify that the transaction is necessary for city business and in accordance with enacted policies and procedures.
- **Verifications and Reconciliation:** managers should periodically reconcile summary information to supporting detail, (e.g. comparing cash amounts per general ledger to cash balances per bank statements, receivable amounts per general ledger control accounts to related subsidiary account totals, and physical counts of fixed assets to amounts recorded on accounting records).
- **Performance Reviews:** all levels of department managers should review performance reports, analyze trends and relate results to historical performance.
- **Restrictions on Access to Resources:** individuals should have access to assets or records only if necessary for their position. Equipment, inventories, securities, cash and other assets vulnerable to loss or unauthorized use should be physically secured, periodically counted and compared to amounts shown on control records.
- **Segregation of Duties:** a fundamental concept of internal controls is that segregation of duties reduces the opportunities for someone to commit and conceal fraudulent activity in the course of their work. For instance, three functions that should be segregated include authorization of transactions, recordkeeping and custody of assets. One person should not be able to authorize a transaction, record the transaction in accounting records and maintain custody of the assets resulting from the transaction. For small cities, where there may be only one individual responsible for all accounting functions, segregation of duties is extremely impractical. However, compensating controls can be put into place so the integrity of the accounting system and safety of assets is not jeopardized. This generally requires the mayor or a member of the city council to closely supervise the accounting activities and periodically scrutinize a random sampling of transactions.
- **Documentation of Transactions:** requests for reimbursement for travel and/or purchases should be accompanied by receipts.

- **Rotation of Duties:** job duties should be rotated within a department, preferably on a surprise basis. Not only does this reduce the likelihood of fraud (as employees understand that, at any time, another employee could be given their work assignments or tasks and detect fraudulent activity), it also results in cross training of employees, improving efficiency. Job duties should also be rotated when employees are on vacation, particularly for employees in finance or cash-handling positions. This practice helps to detect lapping—postponement of entries for the collection of receivables in order to conceal an existing cash shortage.

Due to the constraints of time and resources, it is impractical for management to expect to be able to address every potential risk. Some risks are so remote or the effects are so insignificant that management may decide to simply accept those risks without developing controls to address them. Instead, management should devote their attention to risks deemed to be significant and/or likely to occur.

## **Information and Communication**

---

The purpose of a city's accounting information and communication system is to identify, classify, record, assemble, analyze and report transactions and maintain accountability for its account balances. The responsibility of city staff to report to the council on the city's fiscal condition requires timely and accurate information. To maximize the veracity and timeliness of the information generated by the accounting system, the following accounting objectives should be followed:

- **Appropriate Transactions are Recorded:** the control system should identify all valid transactions and ensure they are recorded.
- **Transactions are Properly Valued:** procedures must be in place to detect errors in recording the value assigned to a transaction, including mathematical and clerical errors.
- **Transactions are Properly Classified:** internal control procedures must ensure that each recorded transaction contains sufficient information for accurate classification.
- **Timely Recording of Transactions:** procedures must be in place to ensure that transactions are recorded in a timely manner (at the point of transaction when possible) and in the proper reporting period.
- **Posting of Invalid Transactions:** the system of control should not allow invalid transactions to be posted to the accounting records.
- **Summarization of Transactions:** internal control systems must provide for accurate summarization of transactions and ensure that subsidiary records are correctly updated.

Because controlling risks is the responsibility of all city officials and staff, a key element of effective internal controls is a communication system that allows information to flow in all directions throughout the organization.

- Information about internal control policies and procedures flows from management down through the organization.
- Information about problems with the internal control system flows from employees up to management.
- Information about daily activities flows across the organization from those that develop the information to those that need the information.

There are several components of an effective communication system:

- Management must clearly articulate the importance of the city's code of ethics and internal controls, and stress the need for employees to provide feedback and suggestions for improvement of control policies and procedures. "City leadership needs to discuss values and expectations, because government is a unique environment where we are constantly in the spotlight," explains Swindell. "Not only can you not do anything inappropriate, you can't appear to do anything inappropriate, because you have got to maintain the confidence of the citizens. The best way to discuss these issues is through case studies—what should a person do in this particular ethical situation?"
- Employees must understand their specific duties, relevant internal controls and their role in the control environment. They should understand how their work relates to the work of others, which will improve problem recognition and corrective action. Any questions or uncertainties should be clarified by the appropriate supervisor.
- Employees must understand that their suggestions for improving control policies and procedures are critically important and that management will listen. Employees also need to know that there will be no reprisals for reporting information, and that if they are unsuccessful in getting communications past a supervisor, that they may direct their concerns to management.

It is important that information is disseminated in a form that will satisfy the needs of employees. Certainly, an internal controls policy manual is a useful resource for providing detailed information on employee responsibilities and authority, and as a reference for rarely encountered situations. However, if the only information about a city's internal controls is set forth in a lengthy policy document that gathers dust sitting on a shelf, few employees will ever take the time to read and understand it. Other useful methods of communication include meetings, memoranda and emails.

## **Monitoring**

---

Monitoring of internal controls is necessary for two primary reasons:

- First, it ensures that policies and procedures are being followed and illuminates any deficiencies that need to be addressed; and
- Second, it helps to identify new risks that require modification of existing controls.

Monitoring occurs in the context of ongoing activities and separate periodic evaluations.

- **Ongoing Monitoring Activities:** these activities are integrated into the department's normal operations and occur on an ongoing basis. The purpose of ongoing monitoring is to determine:
  - The extent to which personnel, in carrying out their activities, obtain evidence as to whether the system of internal controls is working properly.
  - The extent to which communications from external parties corroborate internally generated information.
  - Whether assets recorded on the accounting system agree with assets on-hand.
  - The extent to which employees are responsive to internal and external auditor recommendations.
  - The extent to which employees clearly understand and comply with the department's code of conduct.
- **Separate Evaluations:** these focus on the effectiveness of controls at specified points in time. The scope and frequency of these evaluations is a matter of judgment for management, taking into account the significance of the risks involved and the importance of controls in reducing those risks. Evaluations may be conducted by staff or by an external auditor.

The most important element of periodic evaluations is the testing of internal controls. Testing includes any of the following activities:

- Review of transactions, performance reports, and supporting documentation.
- Making inquiries of appropriate personnel.
- Observing how separation of duties and similar control activities are carried out.
- Personally re-performing selected control activities to verify results.

The results of these tests may indicate deficiencies in controls that should be addressed by management.

## **Internal Controls and Purchasing Cards**

---

Use of purchasing cards (or “p-cards”) by local governments has grown exponentially in recent years. P-cards operate just like a credit card, except for a per-purchase limit that is set by the city that may not be exceeded. P-cards have streamlined government purchasing systems, reducing the need for purchase orders and other paperwork for small transactions.

“The good thing about p-cards is that they provide a good data trail,” notes Swindell. “You know that a specific cardholder bought gas at the Chevron station in Burley, 17 gallons for \$1.69 per gallon at 3:59 p.m. A lot of the people that have been caught for questionable purchases on p-cards were caught because the purchase was on a p-card and was there for everybody to see.”

“They are also becoming more and more essential. You can’t operate in the world these days without having a credit card for certain transactions—reserving a rental car, for instance. But you have got to have the same controls on the p-cards that you have for other expenditures. When the p-card statement comes in, somebody other than the cardholder should approve it, and those purchases need to be subjected to the same level of scrutiny as any other invoice, and the cardholder needs to attach the receipts so the reviewing officer has the necessary detail about the transaction.”

## **Conclusion**

---

In a small state like Idaho, it can be tempting to dismiss the importance of internal controls as “overkill” and “unnecessary.” After all, we are fortunate enough to know our neighbors and personal honesty and integrity are valued above all else in our state. However, Idaho cities are not immune from the threats of waste, fraud and abuse that internal controls are designed to prevent or detect. Internal controls are an important statement to employees that the city will not tolerate waste, fraud and abuse, and also demonstrate to the general public that the city is concerned with responsible stewardship of its assets.

# Chapter 4

## Auditing

Auditing is a critically important role in public sector financial management because of the emphasis on accountability and compliance with legal restrictions on the use of revenues. This section will examine the role of the auditor, the different types of audits and the auditing standards used in evaluation of a city's financial reports.

### What is an Audit?

---

An audit is a “systematic review or examination of the assertions or actions of a third party to evaluate conformance to a norm or benchmark.”<sup>10</sup>

Public sector audits are generally classified as one of two types:

- **Financial Audits:** designed to assure the reliability of a city's financial reports; and
- **Performance Audits:** conducted to determine whether the city is meeting its stated goals and objectives and providing services in the most efficient and effective manner possible.

The purpose of financial audits is to provide financial statement readers with *independent assurance* that the information presented in the statements is reliable. It is impractical to expect that an auditor could state absolutely that the financial statements are fairly presented—to do so would require a thorough investigation of every transaction, which would be expensive and impractical. Instead, the goal of the auditor is to obtain *reasonable assurance* that the financial statements are fairly presented.

To reach this conclusion, auditors gather relevant information through inspecting documents; observing employee performance; inquiring about policies, procedures, transactions and events; confirming balances and transactions with outside parties and performing analytical procedures to determine the reasonableness of transactions and balances. Since it is impractical to expect an auditor to examine every transaction, *sampling* is used to examine only those potential misstatements that would have a *material* (important or significant) impact on how a financial statement reader evaluates a city's finances. In determining materiality, an auditor considers both quantitative and qualitative issues:

- **Quantitative:** clearly, larger transactions are material, and auditors often set a percentage threshold to indicate the point at which a potential misstatement becomes material.

---

<sup>10</sup> GAAFR, p. 335.

- **Qualitative:** smaller transactions may also be determined to be material if they convert a deficit to a surplus, change the direction of trend data or if potential misstatements involve legal violations.

## **Types of Auditors**

---

Auditors are classified based upon their relationship with the city:

- **Independent Auditors:** typically private-sector CPAs that are completely independent from the city; and
- **Internal Auditors:** employed by the city; however, they exercise a significant degree of independence.

The focus of this chapter is on the role and responsibilities of the independent auditor.

## **Statutory Audit Requirements**

---

Idaho Code 50-1010 clearly fixes responsibility on the city council for overseeing and funding the audit process.

### **50-1010. AUDIT OF CITY FINANCES — AUDIT TO BE FILED.**

It shall be the duty of the council in every city to cause to be made a full and complete audit of the financial statements of such city as required in section 67-450B, Idaho Code.

The council shall be required to include all necessary expenses for carrying out the provisions of this section in its annual budget.

More detailed requirements are set forth in Idaho Code 67-450B.

### **67-450B. INDEPENDENT FINANCIAL AUDITS BY GOVERNMENTAL ENTITIES — FILING REQUIREMENTS.**

(1) The requirements set forth in this section are minimum audit requirements for all local governmental entities, and include, without limitation, all cities, counties, authorities and districts organized as separate legal and reporting entities under Idaho law, and include the councils, commissions and boards as appointed or elected and charged with fiscal management responsibilities of the local governmental entity.

Audits under these requirements are to be performed by independent auditors in accordance with generally accepted governmental auditing standards, as defined by the United States general accounting office. The auditor shall be employed on written contract.

The entity's governing body shall be required to include in its annual budget all necessary expenses for carrying out the provisions of this section.

The entity shall file two (2) copies of each completed audit report with the legislative council within ten (10) days after receiving the audit from the contracting independent auditor.

(2) The minimum requirements for any audit performed under the provisions of this section are:

(a) The governing body of a local governmental entity whose annual budget (from all sources) exceeds two hundred fifty thousand dollars (\$250,000) shall cause a full and complete audit of its financial statements to be made each fiscal year.

(b) The governing body of a local governmental entity whose annual budget (from all sources) exceeds one hundred thousand dollars (\$100,000), but does not exceed two hundred fifty thousand dollars (\$250,000) may elect to have its financial statements audited on a biennial basis and may continue biennial auditing cycles in subsequent years as long as the entity's budget does not exceed two hundred fifty thousand dollars (\$250,000) during either year of any biennial period. Biennial audits shall include an audit of each fiscal year since the previous audit.

(c) The governing body of a local governmental entity whose annual budget (from all sources) exceeds fifty thousand dollars (\$50,000), but does not exceed one hundred thousand dollars (\$100,000) may elect to have its financial statements reviewed on a biennial basis and may continue biennial review cycles in subsequent years as long as the entity's annual budget does not exceed one hundred thousand dollars (\$100,000) during either year of any biennial period. Biennial reports of review shall include a review of each fiscal year since the previous review report.

(d) The governing body of a local governmental entity whose annual budget (from all sources) does not exceed fifty thousand dollars (\$50,000) has no minimum audit requirements under this section.

(e) Federal audit requirements applicable because of receipt of federal assistance supersede the minimum audit requirements provided in this section.

## Audit Scope

---

GAAP requires that cities present a complete set of basic financial statements with required supplementary information (RSI). It is strongly encouraged for cities to present the basic financial statements and RSI as part of a broader, comprehensive annual financial report (CAFR), which also includes combining financial statements providing information on funds and component units not separately presented in the basic financial statements. These combining statements are often supported by presentations for individual funds.

There are two potential options for the scope of an audit:

- **Auditor's Opinion Limited to Basic Financial Statements:** the auditor must at least render an opinion on whether the basic financial statements are fairly presented.
- **Auditor's Opinion Extended to Combining and Individual Fund Presentations:** in addition to the basic financial statements, the auditor may also render an opinion on the combining and individual fund presentations.

The scope of the audit affects the way the auditor assesses materiality from the perspective of a financial statement reader. When the scope of an audit is limited to the basic financial statements, the auditor assesses materiality from the perspective of a user of the basic financial statements. When the scope is broadened to include combining and individual fund and component unit presentations, the auditor assesses materiality from the perspective of a potential user of any of those financial statements. Thus, an item that might be considered immaterial from the perspective of readers of the basic financial statements could certainly be material from the perspective of readers of the combining or individual fund financial statements.

The auditor will take at least limited responsibility for all the contents of the financial section of the CAFR other than RSI. For instance, if a city includes combining and individual fund financial statements in its CAFR, but the scope of the audit is limited to the basic financial statements, the auditor will not render an opinion on the fair presentation of the additional statements, but will assert that they are *fairly presented in relation to the audited basic financial statements*.

RSI, as well as the CAFR's introductory and statistical sections, falls outside the scope of an independent financial statement audit. In the case of the introductory and statistical sections, the auditor is expected to read these sections and ensure that they do not contain information inconsistent with the audited financial statements, but that is the extent of the auditor's scrutiny. With regard to RSI, the auditor must ask management about the methods used to prepare the information, including:

- Is RSI presented in conformity with authoritative standards?
- Have there been any changes in measurement from prior fiscal years?

- What are the significant assumptions or interpretations underlying the measurement and presentation of RSI?

The independent auditor must compare RSI with:

- Information gained from inquiries of management (described above);
- Information from the audited financial statements; and
- Any other knowledge obtained in the course of the audit.

In the absence of any other specific requirements, the independent auditor should make additional inquiries if there is reason to believe that RSI is not being measured or is not presented in conformity with authoritative standards.

Because RSI is not part of the basic financial statements, the absence or deficiencies of RSI do not affect the auditor's ultimate opinion on the fair presentation of those statements. Nonetheless, the auditor must amend the standard auditor's report to indicate if:

- RSI has been omitted,
- The measurement or presentation of RSI departs from authoritative standards,
- The auditor is unable to perform the limited RSI inquiries of management (described above), or
- The auditor is unable to remove substantial doubts regarding whether RSI meets the measurement and presentation requirements of GAAP.

### **Reportable Conditions and Material Weaknesses in Internal Controls**

---

Auditors conduct tests of a city's internal controls to obtain evidence necessary to support their opinion as to whether the city's financial statements are fairly presented. In performing these tests, auditors may become aware of significant deficiencies in the internal control system, which are known as "reportable conditions." GAAP requires that auditors notify management of such deficiencies in the audit report.

Certain reportable conditions are more serious than others—some are of such magnitude that they could potentially result in a material misstatement of the financial statements. These are known as "material weaknesses," and auditors are required to separately identify these serious deficiencies in the audit report.

## **Audit Criteria**

---

Auditors rely on certain criteria to guide their evaluation of the financial reports. For local governments, there are two sets of audit criteria that may be used:

- **Generally Accepted Auditing Standards (GAAS):** these are the fundamental standards for financial audits in the public and private sectors. GAAS are established by the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA). GAAS includes 10 standards, grouped into three categories (general standards, standards of fieldwork, and standards of reporting). The ASB promulgates GAAS through the issuance of Statements of Auditing Standards (SASs) that define the basic standard and its proper application in practice.

### **Generally Accepted Auditing Standards**

#### **1. General Standards**

- The audit is to be performed by a person or persons having adequate technical training and proficiency as an auditor.
- In all matters relating to the assignment, the auditor will maintain an independent mental attitude.
- Due professional care is to be exercised in the performance of the audit and the preparation of the report.

#### **2. Standards of Fieldwork**

- The work is to be adequately planned and assistants, if any, are to be properly supervised.
- A sufficient understanding of the internal control structure is to be obtained to plan the audit and to determine the nature, timing and extent of tests to be performed.
- Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit.

#### **3. Standards of Reporting**

- The report shall state whether the financial statements are presented in accordance with generally accepted accounting principles.
- The report shall identify those circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period.

- Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report.
  - The report shall either contain an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed. When an overall opinion cannot be expressed, the reasons therefore should be stated. In all cases where an auditor's name is associated with financial statements, the report should contain a clear-cut indication of the character of the auditor's work, if any, and the degree of responsibility the auditor is taking.
- **Generally Accepted Government Auditing Standards (GAGAS):** these standards are established by the Comptroller General of the United States and are published by the General Accounting Office in *Government Auditing Standards*, commonly referred to as the "Yellow Book." Like GAAS, GAGAS are divided into three categories, and many of the GAAS standards are incorporated into the GAGAS framework. Audits performed in accordance with federal audit requirements must follow GAGAS, and a number of states have required the use of GAGAS for state and local government audits, including Idaho (Idaho Code 67-450B (1)).

## **Generally Accepted Government Auditing Standards**

### **1. General Standards**

- **Qualifications:** The staff assigned to conduct the audit should collectively possess adequate professional proficiency for the tasks required.
- **Independence:** In all matters relating to the audit work, the audit organization and the individual auditor(s), whether government or public, should be free from personal and external impairments to independence, should be organizationally independent, and should maintain an independent attitude and appearance.
- **Due Professional Care:** Due professional care should be used in conducting the audit and in preparing related reports.
- **Quality Control:** Each audit organization conducting audits in accordance with these standards should have an appropriate internal quality control system in place and undergo an external quality control review.

### **2. Fieldwork Standards**

- **Planning:** The work is to be properly planned, and auditors should consider materiality, among other matters, in determining the nature, timing and extent of auditing procedures and in evaluating the results of those procedures.

- **Planning:** Auditors should communicate information to the auditee, the individuals contracting for or requesting the audit services, and the audit committee regarding the nature and extent of planned testing and reporting on compliance with laws and regulations and internal control over financial reporting.
- **Planning:** Auditors should follow up on known material findings and recommendations from previous audits.
- **Fraud, Illegal Acts, and Other Noncompliance:** Auditors should design the audit to provide reasonable assurance of detecting irregularities that are material to the financial statements.
- **Fraud, Illegal Acts, and Other Noncompliance:** Auditors should design the audit to provide reasonable assurance of detecting material misstatements resulting from direct and material illegal acts.
- **Fraud, Illegal Acts, and Other Noncompliance:** Auditors should be aware of the possibility that indirect illegal acts may have occurred. If specific information comes to the auditor's attention that provides evidence concerning the existence of possible illegal acts that could have a material indirect effect on the financial statements, the auditors should apply audit procedures specifically directed to ascertaining whether an illegal act has occurred.
- **Fraud, Illegal Acts, and Other Noncompliance:** Auditors should design the audit to provide reasonable assurance of detecting material misstatements resulting from noncompliance with provisions of contracts or grant agreements that have a direct and material effect on the determination of financial statement amounts. If specific information comes to the auditor's attention that provides evidence concerning the existence of possible noncompliance that could have a material indirect effect on the financial statements, auditors should apply audit procedures specifically directed to ascertaining whether that noncompliance has occurred.
- **Internal Controls:** Auditors should obtain a sufficient understanding of internal controls to plan the audit and determine the nature, timing and extent of tests to be performed.
- **Internal Controls:** In planning the audit, auditors should document in the working papers (1) the basis for assessing control risk at the maximum level for assertions related to material account balances, transaction classes, and disclosure components of financial statements when such assertions are significantly dependent upon computerized information systems, and (2) consideration that the planned audit procedures are designed to achieve audit objectives and to reduce audit risk to an acceptable level.
- **Working Papers:** A record of the auditor's work should be retained in the form of working papers, which should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditor's significant conclusions and judgments.

### 3. Reporting Standards

- **Relation to AICPA Standards:** The report shall state whether the financial statements are presented in accordance with generally accepted accounting principles. The report shall also identify those circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period. Informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report. The report shall either contain an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed. When an overall opinion cannot be expressed, the reasons therefore should be stated. In all cases when an auditor's name is associated with financial statements, the report should contain a clear-cut indication of the character of the auditor's work, if any, and the degree of responsibility the auditor is taking.
- **Reporting Compliance with Generally Accepted Government Auditing Standards:** Audit reports should state that the audit was made in accordance with generally accepted government auditing standards.
- **Reporting Compliance with Laws and Regulations and on Internal Controls Over Financial Reporting:** The report on the financial statements should either (1) describe the scope of the auditor's testing of compliance with laws and regulations and internal controls and present the results of those tests or (2) refer to separate reports containing that information. In presenting the results of those tests, auditors should report irregularities, illegal acts, other material noncompliance and reportable conditions in internal controls. In some circumstances, auditors should report irregularities and illegal acts directly to parties external to the audited entity.
- **Privileged and Confidential Information:** If certain information is prohibited from general disclosure, the audit report should state the nature of the information omitted and the requirement that makes the omission necessary.
- **Report Distribution:** Written audit reports are to be submitted by the audit organization to the appropriate officials of the auditee and to the appropriate officials of the organizations requiring or arranging for the audits, including external funding organizations, unless legal restrictions prevent it. Copies of the reports should also be sent to other officials who have legal oversight authority or who may be responsible for acting on audit findings and recommendations and to others authorized to receive such reports. Unless restricted by law or regulation, copies should be made available for public inspection.

## The Federal Single Audit

---

The federal government is the single largest source of grant funds for state and local governments. Over \$300 billion (one-sixth of the federal budget) is allocated every year to states, local and tribal governments, colleges and universities and other non-profit organizations. Obviously, federal officials have an interest in ensuring that these monies are spent according to federal laws and regulations. In years past, state and local governments were required to have separate audits for each grantor agency, often resulting in a wasteful duplication of effort as different audit teams examined and reexamined the same system of internal controls. These audits were guided by a bewildering array of conflicting audit guidance from each grantor agency.

This inefficient system was eliminated by the Single Audit Act of 1984, which applies to all governments expending \$300,000 or more in federal awards per fiscal year. Under the Single Audit Act, state and local governments are able to combine the annual financial statement audit with additional audit coverage of federal funds. However, governments still have the option of obtaining separate audits for each department receiving federal grant funds. Jurisdictions with only a single federal program have the option of procuring a program-specific audit. Jurisdictions receiving less than \$300,000 in federal awards are not required to have a federal audit, but are required to make records available for review or audit by appropriate officials.

The single audit must be performed in accordance with GAGAS, and Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, which provides for special testing and reporting responsibilities. The auditor must:

- Audit and provide opinions on the fair presentation of the financial statements and the schedule of expenditures of federal awards,
- Gain an understanding of internal controls over federal programs and test internal controls over major programs, and
- Audit and provide an opinion on compliance with requirements for major programs.

Practically speaking, the auditor cannot devote a significant level of attention to each of a jurisdiction's federal awards; therefore, single audits focus on *major* federal awards. The first step in determining "major" awards is to classify awards as either "Type A" or "Type B" (by definition, all programs that do not qualify as Type A are Type B) using the criteria shown below.

## Identifying Type A Programs for Single Audits

Total Federal Awards Expended	Criteria for Type A Program
Less than or equal to \$100 million	Greater of \$300,000 or 3% of federal awards
Greater than \$100 million and less than or equal to \$10 billion	Greater of \$3 million or 0.3% of federal awards
Greater than \$10 billion	Greater than \$30 million or 0.15% of federal awards

The second step in identifying major programs is to assess each Type A program to identify those that are “low-risk.” To qualify as low-risk, a Type A program must be:

- Audited as a major program within the last two years, and
- Must have no audit findings.

All Type A programs that do not qualify as low-risk are automatically considered major programs.

If one or more Type A programs is identified as low-risk, the auditor must assess risk for Type B programs, using either of the following approaches:

- **Assessment of Risk for All Type B Programs:** one option is for the auditor to complete a risk assessment for all Type B programs, then to classify as major programs half of the high-risk Type B programs (with the number of Type B programs classified as “high-risk” capped at the number of low-risk Type A programs).
- **Assessment of Risk for Only Some Type B Programs:** the other option is for the auditor to undertake a risk assessment of Type B programs until a number of high-risk Type B programs are identified equal to the number of low-risk Type A programs, then to classify the high-risk Type B programs so identified as major.

In addition to the major programs identified in the previous steps, programs must also be considered major if so designated by the grantor agency.

The Single Audit Act requires that at least half of all federal program awards expended must be audited as major programs. Therefore, if major programs as identified above fail to account for at least half of all federal program awards expended, then additional programs (either low-risk Type A programs or Type B programs at any level of risk) must be reclassified as major to comply with the 50 percent requirement.

For each major program, the auditor must gain an understanding of the internal controls system and test the controls. The auditor must also render an opinion on whether the government is in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a direct and material effect on the program. Furthermore, in rendering an opinion on compliance for a major program, the auditor must consider materiality separately for each of the following categories of compliance requirements:

- Activities allowed or unallowed;
- Allowable costs/cost principles;
- Cash management;
- Davis-Bacon Act;
- Eligibility;
- Equipment and real property management;
- Matching/level of effort/earmarking;
- Period of availability of federal funds;
- Procurement, suspension and debarment;
- Program income;
- Real property acquisition and relocation assistance;
- Reporting;
- Subrecipient monitoring; and
- Special tests and provisions.

## **Audit Reports**

---

There are three types of auditor's reports commonly seen in the public sector:

- The auditor's report on the fair presentation of the financial statements
- The auditor's report on compliance and internal controls over financial reporting based on an audit of the financial statements
- The auditor's report on compliance and internal controls over compliance applicable to each major federal award program.

The report on the financial statements provides the auditor's opinion (or disclaimer of an opinion) on whether the financial statements are fairly presented. Generally, the report has three paragraphs: the first describes the scope of the audit and the responsibilities of management and the auditor (management is responsible for the financial statements, the auditor is responsible for determining if those statements are fairly presented); the second paragraph provides general information on the audit standards followed and the nature and limitations of a financial audit; and the concluding paragraph sets forth the auditor's assessment of whether the financial statements are fairly presented in accordance with GAAP. There are four types of audit opinions:

- An ***unqualified or “clean” audit opinion*** is issued when the auditor can state, without reservation, that the financial statements are fairly presented in accordance with GAAP.
- A ***qualified opinion*** is issued when the auditor expresses reservations about the fair presentation of the financial statements in conformity with GAAP. Qualified opinions may result from inadequate records to allow verification of certain transactions, in which case the auditor qualifies the opinion by stating that the financial statements are fairly presented except for the insufficiently supported data in question. Inconsistency in application of accounting principles from year to year is another common cause of qualified opinions.
- The auditor may ***disclaim an opinion*** when the lack of documentation involves material amounts, making it impossible to render any opinion on all or even a significant portion of the financial statements.
- An ***adverse opinion*** is issued when the auditor states that the financial statements are not fairly presented in accordance with GAAP. Such opinions may result from the failure to include required financial statements or failure to report general infrastructure assets in the government-wide financial statements (if material).

In a GAGAS audit, auditors are required to report on internal controls tested as part of the financial statement audit, listing any reportable conditions that come to light as a result of the testing. The report must distinguish between reportable conditions that are also material weaknesses from those that are not. The report does not, however, offer the auditor’s opinion on the overall design and operation of the internal control system. Likewise, auditors are required to report on compliance with applicable laws and regulations; however, the report does not offer an opinion on whether the government complied with applicable laws and regulations. The report on compliance and internal controls frequently refers readers to a separate set of findings for information on specific reportable conditions and instances of noncompliance discovered in the course of the audit.

In a Single Audit, auditors are required to report on their tests of internal controls over compliance with major federal award programs, including test scope and results. Additionally, the auditor is required to express an opinion (or disclaim an opinion) on whether the government complied with laws, regulations and provisions of contracts or grant agreements that could have a direct, material effect on each major federal award program. The report on compliance and internal controls frequently refers readers to a separate set of findings listing internal control weaknesses and instances of noncompliance disclosed by the audit.

## **Findings**

---

When audits are conducted in accordance with GAGAS, reportable conditions and instances of noncompliance with applicable laws and regulations are listed as ***audit findings***. Findings are composed of four elements:

- **Condition:** the internal control weakness or instance of noncompliance identified by the auditor.

- **Criteria:** the basis for determining that a condition is an internal control weakness or instance of noncompliance.
- **Cause:** an explanation of why the weakness or instance of noncompliance occurred.
- **Effect:** the negative result attributable to the condition.

Findings may be accompanied by management's response and specific recommendations for action. Findings related to the GAGAS report on internal controls and compliance over financial reporting must be presented separately from findings associated with internal controls and compliance over major federal award programs. Governments subject to a Single Audit are required to prepare a schedule of prior audit findings that presents the status of corrective action on audit findings from previous years.

### **Questioned Costs**

---

When an expenditure does not satisfy the requirements of a grantor agency, the recipient may have to refund the amount to the federal government. Such amounts that the auditor determines may be subject to refund to the federal government are known as **questioned costs**, and may be classified as one of two types:

- **Known Questioned Costs:** these are specific amounts that are identified as a result of audit testing, and
- **Likely Questioned Costs:** represent the auditor's estimation of unknown questioned costs based on questioned costs actually identified.

The Single Audit Act sets forth requirements for disclosure of questioned costs:

- Known questioned costs for major programs in excess of \$10,000 must be reported;
- Known questioned costs for major programs of less than \$10,000 must also be reported if the total of known and likely questioned costs is estimated to exceed \$10,000.
- Known questioned costs for nonmajor federal programs of more than \$10,000 must also be reported.

Questioned costs are typically reported in a schedule of findings and questioned costs. Expenditures that are ultimately rejected by the grantor are known as **disallowed costs**.

## **Auditor's Letter to Management**

---

Auditors are required to disclose all reportable conditions to management. In GAGAS audits (including the Single Audit), this communication occurs in the form of the auditor's reports on internal controls and compliance and the accompanying schedule of findings and questioned costs. For governments not subject to the Single Audit, reportable conditions are communicated to management in a separate management letter.

## **Single Audit Reporting Package**

---

Governments subject to the Single Audit are required to submit a reporting package to the Federal Audit Clearinghouse, including the following:

- The government's financial statements,
- The government's supplementary schedule of expenditures of federal awards,
- The auditor's reports,
- A summary schedule of prior audit findings,
- A corrective action plan, and
- A data collection form summarizing the information in the reporting package.

The reporting package must be sent within 30 days after receipt of the auditor's reports or nine months after the end of the audit period (whichever is earlier) to the Federal Audit Clearinghouse, 1201 E. 10th Street, Jeffersonville, IN 47132.

## **Selecting an Auditor**

---

As with any professional service, selection of an auditor requires careful consideration. Many competent auditors lack the specialized expertise to deal effectively with local governments. A GAO study noted that there are four key characteristics of a successful audit procurement process:

- **Openness and Competition:** an open, competitive process encourages participation by a greater number of qualified firms.
- **Preparation of a Comprehensive Request for Proposals (RFP):** the RFP should obtain all the information necessary to evaluate the qualifications of the prospective auditors, and also provides a detailed description of the city and the nature and scope of the audit process.

- **Focus on Auditor Qualifications:** the primary factor in choosing an auditor should be qualifications, including experience with local governments. Price, while an important consideration, should not be the determining factor. A poor quality audit is never economical.
- **Preparation of a Written Agreement:** it is essential for the city to enter into a written agreement with the auditor that outlines the rights and responsibilities of both parties. The contract may incorporate terms of the RFP by reference. Governments should not rely solely on the engagement letter furnished by the auditor.

## **Auditor Rotation**

---

Because auditors need to have a detailed understanding of a city's internal controls and accounting practices, the process of becoming acquainted with a new city can be more expensive and time-consuming. To minimize these costs, cities will generally keep the same auditor for several years.

There is some debate concerning the relative merits of auditor rotation, where the city selects a new auditor every few years. Supporters of auditor rotation argue that the fresh perspective of a new auditor can be valuable. Opponents argue that established auditors have the benefit of experience with a city's accounting and internal controls, and that breaking in a new auditor adds time and expense to the process.

## **The Role of the Audit Committee**

---

Many cities have an audit committee, which serves to facilitate communication between city staff, the auditors and elected officials. The audit committee also serves to enhance the auditor's independent status by providing a direct link between the auditor and the governing board.

The audit committee serves in an advisory capacity to the city council, and should consist of councilmembers with more specialized understanding of accounting, auditing, internal controls and financial reporting. The committee generally takes a leading role in overseeing development of the audit RFP and oversees resolution of any audit findings.

# Glossary of Accounting and Finance Terms

**Accrual:** A method of accounting that recognizes the financial effect of transactions, events and interfund activities when they occur, regardless of the timing of related cash flows.

**Agency Funds:** One of four types of fiduciary funds. Agency funds are used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

**Allocated Claims Adjustment Expenses:** Term used in connection with risk financing activities. Expenses associated directly with specific claims paid or in the process of settlement, such as legal and adjusters' fees.

**Allotment:** Portion of an annual or biennial budget appropriation allocated to an interim period.

**Appropriated Budget:** The expenditure authority created by the appropriation bills or ordinances that are signed into law and related estimated revenues. The appropriated budget would include all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes.

**Arbitrage:** Classically, the simultaneous purchase and sale of the same or an equivalent security in order to profit from price discrepancies. In government finance, the most common occurrence of arbitrage involves the investment of the proceeds from the sale of tax-exempt securities in a taxable money market instrument that yields a higher rate, resulting in interest revenue in excess of interest costs.

**Audit Committee:** A group of individuals, selected by the governing body, having specific responsibility for addressing all issues related to the independent audit of the financial statements.

**Auditor Rotation:** Policy that a government periodically change the independent auditor of its financial statements.

**Availability Criterion:** Principle of the modified accrual basis of accounting according to which revenues may only be recognized when they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

**Availability Period:** A specified period immediately following the close of the fiscal year by the end of which cash must be collected for related revenue to be recognized in accordance with the availability criterion of modified accrual accounting.

**Basic Financial Statements:** The minimum combination of financial statements and note disclosures required for fair presentation in conformity with GAAP.

**Basis of Accounting:** The timing of recognition, that is, when the effects of transactions or events should be recognized for financial reporting purposes. For example, the effects of transactions or events can be recognized on an accrual basis (that is, when the transactions or events take place), or on a cash basis (that is, when cash is received or paid). Basis of accounting is an essential part of measurement focus because a particular timing of recognition is necessary to accomplish a particular measurement focus.

**Blue Book, GFOA:** A term commonly used to designate the Government Finance Officers Association's publication *Governmental Accounting, Auditing, and Financial Reporting*.

**Bond Anticipation Notes:** After the approval of revenue bonds, a government entity (a local district or city, for instance) can—before the bonds are sold—issue a bond anticipation note, a promise to pay as soon as the bond money arrives. This device allows the government to get its hands on needed cash faster. This can be done only after voters actually approve a bond. The note is retired from the proceeds of the bond to which it is related.

**Budgetary Accounts:** Special accounts used to achieve budgetary integration, but not reported in the general-purpose external financial statements. By convention, ALL CAPS commonly are used to designate budgetary accounts. The most common budgetary accounts are ESTIMATED REVENUES, APPROPRIATIONS, BUDGETARY FUND BALANCE, and ENCUMBRANCES.

**Budgetary Basis of Accounting:** The method used to determine when revenues and expenditures are recognized for budgetary purposes.

**Budgetary Integration:** The management control technique by which the annual operating budget is recorded in the general ledger through the use of budgetary accounts. Budgetary integration is intended to facilitate control over revenues and expenditures during the year.

**Budgetary Reporting:** The requirement to present budget-to-actual comparisons in connection with general-purpose external financial reporting. Budgetary reporting is required in connection with the basic financial statements for both the general fund and individual major special revenue funds with legally adopted annual budgets. Budgetary reporting also is required within the comprehensive annual financial report to demonstrate compliance at the legal level of control for all governmental funds with legally adopted annual budgets.

**Business-type Activities:** One of two classes of activities reported in the government-wide financial statements. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. These activities are usually reported in enterprise funds.

**Capital and Related Financing Activities:** Term used in connection with cash flows reporting. Capital and related financing activities include (a) acquiring and disposing of capital assets used in providing services or producing goods, (b) borrowing money for acquiring, constructing, or improving capital assets and repaying the amounts borrowed, including interest, and (c) paying for capital assets obtained from vendors on credit.

**Capital Assets:** Land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period.

**Capital Projects Fund:** Fund type used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

**Cash:** The term, as used in connection with cash flows reporting, includes not only currency on hand, but also demand deposits with banks or other financial institutions. Cash also includes deposits in other kinds of accounts or cash management pools that have the general characteristics of demand deposit accounts in that the governmental enterprise may deposit additional cash at any time and also effectively may withdraw cash at any time without prior notice or penalty.

**Cash Basis of Accounting:** Basis of accounting that recognizes transactions or events when related cash amounts are received or disbursed.

**Cash Equivalent:** Term used in connection with cash flows reporting. Short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition. For this purpose “original maturity” means the original maturity to the entity holding the investment.

**Character Classification:** Expenditure classification according to the periods expenditures are presumed to benefit. The four character groupings are (a) *current* operating expenditures, presumed to benefit the current fiscal period; (b) *debt service*, presumed to benefit prior fiscal periods as well as current and future periods; (c) *capital outlays*, presumed to benefit the current and future fiscal periods, and (d) *intergovernmental*, when one government transfers resources to another.

**Combining Financial Statements:** Financial statements that report separate columns for individual funds or component units. Combining financial statements normally are required in a comprehensive annual financial report to support each column in the basic financial statements that aggregates information from more than one fund or component unit.

**Comparability:** The principle according to which differences between financial reports should be due to substantive differences in the underlying transactions or the governmental structure rather than due to selection of different alternatives in accounting procedures or practices.

**Component Unit:** A legally separate organization for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

**Comprehensive Annual Financial Report (CAFR):** A financial report that encompasses all funds and component units of the government. The CAFR should contain (a) the basic financial statements and required supplementary information, (b) combining statements to support columns in the basic financial statements that aggregate information from more than one fund or component unit, and (c) individual fund statements as needed. The CAFR is the governmental unit's official annual report and also should contain introductory information, schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, and statistical data. The CAFR of a public employee retirement system or an investment pool also should provide information on investments. Likewise, the CAFR of a public employee retirement system should provide actuarial information.

**Condensed Financial Statements:** Abbreviated financial statements sometimes required by GAAP to be presented within the notes to the financial statements in connection with component units, external investment pools and segments. In addition, GAAP prescribe the presentation of condensed financial information for the prior fiscal year as part of management's discussion and analysis.

**Consistency:** The principle according to which once an accounting principle or reporting method is adopted, it will be used for all similar transactions and events. The concept of consistency in financial reporting extends to many areas such as valuation methods, basis of accounting, and determination of the financial reporting entity.

**Cost-Reimbursement Basis:** Term used in connection with internal service funds. The setting of charges so that costs are systematically recovered on a break-even basis over time.

**Debt Service Fund:** Governmental fund type used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

**Dedication:** Earmarking a specific parcel of property for use by a governmental entity for such use as drainage, open space, school sites, road, pedestrian walkways, utilities, etc. Such dedications can be required prior to the approval of a development.

**Deferred Revenue:** Resource inflows that do not yet meet the criteria for revenue recognition. Unearned amounts are always reported as deferred revenue. In governmental funds, earned amounts also are reported as deferred revenue until they are available to liquidate liabilities of the current period.

**Demand Bonds:** Long-term debt issuances with demand (“put”) provisions that require the issuer to repurchase the bonds upon notice from the bondholder at a price equal to the principal plus accrued interest. To assure its ability to redeem the bonds, issuers of demand bonds frequently enter into short-term standby liquidity agreements and long-term “take out” agreements.

**Designated Unreserved Fund Balance:** Management’s intended use of available expendable financial resources in governmental funds reflecting actual plans approved by the government’s senior management. Expressed another way, designations reflect a government’s self-imposed limitations on the use of otherwise available expendable financial resources in governmental funds.

**Direct Expense:** Expense that is specifically associated with a service, program, or department and, thus, is clearly identifiable to a particular function.

**Eligibility Requirements:** Term used in connection with government-mandated and voluntary nonexchange transactions. Conditions established by the provider of resources stipulating matters such as the qualifying characteristics of recipients, time requirements, allowable costs, and other contingencies.

**Expenditure:** Decreases in net financial resources under the current financial resources measurement focus not properly classified as *other financing uses*.

**Expenditure-driven Grants:** Government-mandated or voluntary nonexchange transactions in which expenditure is the prime factor for determining eligibility. Also referred to as *reimbursement grants*.

**External Auditors:** Independent auditors typically engaged to conduct the audit of a government’s financial statements.

**Fair Value:** Term used in connection with the valuation of investments. The amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

**Federal Accounting Standards Advisory Board:** Authoritative standard-setting body responsible for establishing GAAP for the federal government.

**Fiduciary Funds:** Funds used to report assets held in a trustee or agency capacity for others and which therefore cannot be used to support the government’s own programs. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds.

**Final Amended Budget:** Term used in connection with budgetary reporting. The original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year, whenever signed into law or otherwise legally authorized.

**Financial Accountability:** Term used in connection with the definition of the financial reporting entity. The level of accountability that exists if a primary government appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations with a separately elected governing board, a governing board appointed by another government, or a jointly appointed board that is fiscally dependent on the primary government.

**Financial Accounting Standards Advisory Council (FASAC):** Advisory group that assists the FASB. The FASAC includes representatives of all of the FASB's major constituents.

**Financial Accounting Standards Board (FASB):** The authoritative accounting and financial reporting standard-setting body for business enterprises and not-for-profit organizations. The FASB is the direct successor of the Committee on Accounting Procedure and the Accounting Principles Board. The GASB and its predecessors have elected to apply a number of the FASB's standards, as well as those of its predecessors, to state and local governments.

**Financial Audits:** Audits designed to provide independent assurance of the fair presentation of financial information.

**Financial Reporting Entity:** A primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The nucleus of a financial reporting entity usually is a primary government. However, a governmental organization other than a primary government (such as a component unit, a joint venture, a jointly governed organization, or other stand-alone government) serves as the nucleus for its own reporting entity when it issues separate financial statements.

**Finding:** Term used in connection with public sector auditing. Published communication of an internal control weakness or instance of noncompliance in connection with an audit conducted in accordance with GAGAS.

**Fiscal Accountability:** The responsibility of governments to justify that their actions in the current period have complied with public decisions concerning the raising and spending of public moneys in the short term (usually one budgetary cycle or one year). This term is used in contrast to *operational accountability*.

**Fiscal Dependence:** Term used in connection with the definition of the financial reporting entity. Situation requiring the inclusion of a legally separate entity as a component unit within the financial reporting entity because the governing board of the primary government may *arbitrarily* override the financial decisions of the legally separate entity regarding (a) its budget, (b) the levying of taxes or the setting of rates or charges, or (c) the issuance of bonded debt.

**Fiscal Funding Clause:** Term used in connection with capital leases. A clause in a lease agreement that generally provides that the lease is cancelable if the legislature or other funding authority does not appropriate the funds necessary for the government unit to fulfill its obligations under the lease agreement.

**Five Percent Criterion:** Second of two tests used to determine whether a given governmental fund or enterprise fund must be reported as a major fund in the basic financial statements. This test is applied to the combined total assets, liabilities, revenues or expenses/expenditures of all governmental and enterprise funds for which the 10 percent criterion has been met.

**Fund:** A fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

**Fund Classifications:** One of the three categories (governmental, proprietary, and fiduciary) used to classify fund types.

**Fund Financial Statements:** Basic financial statements presented on the basis of funds. Term used in contrast with government-wide financial statements.

**Fund Type:** One of 11 classifications into which all individual funds can be categorized. Governmental fund types include the general fund, special revenue funds, debt service funds, capital projects funds, and permanent funds. Proprietary fund types include enterprise funds and internal service funds. Fiduciary fund types include pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds.

**Funded Mandate:** Also known as a government-mandated nonexchange transaction. A situation where a government at one level provides resources to a government at another level and requires the recipient to use the resources for a specific purpose (for example, federal programs that state or local governments are mandated to perform).

**GAAP Hierarchy:** An authoritative list of the sources of GAAP. The GAAP hierarchy for state and local governments is set forth in SAS No. 69, *The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles" in the Independent Auditor's Report*.

**General Revenues:** All revenues that are *not* required to be reported as program revenues. All taxes, even those that are levied for a specific purpose, are general revenues and should be reported by type of tax—for example, sales tax, property tax, franchise tax, and income tax. All other nontax revenues (including interest, grants, and contributions) that do not meet the criteria to be reported as program revenues should also be reported as general revenues.

**Generally Accepted Accounting Principles (GAAP) :** The conventions, rules, and procedures that serve as the norm for the fair presentation of financial statements. The various sources of GAAP for state and local government are set forth by SAS No. 69, *The Meaning of “Present Fairly in Conformity with Generally Accepted Accounting Principles” in the Independent Auditor’s Report*.

**Generally Accepted Auditing Standards (GAAS) :** The rules and procedures that govern the conduct of a financial audit. There are ten basic GAAS, classed into three broad categories: general standards, standards of fieldwork, and standards of reporting. The Auditing Standards Board of the AICPA publishes SASs and related interpretations to comment and expand upon these basic standards.

**Generally Accepted Government Auditing Standards (GAGAS):** Standards for the conduct and reporting of both financial and performance audits in the public sector. The General Accounting Office promulgates GAGAS through its publication *Government Auditing Standards*, commonly known as the *Yellow Book*. The basic GAGAS standards are classed into three broad categories: general standards, fieldwork standards, and reporting standards. The general standards of GAGAS apply to both financial audits and performance audits. GAGAS establish separate fieldwork and reporting standards for financial audits and performance audits. The fieldwork standards and reporting standards used for financial audits build upon the standards of fieldwork and the standards of reporting of GAAS.

**Government Finance Officers Association (GFOA):** An association of public finance professionals founded in 1906 as the Municipal Finance Officers Association. The GFOA has played a major role in the development and promotion of GAAP for state and local government since its inception and has sponsored the Certificate of Achievement for Excellence in Financial Reporting Program since 1946.

**Governmental Accounting Standards Board (GASB):** The ultimate authoritative accounting and financial reporting standard-setting body for state and local governments. The GASB was established in June 1984 to replace the NCGA.

**Governmental Activities:** Activities generally financed through taxes, intergovernmental revenues, and other nonexchange revenues. These activities are usually reported in governmental funds and internal service funds.

**Governmental Financial Reporting Model:** The minimum combination of financial statements, note disclosures, and required supplementary information prescribed for state and local governments by the GASB.

**Improvement:** An addition made to, or change made in, a capital asset, other than maintenance, to prolong its life or to increase its efficiency or capacity. The cost of the addition or change is added to the book value of the asset.

**Integrated Budget:** A situation in which the accounting system has been designed to automatically provide timely budgetary information concerning the uncommitted balance of appropriations and unrealized revenues.

**Interfund Activity:** Activity between funds of the primary government, including blended component units. Interfund activities are divided into two broad categories: reciprocal and nonreciprocal. Reciprocal interfund activity comprises interfund loans and interfund services provided and used. Nonreciprocal interfund activity comprises interfund transfers and interfund reimbursements.

**Interfund Loans:** Amounts provided between funds and blended component units of the primary government with a requirement for repayment.

**Interfund Transfers:** Flows of assets (such as cash or goods) between funds and blended component units of the primary government without equivalent flows of assets in return and without a requirement for repayment.

**Internal Service Funds:** Proprietary fund type that may be used to report any activity that provides goods or services to other funds, departments or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis.

**Investing Activities:** Term used in connection with cash flows reporting. Investing activities include making and collecting loans (except program loans) and acquiring and disposing of debt or equity instruments.

**Legal Level of Budgetary Control:** The level at which a government's management may not reallocate resources without special approval from the legislative body.

**Major Fund:** A governmental fund or enterprise fund reported as a separate column in the basic fund financial statements. The general fund is always a major fund. Otherwise, major funds are funds whose revenues, expenditures/expenses, assets or liabilities (excluding extraordinary items) are at least 10 percent of corresponding total for all governmental or enterprise funds and at least 5 percent of the aggregate amount for all governmental and enterprise funds for the same item. Any other government or enterprise fund may be reported as a major fund if the government's officials believe that fund is particularly important to financial statement users.

**Management Letter:** A term used in connection with the independent audit of the financial statements. A formal communication by the auditor to management that focuses on internal control weaknesses discovered in the course of the audit of the financial statements. A management letter typically would be redundant in an audit conducted in accordance with GAGAS, which require that the independent auditor publish internal control weaknesses and instances of noncompliance in conjunction with a formal report on internal controls and compliance. The management letter, as just described, should be distinguished from the management representation letter. The latter is a communication by management to the independent auditor in which management takes formal responsibility for the fair presentation of the financial statements and makes certain specific representations regarding their contents.

**Materiality:** The magnitude of an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement. The objective of accountability in governmental financial reporting adds another perspective to materiality. Specifically, accountability requires materiality to be judged not only in a quantitative manner, but also in a qualitative manner. That is, accountability involves such issues as legal and contractual compliance that may not have a “material” effect on the entity’s reported operating results and financial position, but that would influence or change the judgment of a reasonable person about how the government has conducted its affairs during the period.

**Modified Accrual:** Basis of accounting according to which (a) revenues are recognized in the accounting period in which they become available and measurable and (b) expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt and certain similar accrued obligations, which should be recognized when due.

**Net General Obligation Debt:** General obligation debt reduced by amounts being paid with other than general resources (e.g., general obligation debt associated with proprietary funds and special assessment debt) as well as amounts available in sinking funds for debt repayment.

**Open-end Mutual Funds:** An open-end mutual fund is one that continuously offers its shares for sale to the public, compared with a closed-end company, which may issue only a limited number of shares. Mutual funds generally do not issue share certificates; instead, they send out periodic statements showing deposits, withdrawals, and dividends credited to the investor’s account.

**Operating Activities:** Term used in connection with cash flows reporting. Operating activities generally result from providing services and producing and delivering goods, and include all transactions and other events that are not defined as capital and related financing, noncapital financing, or investing activities.

**Operating Expenses and Revenues:** Term used in connection with the proprietary fund statement of revenues, expenses, and changes in net assets. The term is not defined as such in the authoritative accounting and financial reporting standards, although financial statement preparers are advised to consider the definition of *operating activities* for cash flows reporting in establishing their own definition.

**Operational Accountability:** Governments’ responsibility to report the extent to which they have met their operating objectives efficiently and effectively, using all resources available for that purpose, and whether they can continue to meet their objectives for the foreseeable future.

**Original Budget:** The first complete appropriated budget. The original budget may be adjusted by reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes before the beginning of the fiscal year. The original budget should also include actual appropriation amounts automatically carried over from prior years by law. For example, a legal provision may require the automatic rolling forward of appropriations to cover prior-year encumbrances.

**Other Financing Source:** An increase in current financial resources that is reported separately from revenues to avoid distorting revenue trends. The use of the other financing sources category is limited to items so classified by GAAP.

**Other Financing Use:** A decrease in current financial resources that is reported separately from expenditures to avoid distorting expenditure trends. The use of the other financing uses category is limited to items so classified by GAAP.

**Other Sources of GAAP:** Potential sources of accounting and financial reporting guidance that may be used in the absence of authoritative guidance on one of the four levels of the hierarchy of GAAP for state and local governments set forth in SAS No. 69, *The Meaning of "Present Fairly in Conformity with Generally Accepted Accounting Principles" in the Independent Auditor's Report*. Examples of other sources of GAAP for state and local governments include concepts statements of the GASB, pronouncements of the FASB that are not authoritative for government, professional publications, textbooks, and position papers of professional organizations. GASB Concepts Statements take precedence as another source of GAAP.

**Overlapping Debt:** Proportionate share that property within a government must bear of the debts of other local governments located wholly or in part within the geographic boundaries of the reporting government. Except for special assessment debt, the amount of debt of each unit applicable to the reporting unit is arrived at by (1) determining what percentage of the total assessed value of the overlapping jurisdiction lies within the limits of the reporting unit, and (2) applying this percentage to the total debt of the overlapping jurisdiction. Special assessment debt is allocated on the basis of the ratio of assessments receivable in each jurisdiction, which will be used wholly or in part to pay off the debt, to total assessments receivable, which will be used wholly or in part for this purpose.

**Pass-through Grants:** Grants and other financial assistance received by a governmental entity to transfer to or spend on behalf of a secondary recipient.

**Payment in Lieu of Taxes:** A payment that a property owner not subject to taxation makes to a government to compensate it for services that the property owner receives that normally are financed through property taxes.

**Permanent Funds:** A fiduciary fund type used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs—that is, for the benefit of the government or its citizenry.

**Perspective Differences:** Differences between the budgetary basis of accounting and GAAP that result when the structure of financial information used for GAAP financial reporting differs from the structure of financial information used for budgetary purposes.

**Popular Annual Financial Reporting:** Supplementary financial reporting designed to meet the special needs of interested parties who are either unable or unwilling to use the more detailed financial information provided in traditional comprehensive annual financial reports.

**Popular Annual Financial Reporting Award:** An awards program sponsored by the Government Finance Officers Association with the objective of encouraging and assisting governments to prepare and public high quality popular annual financial reports.

**Premium Deficiency:** Term used in connection with public-entity risk pools. A situation that occurs if the sum of expected claims costs (including incurred but not reported claims) and all expected claim adjustment expenses, expected dividends to policyholders or pool participants, and unamortized acquisition costs exceeds related unearned premiums.

**Primary Government:** Term used in connection with defining the financial reporting entity. A state government or general-purpose local government. Also, a special-purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments. The primary government is the focus of the financial reporting entity.

**Primary Users of General-Purpose External Financial Reports:** Those groups of financial statement users whose needs guide the development of GAAP. For state and local governments, the primary users of general-purpose external financial reports are (a) those to whom government is primarily accountable (the citizenry), (b) those who directly represent the citizens (legislative and oversight bodies), and (c) those who lend or who participate in the lending process (investors and creditors).

**Program:** Group activities, operations or organizational units directed to attaining specific purposes or objectives.

**Program Loan:** Term used in connection with cash flows reporting. A loan made and collected as part of a governmental program that provides a *direct* benefit to *individual* constituents.

**Program Revenue:** Term used in connection with the government-wide statement of activities. Revenues that derive directly from the program itself or from parties outside the reporting government's taxpayers or citizenry, as a whole; they reduce the net cost of the function to be financed from the government's general revenues.

**Proprietary Funds:** Funds that focus on the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. There are two different types of proprietary funds: enterprise funds and internal service funds.

**PERSI (Public Employee Retirement System of Idaho):** It handles the massive state retirement fund for employees of state government (and the many local governments, including cities, counties and school districts, which are also a part of the system). The governor appoints its governing board, which meets monthly and oversees investment of the fund.

**Public Entity Risk Pool:** A cooperative group of governmental entities joining together to finance an exposure, liability, or risk. Risk may include property and liability, workers' compensation, or employee health care. A pool may be a stand-alone entity or included as part of a larger governmental entity that acts as the pool's sponsor.

**Qualified Opinion:** Term used in connection with financial auditing. A modification of the independent auditor's report on the fair presentation of the financial statements indicating that there exists one or more specific exceptions to the auditor's general assertion that the financial statements are fairly presented.

**Realized Gains and Losses:** The cumulative effect of appreciation and depreciation in the value of investments reported at fair value at the time those investments are sold.

**Reappropriation:** The inclusion of a balance from the prior year's budget as part of the budget of the subsequent fiscal year. Reappropriation is common for encumbrances outstanding at the end of a fiscal year that a government intends to honor in the subsequent fiscal year.

**Rebatable Arbitrage:** A term used in connection with the reinvestment of the proceeds of tax-exempt debt. A requirement to remit to the federal government interest revenue in excess of interest costs when the proceeds from the sale of tax-exempt securities are reinvested in a taxable money market instrument with a materially higher yield.

**Reciprocal Interfund Activity:** The interfund counterpart to exchange and exchange-like transactions. This category includes both interfund loans and interfund services provided and used.

**Refunding:** The issuance of new debt whose proceeds are used to repay previously issued debt. The proceeds may be used immediately for this purpose (a current refunding), or they may be placed with an escrow agent and invested until they are used to pay principal and interest on the old debt at a future time (an advance refunding).

**Regulated Enterprises:** Enterprises for which (a) rates for regulated services or products are either established by, or subject to approval by an independent, third-party regulator (or the governing board itself if it is empowered by statute or contract to establish rates that bind customers), (b) the regulated rates are designed to recover the specific enterprise's costs of providing regulated services or products, and (c) it is reasonable to assume that the regulated activity can set and collect charges sufficient to recover its costs. Regulated enterprises have the *option* of adopting certain specialized guidance issued by the FASB. In practice, the term "regulated enterprise" normally is applied only to enterprises that elect this option.

**Reimbursement Grant:** A grant for which a potential recipient must first incur qualifying expenditures to be eligible. Reimbursement grants are also referred to as *expenditure-driven grants*.

**Related Organization:** Term used in connection with defining the financial reporting entity. An organization for which a primary government is accountable because that government appoints a voting majority of the board, but is not *financially* accountable.

**Related Party Transaction:** A transaction that an informed observer might reasonably believe reflects considerations other than economic self-interest based upon the relationship that exists between the parties to the transaction. The term often is used in contrast to an *arm's length transaction*.

**Relative Order of Liquidity:** An order for presenting assets and liabilities on the statement of net assets based upon how readily they may be converted to cash or will require the use of cash.

**Relevance:** The principle that there should be a close logical relationship between the financial information provided and the purpose for which it is needed. Information is relevant if it is capable of making a difference in a user's assessment of a problem, condition, or event.

**Reliability:** The principle that financial information should be verifiable, free from bias, and faithfully represent what it purports to represent.

**Reportable Condition:** Term used in connection with financial auditing. A significant deficiency in internal controls discovered in the course of the financial statement audit that must be communicated by the independent auditor to the entity's audit committee or its equivalent.

**Repurchase Agreement:** A transaction in which the governmental entity (buyer-lender) transfers cash to a broker-dealer or financial institution (seller-borrower); the broker-dealer or financial institution transfers securities to the governmental entity and promises to repay the cash plus interest in exchange for the return of the same securities.

**Required Supplementary Information:** Statements, schedules, statistical data, or other information that the GASB has determined to be necessary to supplement, although not required to be a part of, the basic statements.

**Reserved Fund Balance:** The portion of a governmental fund's net assets that is not available for appropriation.

**Restricted Assets:** Assets whose use is subject to constraints that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

**Restricted Net Assets:** A component of net assets calculated by reducing the carrying value of restricted assets by the amount of any related debt outstanding.

**Revenue Anticipation Note:** Short-term, interest-bearing note issued by a government in anticipation of revenues to be received at a later date. The note is retired from the revenues to which it is related.

**Salary-Related Payments:** Term used in connection with compensated absences. Payments by an employer that are directly and incrementally associated with payments made for compensated absences on termination. Such salary-related payments include the employer's share of social security and Medicare taxes and also might include, for example, the employer's contributions to pension plans.

**Securities Lending Transactions:** Transactions in which governmental entities transfer their securities to broker-dealers and other entities for collateral—which may be cash, securities or letters of credit—and simultaneously agree to return the collateral for the same securities in the future.

**Single Audit:** An audit performed in accordance with the Single Audit Act of 1984 (as amended) and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The Single Audit Act allows or requires governments (depending on the amount of federal assistance received) to have one audit performed to meet the needs of all federal grantor agencies.

**Special Revenue Fund:** A governmental fund type used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditures for specified purposes.

**Standard Costing:** Method of estimating the historical cost of a capital asset by establishing the average cost of obtaining the same or a similar asset at the time of acquisition.

**Statistical Section:** The third of three essential components of any comprehensive annual financial report. The statistical section provides a broad range of trend data covering key financial indicators from the past 10 fiscal years (e.g., general government revenues and expenditures, property tax collections, debt burden). It also contains demographic and miscellaneous data useful in assessing a government's financial condition. The contents of the statistical section normally fall outside the scope of the independent audit of the financial statements.

**Supplementary Information:** Financial information presented together with basic financial statements that is not included within the scope of the audit of those statements. When the presentation of certain supplementary information is mandated by the GASB, it is referred to as *required supplementary information*.

**Susceptible to Accrual:** Term used in connection with the application of the modified accrual basis of accounting. Revenues that are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

**Tax Anticipation Note:** Short-term, interest-bearing note issued by a government in anticipation of tax revenues to be received at a later date. The note is retired from the tax revenues to which it is related.

**Ten Percent Criterion:** The first of two tests used to determine whether a given governmental fund or enterprise fund must be reported as a major fund in the basic financial statements. For governmental funds, this test is applied to the total assets, liabilities, revenues, and expenditures of all governmental funds. For enterprise funds, this test is applied to the total assets, liabilities, revenues, and expenses of all enterprise funds. The test need be met for only one of these four items.

**Unallocated Depreciation:** Term used in connection with the government-wide statement of activities. Depreciation not properly reported as a direct expense of a functional category.

**Uncommitted Balance of Appropriations:** The portion of an appropriation remaining after the deduction of expenditures and encumbrances.

**Understandability:** The principle that information in financial reports should be expressed as simply as possible.

**Undesignated Unreserved Fund Balance:** Available expendable financial resources in a governmental fund that are not the object of tentative management plans (i.e., designations).

**Undivided Interest:** An arrangement (also known as a joint operation) that resembles a joint venture but no entity or organization is created by the participants. An undivided interest is an ownership arrangement in which two or more parties own property in which title is held individually to the extent of each party's interest. Implied in that definition is that each participant is also liable for specific, identifiable obligations (if any) of the operation. Because an undivided interest is not a legal entity, borrowing to finance its operations often is done individually by each participant. An additional consequence of the absence of a formal organizational structure is that there is no entity with assets, liabilities, expenditures/expenses, and revenues—and thus, equity—to allocate to participants.

**Unearned Revenue:** A type of deferred revenue account used in connection with resources that have not yet been earned.

**Unqualified Opinion:** An opinion rendered without reservation by the independent auditor that financial statements are fairly presented.

**Unrealized Gains and Losses:** Term used in connection with the valuation of investments. Cumulative change in the market value of investments prior to their disposition.

**Unrealized Revenues:** Term used in connection with budgeting. The difference between estimated revenues and actual revenues.

**Unrestricted Net Assets:** That portion of net assets that is neither restricted nor invested in capital assets (net of related debt).

**Voting Majority:** Term used in connection with defining the financial reporting entity. A situation in which the number of the primary government's appointees to a component unit's board is sufficient to control decisions of the component unit.

**Yellow Book:** Term used in connection with public sector auditing. A non-technical term commonly used to describe the General Accounting Office's publication *Government Auditing Standards*.

# Appendix A

## Chart of Accounts

This is a model chart of accounts that may serve as the basis for city account codes. Accounts are numbered consecutively under the following categories:

- 100 – Assets
- 200 – Liabilities and accounts reflecting the difference between assets and liabilities
- 300 – Revenues and other financing sources
- 400 – Expenditures and other financing uses

### Fund Classifications

- 1 Governmental Funds
  - 1.1 General Fund
  - 1.2 Special Revenue Funds
  - 1.3 Capital Projects Funds
  - 1.4 Debt Service Funds
  - 1.5 Permanent Funds
  - 1.6 Governmental activities (government-wide financial reporting)
- 2 Proprietary Funds
  - 2.1 Enterprise Funds
  - 2.2 Internal Service Funds
- 3 Fiduciary Funds
  - 3.1 Pension (and Other Employee Benefit) Trust Funds
  - 3.2 Investment Trust Funds
  - 3.3 Private-Purpose Trust Funds
  - 3.4 Agency Funds

cr=credit  
db=debit

### Classification—Statements of Position

<i>Code</i>	<i>Classification</i>	<i>Code</i>	<i>Classification</i>
	<b>Assets</b>		
101.	Cash (including cash equivalents)		receivable (cr)
101.1	Petty cash	117.	Unbilled accounts receivable
102.	Cash with fiscal agent	117.1	Allowance for uncollectible unbilled accounts receivable (cr)
103.	Investments—current	121.	Special assessments receivable—current
104.	Interest receivable—current	121.1	Allowance for uncollectible current special assessments (cr)
105.	Taxes receivable—current	122.	Special assessments receivable—noncurrent
105.1	Allowance for uncollectible current taxes (cr)	122.1	Allowance for uncollectible noncurrent special assessments (cr)
107.	Taxes receivable—delinquent	123.	Special assessments receivable—delinquent
107.1	Allowance for uncollectible delinquent taxes (cr)	123.1	Allowance for uncollectible delinquent special assessments (cr)
109.	Interest and penalties receivable—taxes	124.	Special assessment liens receivable
109.1	Allowance for uncollectible interest and penalties (cr)	124.1	Allowance for uncollectible special assessment liens (cr)
111.	Tax liens receivable	125.	Interest receivable—special assessments
111.1	Allowance for uncollectible tax liens (cr)		
115.	Accounts receivable		
115.1	Allowance for uncollectible accounts		

<i>Code</i>	<i>Classification</i>	<i>Code</i>	<i>Classification</i>
125.1	Allowance for uncollectible special assessment interest (cr)	231.	Bonds payable—noncurrent
126.	Intergovernmental receivable	231.1	General obligation bonds payable
127.	Taxes levied for other governments	231.2	Special assessment debt with government commitment
128.	Notes receivable	231.3	Revenue bonds payable
128.1	Allowance for uncollectible notes (cr)	231.4	Other bonds payable
129.	Loans receivable	232.	Unamortized premiums on bonds
129.1	Allowance for uncollectible loans (cr)	233.	Unamortized discounts on bonds (db)
130.	Due from other funds—_____ fund	234.	Unamortized charge—refunding bonds
132.	Due from component unit	235.	Notes payable—noncurrent
136.	Rent receivable	237.	Capital leases payable—noncurrent
136.1	Allowance for uncollectible rent (cr)	238.	Net pension obligation
141.	Inventories—materials and supplies	239.	Other noncurrent liabilities
142.	Inventories—stores for resale	241.	Fund balance—reserved for debt service
143.	Prepaid items	242.	Fund balance—reserved for endowments
149.	Deferred charges	244.	Fund balance—reserved for encumbrances
151.	Investments—noncurrent	245.	Fund balance—reserved for inventories
151.1	Unamortized premiums—investments	246.	Fund balance—reserved for prepaid items
151.2	Unamortized discounts—investments (cr)	247.	Fund balance—reserved for noncurrent loans receivable
152.	Advance to other funds—_____ fund	248.	Fund balance—reserved for advance to other funds
153.	Investments—joint venture	249.	Fund balance—reserved for capital assets held for resale
161.	Land	250.	Fund balance—reserved for _____
162.	Infrastructure	253.	Fund balance—unreserved
162.1	Accumulated depreciation—infrastructure (cr)	253.1	Fund balance—unreserved, designated for _____
163.	Buildings	253.2	Fund balance—unreserved—undesignated
163.1	Accumulated depreciation—buildings (cr)	261.	Net assets, invested in capital assets, net of related debt
164.	Improvements other than buildings	262.	Net assets, restricted for _____
164.1	Accumulated depreciation—improvements other than buildings (cr)	262.1	Net assets restricted for _____—permanent restriction
165.	Machinery and equipment	262.2	Net assets restricted for _____—temporary restriction
165.1	Accumulated depreciation—machinery and equipment (cr)	263.	Net assets, held in trust for pension benefits
166.	Construction in progress	264.	Net assets, held in trust for pool participants
170.	Other assets	265.	Net assets, held in trust for other purposes
	<b>Liabilities, Fund Balances and Net Assets</b>	266.	Net assets, unrestricted
201.	Vouchers payable	267.	Net assets—general government
202.	Accounts payable		<b>Revenues</b>
203.	Compensated absences payable	311.	General property taxes
204.	Claims and judgments payable	311.1	Real property
205.	Contracts payable	311.2	Personal property
206.	Retainage payable	311.21	Tangible personal
207.	Intergovernmental payable	311.22	Intangible personal
208.	Due to other funds—_____ fund	312.	Property taxes on other than assessed valuation
210.	Due to component unit	313.	General sales and use taxes
212.	Matured bonds payable	314.	Selective sales and use taxes
213.	Matured interest payable	314.1	Motor fuel
214.	Accrued interest payable	314.2	Tobacco products
222.	Deferred revenue—unavailable	314.3	Alcoholic beverages
223.	Deferred revenue—unearned	315.	Income taxes
224.	Notes payable—current	315.1	Individual
225.	Bonds payable—current	315.2	Corporate
225.1	General obligation bonds payable	315.3	Unincorporated business
225.2	Special assessment debt with government commitment	316.	Gross receipts business taxes
225.3	Revenue bonds payable	316.1	Privately owned public utility
225.4	Other bonds payable	316.2	Publicly owned public utility
226.	Capital leases payable—current	316.3	Insurance companies
227.	Other current liabilities		
228.	Customer deposits		
230.	Advance from other funds—_____ fund		

<i>Code</i>	<i>Classification</i>
316.4	Amusements
317.	Death and gift taxes
318.	Other taxes
318.1	Severance taxes
318.2	Franchise taxes
319.	Penalties and interest on delinquent taxes
319.1	General property taxes
319.11	Real property
319.12	Personal property
319.3	General sales and use taxes
319.4	Selective sales and use taxes
319.5	Income taxes
319.6	Gross receipts business taxes
319.7	Death and gift taxes
320.	Licenses and permits
321.	Business licenses and permits
321.1	Alcoholic beverages
321.2	Health
321.3	Police and protective
321.4	Corporate
321.5	Public utilities
321.6	Professional and occupational
321.7	Amusements
322.	Nonbusiness licenses and permits
322.1	Building structures and equipment
322.2	Motor vehicles
322.3	Motor vehicle operators
322.4	Hunting and fishing
322.5	Marriage licenses
322.6	Animal licenses
330.	Intergovernmental revenues
331.	Federal government grants
331.1	Operating—categorical
331.11	Direct
331.12	Indirect
331.2	Operating—noncategorical
331.21	Direct
331.22	Indirect
331.3	Capital
331.31	Direct
331.32	Indirect
333.	Federal government payments in lieu of taxes
334.	State government grants
334.1	Operating—categorical
334.2	Operating—noncategorical
334.3	Capital
335.	State government shared revenues
335.1	Property taxes
335.2	Income taxes
335.21	Individual income taxes
335.22	Corporate income taxes
335.3	General sales and use taxes
335.4	Motor vehicle fuel taxes
335.5	Motor vehicle licenses
335.6	Tobacco taxes
335.7	Alcoholic beverage taxes
335.8	Death and gift taxes
335.9	Gross receipts business taxes
336.	State government payments in lieu of taxes.
337.	Local government unit (specify unit) grants
338.	Local government unit (specify unit) shared

<i>Code</i>	<i>Classification</i>
	revenues
339.	Local government unit (specify unit) payments in lieu of taxes
340.	Charges for services
341.	General government
341.1	Court costs, fees and charges
341.2	Recording of legal instruments
341.3	Zoning and subdivision fees
341.4	Printing and duplicating services
342.	Public safety
342.1	Special police services
342.2	Special fire protection services
342.3	Correctional fees
342.4	Protective inspection fees
344.	Sanitation
344.1	Sewerage charges
344.2	Street sanitation charges
344.3	Refuse collection charges
345.	Health
345.1	Vital statistics
345.2	Health and inspection fees
345.3	Hospital fees
345.4	Clinic fees
345.5	Animal control and shelter fees
346.	Welfare
346.1	Institutional charges
347.	Culture-recreation
347.1	Golf fees
347.2	Swimming pool fees
347.3	Playground fees
347.4	Park and recreation concessions
347.5	Auditorium use fees
347.6	Library use fees (not fines)
347.7	Zoo charges
351.	Fines
351.1	Court
351.2	Library
352.	Forfeits
355.	Special assessments
355.1	Capital improvement
355.2	Service
361.	Investment earnings
361.1	Interest revenues
361.2	Dividends
361.3	Net increase (decrease) in the fair value of investments
362.	Rents and royalties
363.	Escheats
364.	Contributions and donations from private sources
365.	Contributions from property owners—special assessments
370.	Special assessment financing
390.	Other financing sources
391.	Interfund transfers in—_____ fund
392.	Proceeds of general capital asset dispositions
392.1	Sale of general capital assets
392.2	Compensation for loss of general capital assets
393.	General long-term debt issued
393.1	General obligation bonds issued
393.2	Special assessment bonds issued

<i>Code</i>	<i>Classification</i>	<i>Code</i>	<i>Classification</i>
393.3	Special assessment debt with government commitment issued	421.26	Custody of prisoners
393.4	Other bonds issued	421.27	Custody of property
393.5	Refunding bonds issued	421.28	Crime laboratory
393.6	Premiums on bonds sold	421.3	Traffic control
393.7	Capital leases	421.31	Motor vehicle inspection and regulation
395.	Special items—_____	421.4	Police training
396.	Extraordinary items—_____	421.5	Support service
397.	Capital contributions	421.51	Communications services
		421.52	Automotive services
		421.53	Ambulance services
		421.54	Medical services
		421.6	Special detail services
		421.7	Police stations and buildings
		422.	Fire
		422.1	Fire administration
		422.2	Fire fighting
		422.3	Fire prevention
		422.4	Fire training
		422.5	Fire communications
		422.6	Fire repair services
		422.7	Medical services
		422.8	Fire stations and buildings
		423.	Corrections
		423.1	Correctional administration
		423.2	Adult correctional institutions
		423.3	Juvenile correctional institutions
		423.4	Delinquents in other institutions
		423.5	Adult probation and parole
		423.6	Juvenile probation and parole
		424.	Protective inspection
		424.1	Protective inspection administration
		424.2	Building inspection
		424.3	Plumbing inspection
		424.4	Electrical inspection
		424.5	Gas inspection
		424.6	Air conditioning inspection
		424.7	Boiler inspection
		424.8	Elevator inspection
		424.9	Weights and measures
		429.	Other protection
		429.1	Civil defense
		429.2	Militia and armories
		429.3	Traffic engineering
		429.4	Examination of licensed occupations
		429.5	Public scales
		429.6	Flood control
		431.	Highways and streets
		431.21	Paved streets
		431.22	Unpaved streets
		431.23	Alleys
		431.24	Sidewalks and crosswalks
		431.25	Snow and ice removal
		431.3	Bridges
		431.4	Tunnels
		431.5	Storm drainage
		431.6	Street lighting
		432.	Sanitation
		432.1	Sanitation administration
		432.2	Street cleaning
		432.3	Waste collection
		432.4	Waste disposal

**Expenditures**

410.	General government
411.	Legislative
411.1	Governing body
411.2	Legislative committees and special bodies
411.3	Ordinances and proceedings
411.4	Clerk of council
412.	Judicial
412.1	Criminal courts
412.2	Grand jury
412.3	Public defender
412.4	Civil courts
412.41	Chancery court
412.42	Small claims court
412.43	Civil court
412.44	Domestic relations court
412.5	Law library
413.	Executive
413.1	Mayor
413.2	Chief executive
413.3	Boards and commissions
414.	Elections
415.	Financial administration
415.1	Finance
415.11	General supervision
415.12	Accounting
415.13	Independent audit
415.14	Budget
415.15	Tax administration
415.16	Treasury
415.17	Licensing
415.18	Purchasing
415.19	Debt administration
415.21	Internal audit
415.3	Law
415.4	Recording and reporting
415.5	Personnel administration
419.	Other—unclassified
419.1	Planning and zoning
419.2	Data processing
419.3	Research and investigation.
419.4	General government buildings and plant
420.	Public safety
421.	Police
421.1	Police administration
421.2	Crime control and investigation
421.21	Criminal investigation
421.22	Vice control
421.23	Patrol
421.24	Records and identification
421.25	Youth investigation and control

<i>Code</i>	<i>Classification</i>	<i>Code</i>	<i>Classification</i>
432.5	Sewage collection and disposal	451.33	Art galleries
432.51	Sanitary sewer construction	451.34	Zoos
432.52	Sanitary sewer maintenance	451.4	Special recreational facilities
432.53	Sanitary sewer cleaning	452.	Parks
432.54	New sewer services	452.1	Supervision
432.55	Sewer lift stations	452.2	Park areas
432.56	Sewage treatment plants	452.3	Parkways and boulevards
432.6	Weed control	452.4	Forestry and nursery
440.	Health and welfare	452.5	Park policing
441.	Health	452.6	Park lighting
441.1	Public health administration	455.	Libraries
441.2	Vital statistics	455.1	Library administration
441.3	Regulation and inspection	455.2	Circulation
441.31	Food and drugs	455.3	Catalog
441.32	Milk and dairy products	455.4	Reference
441.33	Other sanitary inspection	455.5	Order
441.4	Communicable disease control	455.6	Periodicals
441.41	Tuberculosis	455.7	Extension
441.42	Socially transmitted diseases	455.8	Special collections
441.43	Rabies and animal control	455.9	Branch libraries
441.44	Other communicable diseases	461.	Conservation
441.5	Maternal and child health services	461.1	Water resources
441.51	Maternal and preschool	461.2	Agricultural resources
441.52	School	461.3	Forest resources
441.6	Adult health services	461.4	Mineral resources
441.7	Health centers and general clinics	461.5	Fish and game resources
441.8	Laboratory	463.	Urban redevelopment and housing
444.	Welfare	463.1	Urban redevelopment and housing administration
444.1	Welfare administration	463.2	Urban redevelopment
444.2	Institutional care	463.21	Redevelopment administration
444.3	Direct Assistance	463.22	Conservation projects
444.31	General assistance	463.23	Rehabilitation projects
444.32	Old-age assistance	463.24	Clearance projects
444.33	Aid to dependent children	463.25	Relocation
444.34	Aid to the blind	463.3	Public housing
444.35	Aid to the disabled	463.4	Other urban redevelopment
444.36	Other direct assistance	465.	Economic development and assistance
444.4	Intergovernmental welfare payments	465.1	Economic development and assistance administration
444.41	General assistance	465.2	Economic development
444.42	Old-age assistance	465.3	Employment security
444.43	Aid to dependent children	466.	Economic opportunity
444.44	Aid to the blind	466.1	Job corps
444.45	Aid to the disabled	466.11	Men's urban training centers
444.46	Other welfare assistance	466.12	Women's urban training centers
444.5	Vendor welfare payments	466.13	Rural conservation centers
444.51	Vendor medical payments	466.14	Youth camps
444.52	Other vendor payments	466.2	Youth work-training programs
450.	Culture	466.21	In-school projects
451.	Recreation	466.22	Out-of-school projects
451.1	Culture-recreation administration	466.3	Community action programs
451.2	Participant recreation	466.31	Preschool readiness instruction
451.21	Supervision	466.32	Study centers
451.22	Recreation centers	466.33	Day-care centers
451.23	Playgrounds	466.34	Remedial instruction for elementary school students
451.24	Swimming pools	466.35	Family health education
451.25	Golf courses	466.36	Other projects
451.26	Tennis courts	466.4	Adult basic education
451.27	Other recreational facilities		
451.3	Spectator recreation		
451.31	Botanical gardens		
451.32	Museums		

<i>Code</i>	<i>Classification</i>
466.5	Assistance to migrant agricultural workers and families
466.6	Work experience programs for needy persons
470.	Debt service
471.1	Bond principal
471.2	Other debt principal
472.1	Interest—bonds
472.2	Interest—other debt
475.	Fiscal agent's fees

<i>Code</i>	<i>Classification</i>
476.	Issuance costs
477.	Advance refunding escrow
480.	Intergovernmental expenditures
490.	Other financing uses
491.	Interfund transfers out—_____ fund
492.	Payment to refunded bond escrow agent
493.	Discount on bonds issued
495.	Special items—_____
496.	Extraordinary items—_____

### Character and Object Classification

<i>Code</i>	<i>Classification</i>
100.	Personal services—salaries and wages
110.	Regular employees
120.	Temporary employees
130.	Overtime
200.	Personal services—employee benefits
210.	Group insurance
220.	Social security contributions
230.	Retirement contributions
240.	Tuition reimbursements
250.	Unemployment compensation
260.	Workers' compensation
290.	Other employee benefits
300.	Purchased professional and technical services
310.	Official/administrative
320.	Professional
330.	Other professional
340.	Technical
400.	Purchased-property services
410.	Utility services
411.	Water/sewerage
420.	Cleaning services
421.	Disposal
422.	Snow plowing
423.	Custodial
424.	Lawn care
430.	Repair and maintenance services
440.	Rentals

<i>Code</i>	<i>Classification</i>
441.	Rental of land and buildings
442.	Rental of equipment and vehicles
450.	Construction services
500.	Other purchased services
520.	Insurance, other than employee benefits
530.	Communications
540.	Advertising
550.	Printing and binding
580.	Travel
600.	Supplies
610.	General supplies
620.	Energy
621.	Natural gas
622.	Electricity
623.	Bottled gas
624.	Oil
625.	Coal
626.	Gasoline
630.	Food
640.	Books and periodicals
700.	Property
710.	Land
720.	Buildings
730.	Improvements other than buildings
740.	Machinery and equipment
741.	Machinery
742.	Vehicles
743.	Furniture and fixtures
800.	Other objects

# **Appendix B**

## **Example Financial Statements and Other CAFR Components**

- **Letter of Transmittal—City of Blackfoot**
- **Organizational Chart—City of Blackfoot**
- **Independent Auditor’s Report—City of Post Falls**
- **Management’s Discussion & Analysis—City of Blackfoot**
- **Government-Wide Statement of Net Assets—City of Blackfoot**
- **Government-Wide Statement of Activities—City of Blackfoot**
- **Governmental Fund Balance Sheet—City of Blackfoot**
- **Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance—City of Blackfoot**
- **Proprietary Fund Statement of Net Assets—City of Post Falls**
- **Proprietary Fund Statement of Revenues, Expenditures and Changes in Net Assets—City of Post Falls**
- **Proprietary Fund Statement of Cash Flows—City of Blackfoot**
- **Fiduciary Fund Statement of Net Assets—City of Blackfoot**
- **Notes to the Financial Statements—City of Post Falls**
- **Statistical Section—City of Post Falls**
  - **General Fund Expenditures and Other Financing Uses by Function—Last Ten Years**
  - **General Fund Revenues by Source—Last Ten Years**
  - **Property Tax Levies and Collections—Last Ten Years**
  - **Assessed Valuation and Tax Rate—Last Ten Years**
  - **Property Tax Rates—Direct and Overlapping Governments—Last Ten Years**
  - **Assessments Receivable and Collected - Last Ten Years**
  - **Bonded Debt—Direct and Overlapping Governments**
  - **New Construction and Additions—Last Six Years**
  - **Major Taxpayers**
  - **Statistical Information—Water Fund**
  - **Statistical Information—Wastewater Fund**
  - **Miscellaneous Statistics**
  - **Computation of Legal Debt Margin**
  - **Listing of Insurance**
  - **Schedule of Sewer Revenue Bond Coverage—Last Ten Years**
  - **Schedule of Water Revenue Bond Coverage—Last Ten Years**
  - **Ratio of Annual Debt Service Expenditures for General Bonded Debt to General Government Expenditures—Last Ten Years**
  - **Ratio of General Bonded Debt to Assessed Value and Bonded Debt Per Capita—Last Ten Years**

January 23, 2003

To the Honorable Mayor, Members of the Governing Council, and Citizens of the City of Blackfoot:

It is with great pleasure that I present to you, the City of Blackfoot Comprehensive Annual Financial Report. This year's report has been formatted to comply with the new financial reporting model developed by the Governmental Accounting Standards Board (GASB) Statement 34. The City of Blackfoot took a leadership role in implementing GASB 34 well before the 2003 deadline when it complied in 2001.

The new financial reporting model is intended to improve financial reporting by adding significant additional information not previously available in local government financial statements. In addition to the fund-by-fund financial information, the statements now include government-wide financial statements that are prepared on the accrual basis of accounting and show total net equity of the City including infrastructure. These statements, combined with other information are further analyzed in a narrative section called Management's Discussion and Analysis (MDA). The MDA provides "financial highlights" and interprets the financial reports by analyzing trends and by explaining changes, fluctuations and variances in the financial data. In addition, the MDA is intended to disclose any known significant events or decisions that affect the financial condition of the City.

The Comprehensive Annual Financial Report of the City of Blackfoot for the fiscal year ended September 30, 2002 is hereby presented. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position of the City. All disclosures necessary to enable an understanding of the City's financial activities have been included.

Respectfully submitted,

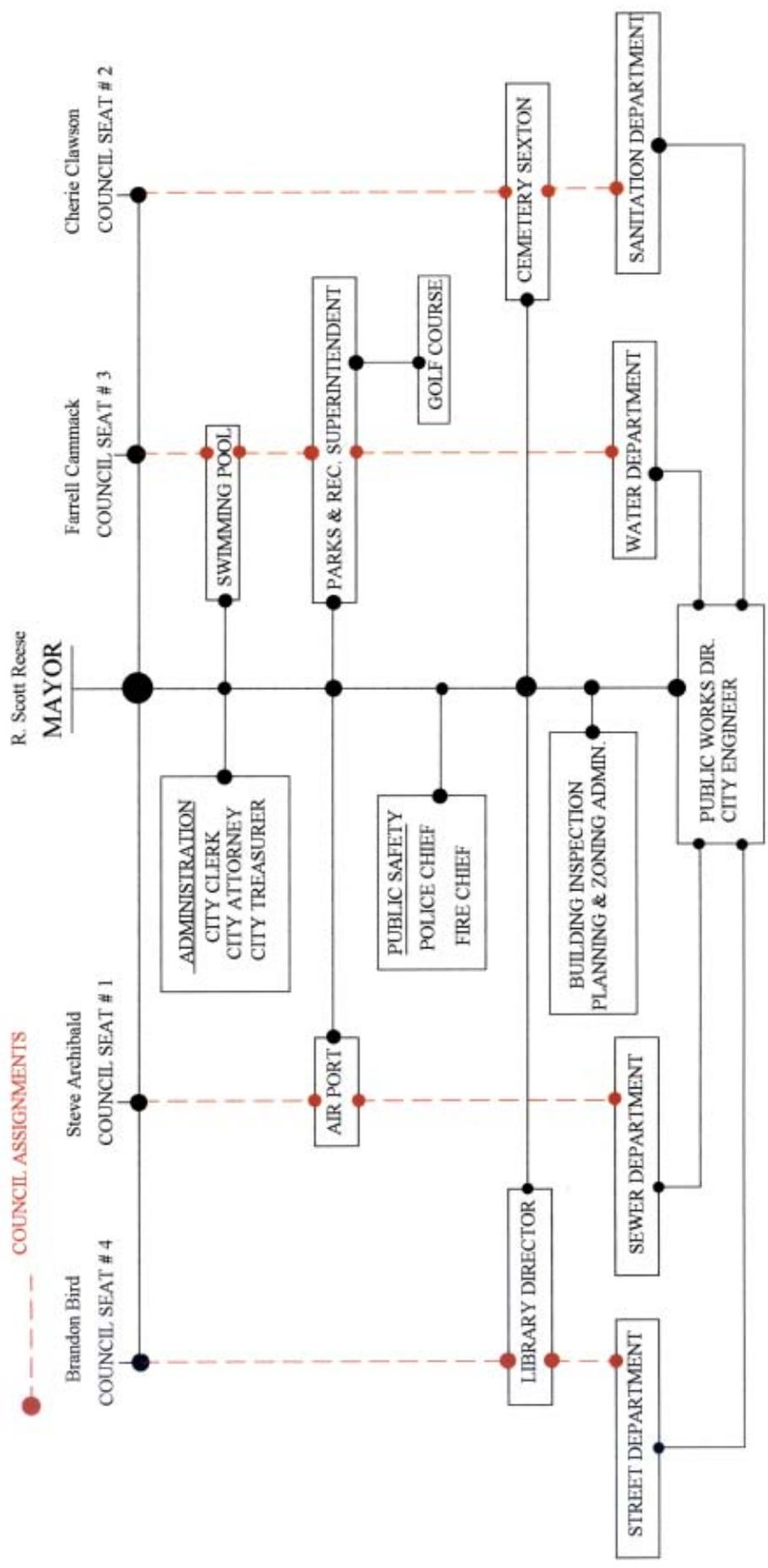
Ginette C. Manwaring, C.P.A.

Treasurer



# CITY OF BLACKFOOT, IDAHO

FYE 2002 - 2003





# Magnuson, McHugh & Company, P.A.

Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

Mayor and City Council  
City of Post Falls  
Post Falls, ID 83854

We have audited the accompanying general purpose financial statements of the City of Post Falls, Idaho as of and for the year ended September 30, 2002, as listed in the table of contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Post Falls as of September 30, 2002, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2002 on our consideration of the City of Post Falls' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The other financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the City of Post Falls. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

The required supplemental information listed in the table of contents is not a required part of the general purpose financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*Magnuson, McHugh & Co., P.A.*

December 12, 2002



**Magnuson, McHugh & Company, P.A.**

Certified Public Accountants

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Mayor and City Council  
City of Post Falls  
Post Falls, Idaho 83854

We have audited the general purpose financial statements of the City of Post Falls, Idaho as of and for the year ended September 30, 2002, and have issued our report thereon dated December 12, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Post Falls' general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Post Falls' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Magnuson, McHugh & Co., P.A.*

December 12, 2002



# Magnuson, McHugh & Company, P.A.

Certified Public Accountants

## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Mayor and City Council  
City of Post Falls  
Post Falls, Idaho 83854

### Compliance

We have audited the compliance of the City of Post Falls, Idaho with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2002. The City of Post Falls' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Post Falls, Idaho's management. Our responsibility is to express an opinion on the City of Post Falls, Idaho's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Post Falls, Idaho's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Post Falls, Idaho's compliance with those requirements.

In our opinion, the City of Post Falls, Idaho complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2002.

### Internal Control Over Compliance

The management of the City of Post Falls, Idaho is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Post Falls, Idaho's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133 (Concluded)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Magnuson, McHugh & Co., P.A.*

December 12, 2002

**City of Post Falls, Idaho**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the year ended September 30, 2002**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
<u>Department of Agriculture:</u>		
Cooperative Forestry Assistance	10.664	\$ 11,726
Total Department of Agriculture		<u>11,726</u>
 <u>Department of Health and Human Services:</u>		
Passed through State Department of Health & Welfare:		
Family Violence Prevention and Services/Grants	93.671	6,268
Crime Victim Assistance	16.575	<u>47,660</u>
Total Department of Health and Welfare		<u>53,928</u>
 <u>Department of Housing and Urban Development</u>		
Community Development Block Grants	14.228	<u>573,263</u>
Total Department of Housing and Urban Development		<u>573,263</u>
 <u>Department of Justice:</u>		
Local Law Enforcement Block Grants Program	16.592	16,390
Rural Grant	16.589	1,280
COPS More 2001	16.710	181,460
Passed through State Department of Juvenile Corrections:		
Juvenile Accountability Incentive Block Grants	16.523	18,511
Passed through Idaho State Police:		
Byrne Formula Grant Program	16.579	32,943
Violence Against Women Formula Grants	16.588	<u>29,415</u>
Total Department of Justice		<u>279,999</u>
 <u>Department of Transportation:</u>		
Highway Planning and Construction	20.205	54,867
Passed through State Department of Transportation:		
Highway Planning and Construction –		
PW Equipment Grant	Unknown	78,388
Safety Incentive Grants for Use of Seatbelts	20.604	<u>1,168</u>
Total Department of Transportation		<u>134,423</u>
 <b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>		 <b><u>\$1,053,339</u></b>

## **City of Post Falls, Idaho**

### **NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the year ended September 30, 2002**

#### **NOTE 1: BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Post Falls, Idaho and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

City of Post Falls, Idaho

SCHEDULE OF FINDINGS

September 30, 2002

**Section I. Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Reportable condition(s) identified that are not considered to be material weakness(es)  Yes  None reported
- Noncompliance material to financial statements noted?  Yes  No

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?  Yes  No
- Reportable conditions(s) identified that are not considered to be material weakness(es)?  Yes  None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?  Yes  No

Identification of major programs:

*CFDA Number(s)*

16.588  
14.228  
16.710

*Name of Federal Program or Cluster*

Violence Against Women Formula Grant  
EDA Grant and Community Block Grant  
Department of Justice "COPS"

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?  Yes  No

# CITY OF BLACKFOOT, IDAHO

## Management's Discussion and Analysis

As management of the City of Blackfoot (City), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2002. The narrative is designed to (a) assist readers in focusing on the significant financial issues, (b) identify changes in the City's ability to meet future financial obligations, (c) identify any material deviations from the approved budget, and (d) list individual fund issues or concerns. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this section.

### Financial Highlights

- The assets of the City exceeded its liabilities at the close of the fiscal year 2002 by 20.2 million. Of this amount, \$1.78 million is considered unrestricted. The unrestricted net assets of the City's governmental activities are \$1.56 million and may be used to meet the government's ongoing obligations. The restricted net assets of the Blackfoot Urban Renewal Agency are \$510,000. The unrestricted net assets of the City's business type activities are -\$293,000 and therefore all of the assets of those funds are tied up in capital assets resulting in cash shortfalls for current and future periods.
- The City's total net assets increased by \$2.5 million in 2002. Net assets of the governmental activities increased by \$279,142, which represents a 2.7 percent increase from 2001. Net assets of the business-type activities increased \$2.37 million or 36.2 percent from 2001.
- The total cost of the City's primary government programs increased \$906,753 or 11.2 percent. The cost of governmental activities increased \$599,417 or 10.6 percent, while the cost of business type activities increased \$307,336 or 12.6 percent.
- As of the close of the current fiscal year, the City's governmental fund's reported a combined ending fund balance of \$1.55 million. The combined governmental fund's ending fund balance increased \$138,040 from the prior year's ending fund balance. All of the total fund balance is considered unreserved at September 30, 2002.
- The general fund reported an unreserved fund balance of \$675,887 at the end of the current fiscal year or 19.2 percent of total general fund expenditures (including transfers to other governmental funds). There was a \$176,097 increase in the total general fund balance for the year ended September 30, 2002.
- The City's total debt increased by \$1.22 million (25.5%) during the current fiscal year. The key factors in this increase were the payables still outstanding at year-end on the construction of the Waste Water Treatment Upgrade in the Sewer Enterprise Fund and the issuance of a \$400,000 revenue bond in the Water Enterprise Fund.

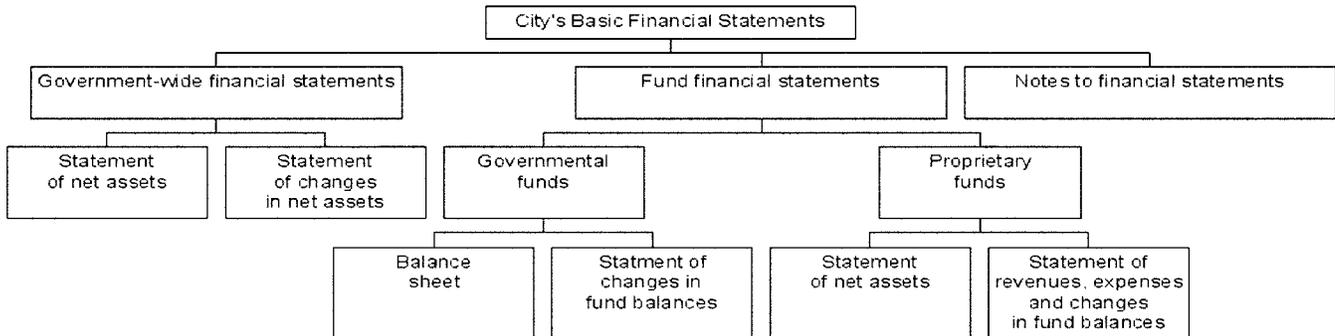
### City Highlights

- The City worked with Bingham County officials and substantially extended the impact area around the City limits in order to better manage growth and economic development.
- The City began construction of its Downtown Revitalization Project, a \$1,000,000 project to improve the deteriorating infrastructure, revitalize a slum and blighted area, initiate an inviting pedestrian environment, and build enhanced economic development opportunities in the Downtown business district. The project was five years in development and included a \$400,000 Idaho Community Development Block Grant.
- The City improved the airport utilities and taxi runs at the North Expansion of the airport. A grant for continued improvements has been extended into the next fiscal year.
- The City completed major water and sewer line extensions and added a lift station and well #11 to Spudnik Equipment as part of a project to provide services to the growing impact area of the City. The project was financed with a \$1 million Economic Development Administration Grant.
- The City neared completion of construction of \$7 million waste water treatment facility upgrade which was financed in part by approximately \$3.8 million in grant proceeds and \$3.2 million in revenue bonds.
- The City passed an ordinance calling for increases in both the water and sewer utility rates in an effort to remedy fund cash shortages, cover current operating losses, and provide for investment in aging infrastructure.
- The closing of the Suprema Cheese Plant resulted in lost revenues for the City Utilities for approximately six months. The Mayor successfully negotiated the sale to Antigo Cheese of Wisconsin to reopen the plant and restore over forty jobs and much of the lost utility revenue.
- The City, in a joint project with the Blackfoot Urban Renewal Agency, completed the first phase and construction of a new widened street, curb, gutter, sidewalk, and new water line in the Meridian Street district. This development enabled the relocation of the new CAL Store and will facilitate additional commercial development as well as a large increase in tax base of that area.
- The Blackfoot Urban Renewal Agency, as a component unit of the City, began construction of Luther Way to enhance traffic flow from Meridian to Parkway. The City had previously planned to vacate the street due to concerns of property owners.



## Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. Those statements are comprised of three components: 1) **government-wide financial statements**, 2) **fund financial statements**, and 3) **notes to the financial statements**. This report also contains **other supplementary information** in addition to the basic financial statements themselves.



**Government-wide financial statements.** The *government-wide financial statements* are intended to provide readers with a broad overview of the City's finances, designed in a manner similar to private-sector business. The *government-wide financial statements* distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees or charges (business-type activities.) The governmental activities of the City include General Government, Public Safety, Parks and Recreation, Library, Streets, and Airport. The business-type activities of the City include three proprietary funds (enterprise activities): a water system, a wastewater sewer system, and a sanitary garbage collection system. Component Units, which are other governmental units over which the City can exercise influence, are presented as a separate column in the *government-wide statements*. The Blackfoot Urban Renewal Agency is considered a component unit of the City of Blackfoot. The *government-wide financial statements* can be found on pages 21-23 of this report.

The *statement of net assets* combines and consolidates the short-term spendable resources of the City's governmental funds (current assets), the City's infrastructure (capital assets), and the City's long-term obligations (liabilities). The difference between those assets and liabilities represent *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. It is intended to summarize and simplify the user's analysis of cost of various governmental services, and subsidy to various business type activities and component units. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenue and expenses reported in this statement for some items may result in cash flows in future fiscal periods such as uncollected taxes and earned but unused vacation leave.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for a specific purpose. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: *governmental funds and proprietary funds*. The *fund financial statements* can be found on pages 24--30 of this report.

*Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, the focus of the *governmental fund financial statements* is on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may help the reader to evaluate a government's near-term financing requirements. Because the focus is narrower than that of the government-wide statements, it is useful to compare the information presented for *governmental funds* in the Fund Financial Statements with similar information presented for *governmental activities* in the Government-wide Financial Statements. The City maintains 12 individual governmental funds. Information for the general fund is separately stated from the other governmental funds in the *governmental fund lance sheet* and in the *governmental fund statement of revenues, expenditures, and changes in fund balances*. Data from the other 11 governmental funds are separately stated in the form of *combining statements* elsewhere in this report.

*Proprietary funds.* The City maintains three *proprietary funds*. These *proprietary funds statements* are used to report the same functions presented as *business-type activities* in the government-wide financial statements but are presented in greater detail. The City uses *proprietary funds* to account for its water, waste-water sewer, and sanitary garbage collection operations.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 31-39 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City’s general fund budget. The City adopts an annual appropriation budget for its general fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget. Required supplementary information can be found on pages 40-42 of this report.

The combining statements and schedules referred to earlier in connection with other governmental funds are presented immediately following the required supplemental information on pages 44-47 of this report.

## Financial Analysis of the Government-wide Financial Statements

### City of Blackfoot Net Assets

	Governmental Activities (including BURA)		Business-type Activities		Total	
	2002	2001	2002	2001	2002	2001
Current and other assets	\$ 3,234,865	\$ 2,722,828	\$ 1,510,051	\$ 2,904,303	\$ 4,744,916	\$ 5,627,131
Capital assets	\$ 9,556,953	\$ 9,436,630	\$ 11,887,209	\$ 7,413,866	\$ 21,444,162	\$ 16,850,496
<i>Total assets</i>	\$ 12,791,818	\$ 12,159,458	\$ 13,397,260	\$ 10,318,169	\$ 26,189,078	\$ 22,477,627
Long-term liabilities	\$ 380,109	\$ 157,431	\$ 3,553,412	\$ 3,345,751	\$ 3,933,521	\$ 3,503,182
Other liabilities	\$ 1,112,346	\$ 830,641	\$ 943,295	\$ 438,848	\$ 2,055,641	\$ 1,269,489
<i>Total liabilities</i>	\$ 1,492,455	\$ 988,072	\$ 4,496,707	\$ 3,784,599	\$ 5,989,162	\$ 4,772,671
<i>Net assets</i>	\$ 11,299,363	\$ 11,171,386	\$ 8,900,553	\$ 6,533,570	\$ 20,199,916	\$ 17,704,956
Invested in capital assets, net of related debt	\$ 9,230,935	\$ 9,148,546	\$ 8,878,374	\$ 3,857,017	\$ 18,109,309	\$ 13,005,563
Restricted	\$ -0-	\$ -0-	\$ 315,422	\$ 2,095,233	\$ 315,422	\$ 2,095,233
Unrestricted	\$ 2,068,428	\$ 2,022,840	\$ (293,243)	\$ 581,320	\$ 1,775,185	\$ 2,604,160
<i>Total net assets</i>	\$ 11,299,363	\$ 11,171,386	\$ 8,900,553	\$ 6,533,570	\$ 20,199,916	\$ 17,704,956

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. The City’s Total Governmental assets exceeded liabilities by \$20.2 million at the close of the most recent fiscal year.

The largest portion of the City’s net assets (90%) reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the City’s investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City’s net assets (1.6%) represents resources that are subject to restrictions as to how they may be used. The remaining balance of unrestricted net assets (\$1.7 million) may be used to meet the governments on-going obligations to citizens and creditors. It is important to note that although the total unrestricted net assets is \$1.7 million, the net assets of the City’s business-type activities may not be used to fund governmental activities.



At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

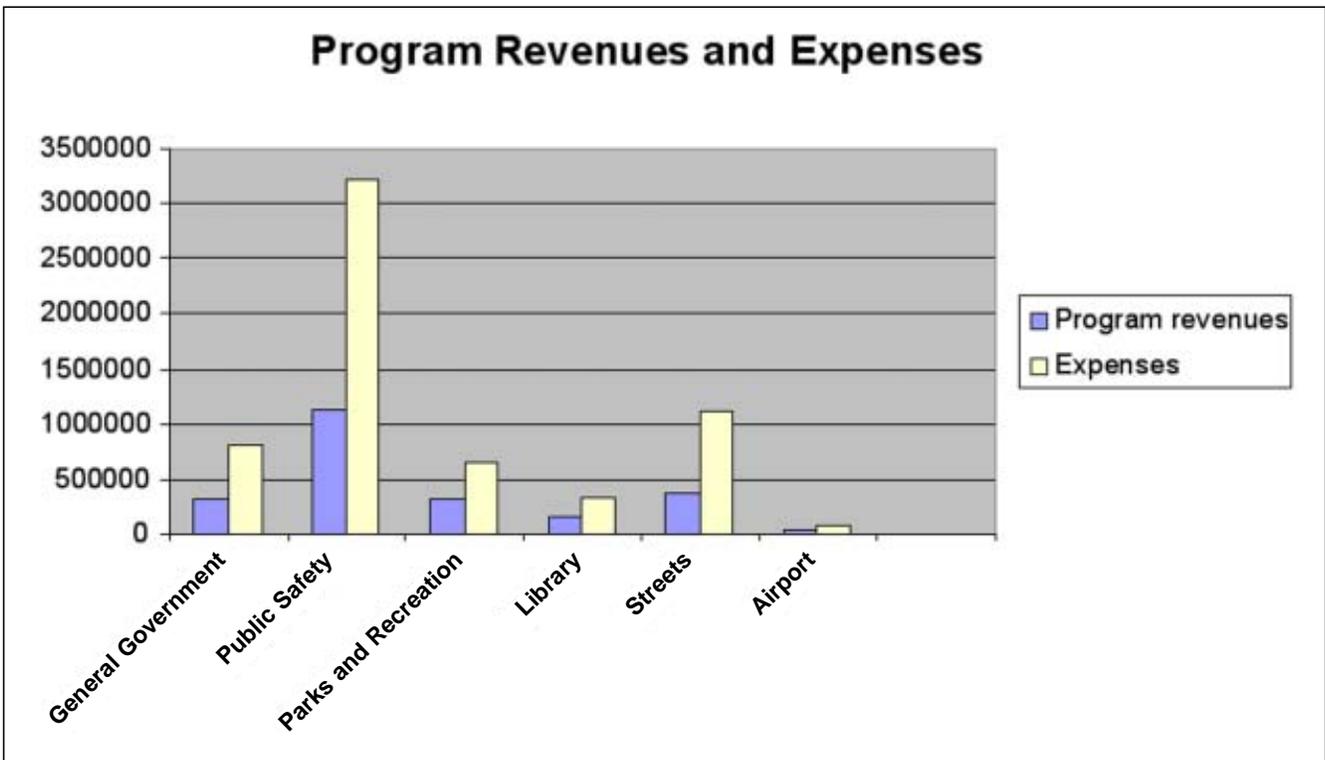
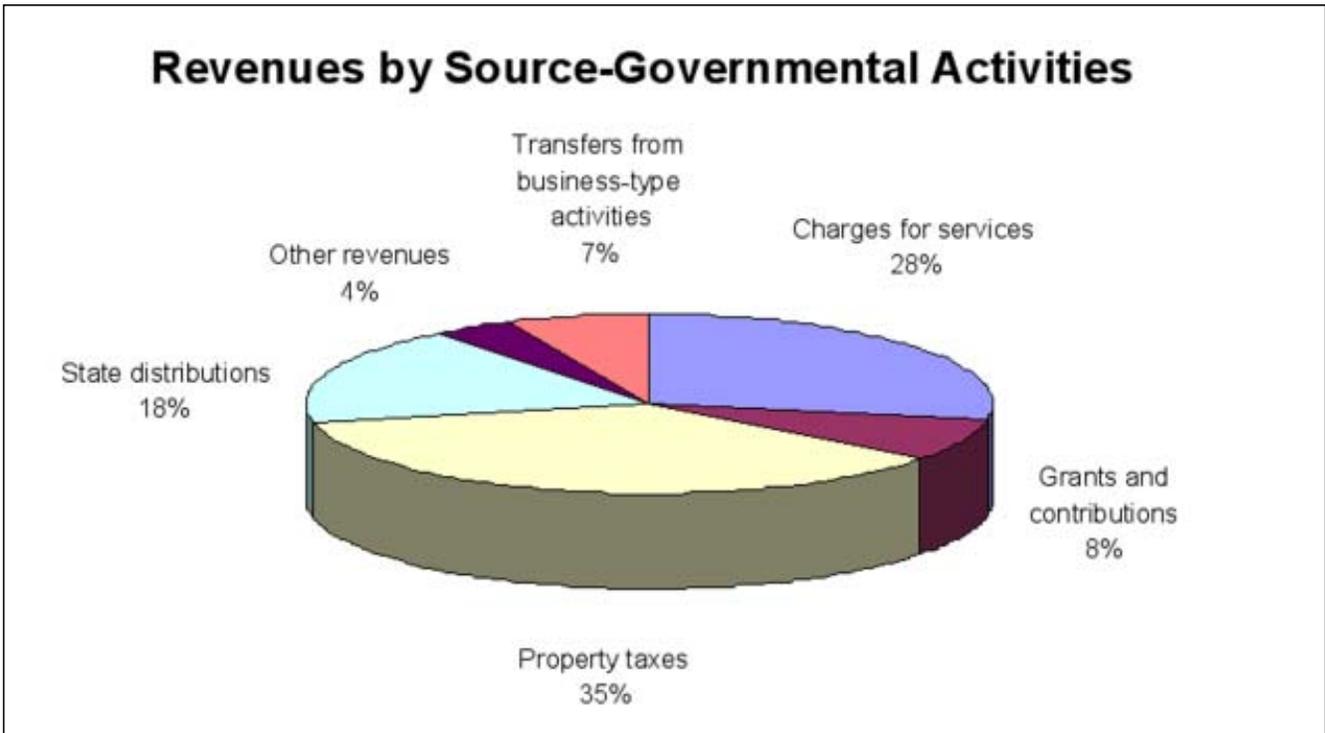
There was a decrease of \$1.8 million in restricted net assets reported in connection with the City's business-type activities all of which came from a shift from dollars restricted for capital outlay to dollars invested in capital assets, net of related debt. The 2000 bond proceeds were used in the construction of the waste water treatment plant upgrade in 2002.

**City of Blackfoot  
Changes in Net Assets**

	Governmental Activities		Business-type Activities		Total	
	2002	2001	2002	2001	2002	2001
<b>Revenues</b>						
<i>Program revenues:</i>						
Charges for services	\$ 1,819,706	\$ 1,688,640	\$ 2,550,627	\$ 2,598,199	\$ 4,370,333	\$ 4,286,839
Grants and contributions	\$ 507,023	\$ 310,742	\$ 2,930,622	\$ 1,853,362	\$ 3,437,645	\$ 2,164,104
<i>General revenues:</i>						
Property taxes	\$ 2,339,866	\$ 2,261,639			\$ 2,339,866	\$ 2,261,639
Sales and use taxes	\$ 393,913	\$ 384,485			\$ 393,913	\$ 384,485
County road and bridge	\$ 114,564	\$ 101,712			\$ 114,564	\$ 101,712
State revenue sharing	\$ 296,633	\$ 284,810			\$ 296,633	\$ 284,810
State liquor distributions	\$ 67,391	\$ 67,392			\$ 67,391	\$ 67,392
State highway user collections	\$ 413,862	\$ 448,162			\$ 413,862	\$ 448,162
Sale of assets	\$ 12,123	\$ 86,746			\$ 12,123	\$ 86,746
Investment earnings	\$ 91,266	\$ 94,123	\$ 53,102	\$ 175,475	\$ 144,368	\$ 269,598
Other miscellaneous revenues	\$ 25,577	\$ 76,587	\$ 16,113	\$ 45,676	\$ 41,690	\$ 122,263
<b>Total revenues</b>	<b>\$ 6,081,924</b>	<b>\$ 5,792,218</b>	<b>\$ 5,550,464</b>	<b>\$ 4,672,712</b>	<b>\$ 11,632,388</b>	<b>\$ 10,477,750</b>
<b>Expenses</b>						
General government	\$ 806,888	\$ 778,549			\$ 806,888	\$ 778,549
Public safety (police, fire, ambulance)	\$ 3,218,611	\$ 3,004,596			\$ 3,218,611	\$ 3,004,596
Parks and recreation	\$ 661,494	\$ 563,957			\$ 661,494	\$ 563,957
Library	\$ 345,340	\$ 305,922			\$ 345,340	\$ 305,922
Streets	\$ 1,108,868	\$ 915,458			\$ 1,108,868	\$ 915,458
Airport	\$ 84,903	\$ 61,175			\$ 84,903	\$ 61,175
Interest on long-term debt	\$ 16,828	\$ 13,858	\$ 185,992	\$ 195,350	\$ 202,820	\$ 209,208
Water			\$ 712,724	\$ 648,717	\$ 712,724	\$ 648,717
Sewer			\$ 1,148,144	\$ 970,132	\$ 1,148,144	\$ 970,132
Sanitation			\$ 696,471	\$ 621,796	\$ 696,471	\$ 621,796
<b>Total expenses</b>	<b>\$ 6,242,932</b>	<b>\$ 5,643,515</b>	<b>\$ 2,743,331</b>	<b>\$ 2,435,995</b>	<b>\$ 8,986,263</b>	<b>\$ 8,079,510</b>
Increase (decrease) in assets before transfers	\$ (161,008)	\$ 148,703	\$ 2,807,133	\$ 2,236,717	\$ 2,646,125	\$ 2,385,420
Transfers	\$ 440,150	\$ 147,531	\$ (440,150)	\$ (147,531)	-	-
Increase in net assets	\$ 279,142	\$ 296,234	\$ 2,366,983	\$ 2,089,186	\$ 2,646,125	\$ 2,385,420
Net assets – October 1, 2001 & PPA	\$ 10,509,675	\$ 10,213,441	\$ 6,533,570	\$ 4,444,384	\$ 17,043,245	\$ 14,657,825
<b>Net assets – September 30, 2002</b>	<b>\$ 10,788,817</b>	<b>\$ 10,509,441</b>	<b>\$ 8,900,253</b>	<b>\$ 6,533,570</b>	<b>\$ 19,689,370</b>	<b>\$ 17,043,245</b>

**Governmental activities.** Governmental activities decreased the City's net assets by \$161,008 before indirect cost transfers. Key elements of this decrease are as follows:

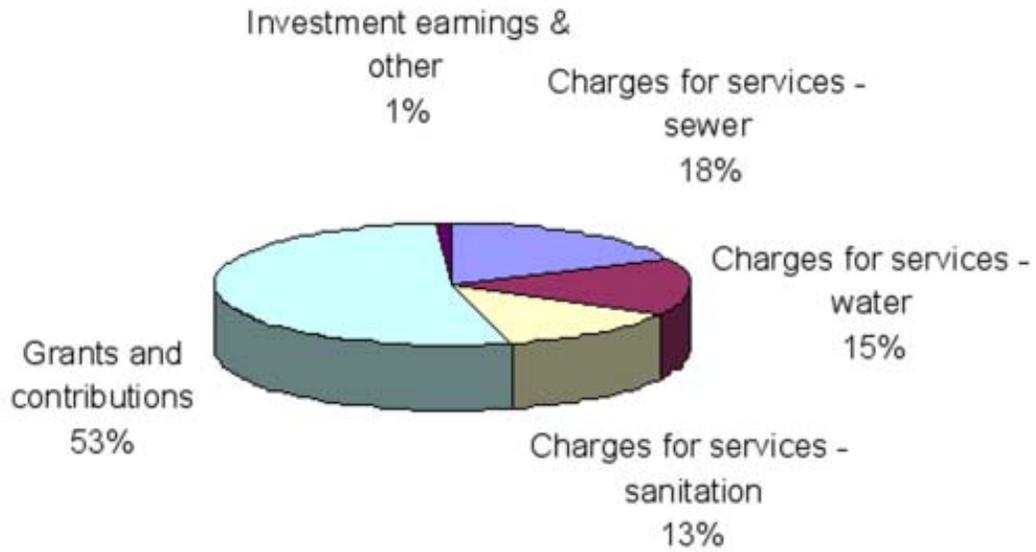
- Income tax revenue, highway users revenue, and ambulance revenues collected was less than anticipated.
- The above noted decreases were offset in part by increases in charges for services and grant revenues.
- Expenses increased \$599,417 or 20.6% in 2002.



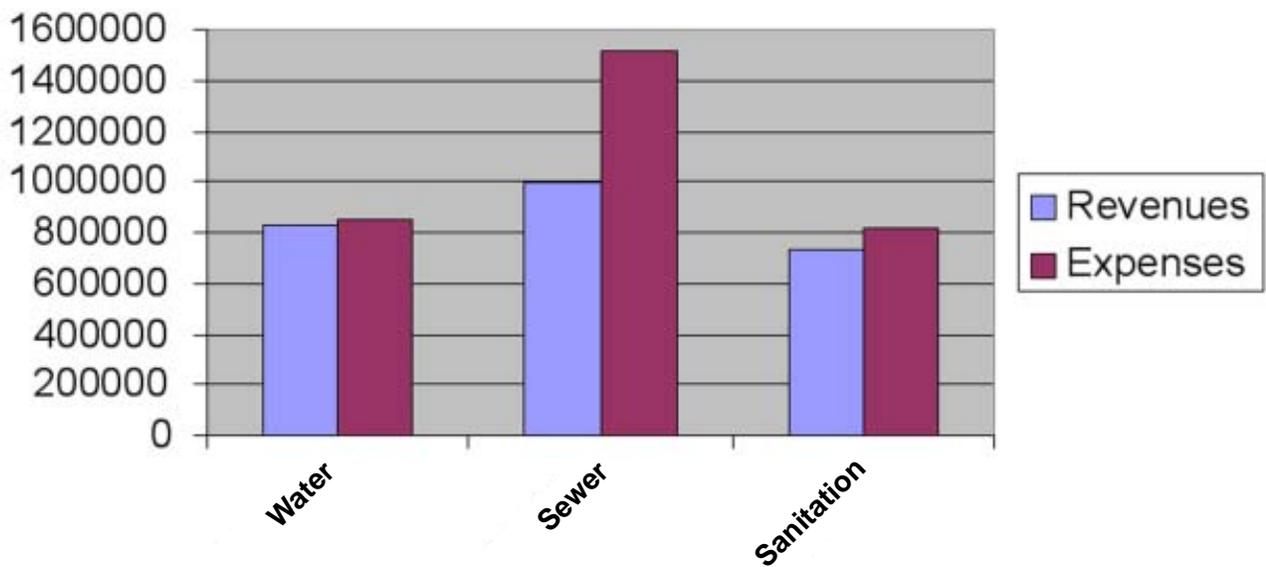
**Business-type activities.** Business-type activities increased the City's net assets by \$570,416 before indirect cost transfers accounting for 100% of the total growth in the government's total net assets. The key elements of this increase were as follows:

- Grants revenues received for capital projects increased \$1,077,260
- Decreases in charges for services, investment revenues, and other revenues totaled \$199,508
- Expenses increased \$307,336. However, the percent of annual expense to annual revenue decrease from 53% in 2001 to 49% in 2002.

### Revenues by Source - business-type activities



### Service Revenues and Expenses



## Financial Analysis of the Government's Fund Financial Statements

As noted earlier, the City used fund accounting to ensure and demonstrate compliance with finance-related requirements.

**Governmental funds.** The focus of the City's governmental fund statements provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of September 30, 2002, the City's governmental funds reported combined ending fund balances of \$1.55 million, an increase of \$138,040 from September 30, 2001. This entire amount constitutes unreserved fund balance, which is available for spending at the government's discretion.

The general fund is the main operating fund of the City. At September 30, 2002, the unreserved fund balance of the general fund was \$675,886, an increase of \$176,097 from the previous year.

**Proprietary funds.** The City's proprietary fund statements provide much to same information found in the government-wide financial statements, but in more detail. Unrestricted net assets at the end of the year were in the negative at (\$293,243), with \$327,420 from Sanitation offsetting (\$620,773) in the Water and Sewer funds. Both the Water and Sanitation funds decreased in net assets while the Sewer increased by \$2.4 million. Liabilities to the proprietary funds increased a total of \$1.1 million from September 30, 2001. Key elements affecting these balances were as follows:

- Increased costs of operating expenses in all three activities
- Decreased investment earnings due to draw down of bond proceeds for capital projects
- Near completion of a large capital project expansion of water and sewer lines and facilities

### General Fund Budgetary Highlights

The final General Fund budget had total appropriations of \$3,468,583 which was \$221,259 more than the previous year. Total General Fund actual expenditures, however, remained at \$3,280,892 for the year ended September 30, 2002. The only significant budgetary change to the General Fund involved a \$244,989 fund balance allocation and transfer to the Parks and Recreation Fund.

### Capital Assets and Debt Administration

**Capital assets.** As of September 30, 2002, the City's total investment in capital assets for governmental and business-type activities was \$21,444,160 (net of accumulated depreciation). This represents a net increase (additions, deletions, depreciation) of \$4,593,666 or 28% from the end of last year. The investment in capital assets includes land, buildings, public service delivery systems and improvements, machinery and equipment, park facilities, roads, curbs and gutters, streets and sidewalks, and drainage systems.

#### City of Blackfoot Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2002	2001	2002	2001	2002	2001
Land, buildings, and distribution systems	\$ 1,988,175	\$ 2,071,259	\$ 11,319,356	\$ 6,839,180	\$ 13,307,531	\$ 8,910,439
Vehicles and rolling stock	\$ 790,630	\$ 696,142	\$ 531,535	\$ 500,410	\$ 1,322,165	\$ 1,196,552
Furniture and equipment	\$ 224,150	\$ 221,503	\$ 36,316	\$ 74,274	\$ 260,466	\$ 295,777
Infrastructure	\$ 6,553,998	\$ 6,447,726		\$ 6,553,998	\$ 6,447,726	
<b>Total</b>	<b>\$ 9,556,953</b>	<b>\$ 9,436,630</b>	<b>\$ 11,887,207</b>	<b>\$ 7,413,864</b>	<b>\$ 21,444,160</b>	<b>\$ 16,850,494</b>



Major capital asset events during 2002 included the following:

- Governmental activity capital assets increased by \$686,454 before deletions and depreciation due to: \$31,070 in improvements at the pool, \$30,604 for two new police vehicles, \$31,272 for a new backhoe at the cemetery, \$26,000 of grant match for the greenbelt expansion, \$25,050 for mowers at the golf course, \$166,948 Cat loader at the street department, and \$375,510 for street and infrastructure improvements.
- Business-type activity capital assets increased by \$4,963,388 before depreciation due to: \$4,816,620 on new water and sewer line extension project and waste water treatment facility and \$146,768 for a new garbage truck.

**Long-term debt.** As of September 30, 2002, the City had \$4.1 million of long-term bonds and loans outstanding representing an increase of \$337,604 (8.8%) from the previous year. The City is within all of its legal debt limitations. Additional information regarding the City's long-term debt can be found in notes 6-10 on pages 35-37 of this report.

**City of Blackfoot  
General obligation and Revenue Bonds Outstanding**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	2002	2001	2002	2001	2002	2001
General obligation bonds, notes and capital leases	\$ 326,019	\$ 288,086	\$ 171,942	\$ 137,430	\$ 497,961	\$ 425,516
Revenue bonds	\$		\$ 3,684,577	\$ 3,419,418	\$ 3,684,577	\$ 3,419,418
<b>Total</b>	<b>\$ 326,019</b>	<b>\$ 288,086</b>	<b>\$ 3,856,519</b>	<b>\$ 3,556,848</b>	<b>\$ 4,182,538</b>	<b>\$ 3,844,934</b>

**Economic Factors and Next Year's Budgets and Rates**

The City's elected and appointed officials considered many factors when setting the fiscal year 2003 budget. The impact of the events on September 11, 2001 and the resulting uncertainty surrounding the economy had a significant influence on the decisions and objectives set in the 2003 budget. A major revenue sources directly affected by the economic downturn is state shared revenue, investment earnings, and all revenue that is dependent on user fees. The City will continue to put the highest premium on public safety and services as well as plan future budgets to promote long-term fiscal stability with balanced reserves.

**Request for information**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Treasurer's Office, 157 North Broadway Street, Blackfoot, Idaho, 83221, telephone number (208) 785-8600.

**CITY OF BLACKFOOT  
STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2002**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total Primary Government</b>	<b>Blackfoot Urban Renewal Agency</b>	<b>Totals Reporting Entity</b>
<b>ASSETS:</b>					
<i>Current Assets:</i>					
Cash and investments (Note 1 E)	\$1,486,986	\$144,545	\$1,631,531	\$745,546	\$2,377,077
Property taxes receivable	234,441		234,441		234,441
Federal Grants receivable	352,698	783,382	1,136,080		1,136,080
Other receivables (Note 4)	415,194		415,194		415,194
Utility accounts receivable, net		266,702	266,702		266,702
<i>Non Current Assets:</i>					
Restricted cash (Note 3)		315,422	315,422		315,422
Capital assets, net	9,556,953	11,887,209	21,444,162		21,444,162
Total assets	12,046,272	13,397,260	25,443,532	745,546	26,189,078
 <b>LIABILITIES:</b>					
<i>Current liabilities:</i>					
Accounts payable (Note 12)	661,023	587,052	1,248,075		1,248,075
Accrued leave	270,414	53,136	323,550		323,550
Revenue bonds due within one year		204,348	204,348		204,348
Lease payments due within one year	125,480	67,712	193,192		193,192
Note payments due within one year		31,047	31,047	55,429	86,476
<i>Noncurrent liabilities:</i>					
Revenue bonds due beyond one year		3,060,652	3,060,652		3,060,652
Lease payments due beyond one year	200,538	104,230	304,768		304,768
Note payments due beyond one year		388,530	388,530	179,571	568,101
Total liabilities	1,257,455	4,496,707	5,754,162	235,000	5,989,162
 <b>NET ASSETS</b>					
Invested in capital assets, net of related debt	9,230,935	8,878,374	18,109,309		18,109,309
Restricted for debt retirement		315,422	315,422		315,422
Unrestricted	1,557,882	(293,243)	1,264,639	510,546	1,775,185
Total net assets	\$10,788,817	\$8,900,553	\$19,689,370	\$510,546	\$20,199,916

The accompanying notes are an integral part of these statements.



**CITY OF BLACKFOOT  
STATEMENT OF ACTIVITIES**

**YEAR ENDED SEPTEMBER 30, 2002**

	<b>Program Revenues</b>		
<b>Expenses</b>	<b>Charges for Services</b>	<b>Grants and Contributions</b>	
<b>Primary Government:</b>			
<b>Governmental Activities:</b>			
General government	\$806,888	\$322,595	
Public safety	3,218,611	1,008,653	\$118,536
Parks and recreation	661,494	306,259	13,500
Library	345,340	154,497	1,000
Highways and streets	1,108,868	11,192	357,698
Airport	84,903	16,510	16,289
Interest - on long-term debt	16,828		
Total governmental activities	6,242,932	1,819,706	507,023
<b>Business-type Activities:</b>			
Water	712,724	823,088	
Sewer	1,148,144	994,504	2,930,622
Sanitation	696,471	733,035	
Interest - on long-term debt	185,992		
Total business-type activities	2,743,331	2,550,627	2,930,622
Total Primary Government	\$8,986,263	\$4,370,333	\$3,437,645
<b>Component Units:</b>			
Blackfoot Urban Renewal Agency	\$476,959		

**General Revenues:**

- Property taxes
- Sales and uses tax
- County road and bridge
- State of Idaho revenue sharing
- State of Idaho liquor receipts
- State highway user collections
- Sale of assets
- Investment earnings
- Transfers
- Miscellaneous

Total general revenues and transfers

Change in net assets

Net Assets October 1, 2001

Net Assets September 30, 2002

The accompanying notes are an integral part of these statements.

<b>Net (Expense) Revenue and Changes in Net Assets</b>			
<b>Governmental Activities</b>	<b>Primary Government Business-type Activities</b>	<b>Total</b>	<b>Blackfoot Urban Renewal Agency</b>
(\$484,293)		(\$484,293)	
(2,091,422)		(2,091,422)	
(341,735)		(341,735)	
(189,843)		(189,843)	
(739,978)		(739,978)	
(52,104)		(52,104)	
(16,828)		(16,828)	
<u>(3,916,203)</u>		<u>(3,916,203)</u>	
	\$110,364	110,364	
	2,776,982	2,776,982	
	36,564	36,564	
	<u>(185,992)</u>	<u>(185,992)</u>	
	<u>2,737,918</u>	<u>2,737,918</u>	
			<u>(1,178,285)</u>
			(\$476,959)
2,339,866		2,339,866	301,784
393,913		393,913	
114,564		114,564	
296,633		296,633	
67,391		67,391	
413,862		413,862	
12,123		12,123	
91,266	53,102	144,368	24,010
440,150	(440,150)	0	
25,577	16,113	41,690	
<u>4,195,345</u>	<u>(370,935)</u>	<u>3,824,410</u>	<u>325,794</u>
279,142	2,366,983	2,646,125	(151,165)
<u>10,509,675</u>	<u>6,533,570</u>	<u>17,043,245</u>	<u>661,711</u>
<u>\$10,788,817</u>	<u>\$8,900,553</u>	<u>\$19,689,370</u>	<u>\$510,546</u>

The accompanying notes are an integral part of these statements.



**CITY OF BLACKFOOT  
BALANCE SHEET  
GOVERNMENTAL FUNDS**

**SEPTEMBER 30, 2002**

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS:</b>			
Cash and investments	\$488,030	\$998,956	\$1,486,986
Receivables:			
Property taxes	164,243	70,198	234,441
Bingham County	89,248	33,792	123,040
Bingham Memorial		37,450	37,450
State of Idaho	81,350	99,458	180,808
Groveland Water and Sewer District	3,572		3,572
Federal grants receivable		352,698	352,698
Franchise fees receivable	12,324		12,324
Due from other funds	168,284		168,284
Total assets	\$1,007,051	\$1,592,552	\$2,599,603
<b>LIABILITIES:</b>			
Accounts payable	\$179,769	\$481,254	\$661,023
Due to other funds		168,284	168,284
Deferred revenue	151,396	64,781	216,177
Total liabilities	331,165	714,319	1,045,484
<b>FUND BALANCE:</b>			
Unreserved reported in:			
General fund	675,886		675,886
Special revenue funds		620,824	620,824
Capital projects funds		257,409	257,409
Total fund balance	675,886	878,233	1,554,119
Total liabilities and fund balance	\$1,007,051	\$1,592,552	

Amounts reported for governmental activities in the Statement of Net assets (page 21) are different because:

Reimbursement from Bingham County for ambulance support was not received within sixty days after year end. It is not considered current financial resources and thus it is not recorded as a receivable on the Governmental Balance Sheet.	58,000
Property taxes collected beyond 60 days after year end are not recorded as assets in the Governmental funds balance sheet.	216,177
Governmental fund capital assets are not financial resources and therefore are not reported in the funds.	9,556,953
Capital leases are not payable in the current period and thus not reported in Governmental funds	(326,018)
Accrued sick and personal leave liabilities are not reported in Governmental funds	(270,414)
Net assets of Governmental funds (page23)	\$10,788,817

The accompanying notes are an integral part of these statements.

**CITY OF BLACKFOOT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS**

**YEAR ENDED SEPTEMBER 30, 2002**

REVENUE:	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Property taxes	\$1,632,771	\$698,725	\$2,331,496
Sales and use taxes	275,839	118,074	393,913
Franchise taxes	141,194		141,194
Licenses and fees	66,432	235,255	301,687
County shared	74,212	328,564	402,776
State of Idaho	364,024	413,862	777,886
Blackfoot Rural Library District		132,921	132,921
Blackfoot - Snake River Fire District	448,856		448,856
School District Resource Officer	58,756		58,756
State and federal grants	112,536	373,987	486,523
Interest	45,008	46,258	91,266
Administrative charges	440,150		440,150
Miscellaneous	42,200	406,081	448,281
Total revenue	<u>3,701,978</u>	<u>2,753,727</u>	<u>6,455,705</u>
EXPENDITURES:			
General government	668,635	141,055	809,690
Public safety	2,612,257	599,620	3,211,877
Parks and recreation		682,001	682,001
Library		333,865	333,865
Highways and streets		1,256,163	1,256,163
Airport		24,069	24,069
Total expenditures	<u>3,280,892</u>	<u>3,036,773</u>	<u>6,317,665</u>
EXCESS REVENUE (EXPENDITURES)	421,086	(283,046)	138,040
OTHER FINANCING SOURCES (USES):			
Operating transfers (to) from other funds	<u>(244,989)</u>	<u>244,989</u>	<u>0</u>
NET CHANGE IN FUND BALANCES	176,097	(38,057)	138,040
FUND BALANCE - BEGINNING	<u>499,789</u>	<u>916,290</u>	<u>1,416,079</u>
FUND BALANCE - ENDING	<u>\$675,886</u>	<u>\$878,233</u>	<u>\$1,554,119</u>

The accompanying notes are an integral part of these statements.



**CITY OF BLACKFOOT  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED SEPTEMBER 30, 2002**

Net Change in Fund Balance -Total Governmental Funds (Page 25)	\$138,040
Reimbursement from Bingham County for ambulance support was not received within sixty days after year end. It is not considered current financial resources and thus it is not recorded as revenue in the Governmental Funds.	58,000
Property tax revenues that are not received within sixty days after year end do not provide current financial resources and thus are not recorded as revenue in the Governmental Funds.	8,369
Governmental funds report capital outlays as current year expenditures. In the Statement of activities the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount of current capital outlay for new equipment.	
This is the amount of current year depreciation.	(566,131)
This is the amount of new Governmental Fund assets	686,454
Long term liabilities are not recorded in Governmental funds. Capital lease payments are expensed in the period that the payments are paid. Capital leases are recorded as liabilities in the Statement of Net Assets. Current year payments reduce the amount of the debt.	
This is the amount of current year payments on capital leases	167,565
This is the amount of new lease contracts during the year	(205,498)
Liability for personal leave days are not recorded in Governmental funds.	
This is the increase in leave during the year.	(7,657)
Change in Net Assets of Governmental Activities (Page 23)	\$279,142

The accompanying notes are an integral part of these statements.

**City of Post Falls  
Enterprise Funds  
Combining Balance Sheet  
September 30, 2002  
(With comparative totals for September 30, 2001)**

	Water	Sewer	Sanitation	Totals	
				2002	2001
<b>Assets</b>					
<b>Current assets:</b>					
Cash on hand and cash equivalents	\$ 2,629,539	\$ 6,716,190	\$ 76,526	\$ 9,422,255	\$ 9,384,697
Accounts receivable:					
Customers	243,597	259,680	98,509	601,786	624,611
Interfund receivables					19,558
Accrued interest	6,022	15,428	85	21,535	70,870
	<u>2,879,158</u>	<u>6,991,298</u>	<u>175,120</u>	<u>10,045,576</u>	<u>10,099,736</u>
<b>Restricted current assets:</b>					
Cash and cash equivalents	1,256,752	1,457,681		2,714,433	793,181
Accrued interest	2,121	2,924		5,045	5,168
	<u>1,258,873</u>	<u>1,460,605</u>		<u>2,719,478</u>	<u>798,349</u>
Total current assets	<u>4,138,031</u>	<u>8,451,903</u>	<u>175,120</u>	<u>12,765,054</u>	<u>10,898,085</u>
<b>Plant and equipment</b>					
	12,175,763	37,192,109	14,684	49,382,556	47,151,519
Accumulated depreciation	(2,540,744)	(7,870,444)	(14,684)	(10,425,872)	(9,468,422)
	<u>9,635,019</u>	<u>29,321,665</u>		<u>38,956,684</u>	<u>37,683,097</u>
<b>Other assets:</b>					
Bond refunding and issuance costs, net of accumulated amortization		5,363		5,363	6,133
Total assets	<u>\$ 13,773,050</u>	<u>\$ 37,778,931</u>	<u>\$ 175,120</u>	<u>\$ 51,727,101</u>	<u>\$ 48,587,315</u>

	Water	Sewer	Sanitation	Totals	
				2002	2001
<b>Liabilities and equity</b>					
<b>Current liabilities:</b>					
Accounts payable	\$ 155,456	\$ 71,959	\$ 67,547	\$ 294,962	\$ 534,970
Accrued payroll and fringe benefits	38,118	45,501		83,619	63,284
Accrued interest		35,348		35,348	40,779
Current portion of long term debt		594,192		594,192	568,205
	<u>193,574</u>	<u>747,000</u>	<u>67,547</u>	<u>1,008,121</u>	<u>1,207,238</u>
<b>Restricted current liabilities:</b>					
Customer deposits	101,745			101,745	89,378
Total current liabilities	<u>295,319</u>	<u>747,000</u>	<u>67,547</u>	<u>1,109,866</u>	<u>1,296,616</u>
<b>Noncurrent liabilities:</b>					
Bonds payable		2,408,979		2,408,979	3,003,171
Total noncurrent liabilities		<u>2,408,979</u>		<u>2,408,979</u>	<u>3,003,171</u>
Total liabilities	<u>295,319</u>	<u>3,155,979</u>	<u>67,547</u>	<u>3,518,845</u>	<u>4,299,787</u>
<b>Equity:</b>					
Contributed capital	11,116,331	33,019,963		44,136,294	40,823,780
Retained earnings (deficit):					
Reserved for replacement	1,157,128	716,565		1,873,693	1,035,747
Reserved for bond retirement		744,040		744,040	963,279
Unreserved	1,204,272	142,384	107,573	1,454,229	1,464,722
Total retained earnings	<u>2,361,400</u>	<u>1,602,989</u>	<u>107,573</u>	<u>4,071,962</u>	<u>3,463,748</u>
Total equity	<u>13,477,731</u>	<u>34,622,952</u>	<u>107,573</u>	<u>48,208,256</u>	<u>44,287,528</u>
Total liabilities and equity	<u>\$ 13,773,050</u>	<u>\$ 37,778,931</u>	<u>\$ 175,120</u>	<u>\$ 51,727,101</u>	<u>\$ 48,587,315</u>

**City of Post Falls**  
**Enterprise Funds**  
**Combining Statement of Revenues, Expenses and Changes in Retained Earnings**  
**For the fiscal year ended September 30, 2002**  
**(With comparative totals for the fiscal year ended September 30, 2001)**

	Water	Sewer	Sanitation	Totals	
				2002	2001
<b>Operating revenues:</b>					
Charges for services	\$ 1,179,703	\$ 2,382,323	\$ 934,334	\$ 4,496,360	\$ 4,128,349
Hookups and connections	47,261			47,261	37,858
Reimbursed expense and miscellaneous	39,638	20,017	12,884	72,539	97,479
Total operating revenues	<u>1,266,602</u>	<u>2,402,340</u>	<u>947,218</u>	<u>4,616,160</u>	<u>4,263,686</u>
<b>Operating expenses:</b>					
Salaries and benefits	278,646	474,418		753,064	655,558
Administrative and supplies	302,060	606,781	792,991	1,701,832	1,619,859
Depreciation	284,848	743,739	422	1,029,009	974,502
Total operating expenses	<u>865,554</u>	<u>1,824,938</u>	<u>793,413</u>	<u>3,483,905</u>	<u>3,249,919</u>
<b>Operating income</b>	<u>401,048</u>	<u>577,402</u>	<u>153,805</u>	<u>1,132,255</u>	<u>1,013,767</u>
<b>Nonoperating revenues (expenses):</b>					
Interest income	118,783	246,649	1,873	367,305	410,947
Interest expense		(149,641)		(149,641)	(173,888)
Loss on disposal of assets	(1,400)	(5,249)		(6,649)	
Amortization of refunding costs		(770)		(770)	(770)
Total nonoperating revenues (expenses)	<u>117,383</u>	<u>90,989</u>	<u>1,873</u>	<u>210,245</u>	<u>236,289</u>
<b>Income before operating transfers</b>	<u>518,431</u>	<u>668,391</u>	<u>155,678</u>	<u>1,342,500</u>	<u>1,250,056</u>
<b>Transfers in</b>					
<b>Transfers out</b>	<u>(278,023)</u>	<u>(324,253)</u>	<u>(132,010)</u>	<u>(734,286)</u>	<u>(716,608)</u>
<b>Net income (loss)</b>	240,408	344,138	23,668	608,214	533,448
<b>Retained earnings (deficit), October 1</b>	<u>2,120,992</u>	<u>1,258,851</u>	<u>83,905</u>	<u>3,463,748</u>	<u>2,930,300</u>
<b>Retained earnings (deficit), September 30</b>	<u>\$ 2,361,400</u>	<u>\$ 1,602,989</u>	<u>\$ 107,573</u>	<u>\$ 4,071,962</u>	<u>\$ 3,463,748</u>

**CITY OF BLACKFOOT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS**

**YEAR ENDED SEPTEMBER 30, 2002**

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Sanitation Fund</u>	<u>Totals (Memorandum Only)</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Receipts from City patrons	\$824,524	\$994,955	\$734,773	\$2,554,252
Payments to suppliers	(356,546)	(210,758)	(449,116)	(1,016,420)
Payments to employees	(271,336)	(347,184)	(203,981)	(822,501)
City administrative charges	(131,866)	(188,866)	(119,418)	(440,150)
Other receipts	2,680	13,244	189	16,113
Net cash provided by operating activities	<u>67,456</u>	<u>261,391</u>	<u>(37,553)</u>	<u>291,294</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Federal grants		2,147,240		2,147,240
Acquisition of fixed assets	(344,113)	(4,472,507)	(146,768)	(4,963,388)
Loans (to) from other funds	(234,392)	376,226	(141,834)	0
Capital lease payments	(14,403)	(28,396)	(33,458)	(76,257)
Wells Fargo Note proceeds	400,000			400,000
Loan payments - State of Idaho		(29,841)		(29,841)
Certificates of participation retired		(105,000)		(105,000)
Additional capital lease financing			110,768	110,768
Net cash applied to financing activities	<u>(192,908)</u>	<u>(2,112,278)</u>	<u>(211,292)</u>	<u>(2,516,478)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>				
Interest earned on investments	<u>753</u>	<u>36,985</u>	<u>15,364</u>	<u>53,102</u>
NET INCREASE (DECREASE) IN CASH	(124,699)	(1,813,902)	(233,481)	(2,172,082)
CASH AT BEGINNING OF YEAR	<u>124,699</u>	<u>2,129,324</u>	<u>378,026</u>	<u>2,632,049</u>
CASH AT END OF YEAR	<u><u>\$0</u></u>	<u><u>\$315,422</u></u>	<u><u>\$144,545</u></u>	<u><u>\$459,967</u></u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET INCOME</b>				
Net income (loss)	(\$20,622)	\$2,456,379	(\$68,766)	\$2,366,991
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:				
Depreciation	92,485	315,082	82,478	490,045
Investment income	(753)	(36,985)	(15,364)	(53,102)
Federal Grants		(2,930,622)		(2,930,622)
(Increase) decrease in accounts receivable	3,363	451	1,730	5,544
Increase (decrease) in accounts payable	(5,090)	457,086	(37,631)	414,365
Increase (decrease) in customer deposits	(1,927)			(1,927)
Net cash provided by operating activities	<u><u>\$67,456</u></u>	<u><u>\$261,391</u></u>	<u><u>(\$37,553)</u></u>	<u><u>\$291,294</u></u>

The accompanying notes are an integral part of these statements.



**CITY OF BLACKFOOT  
STATEMENT OF NET ASSETS  
FIDUCIARY FUNDS - CLERK'S TRUST FUND**

**SEPTEMBER 30, 2002**

ASSETS:	
Cash and investments	<u>\$12,826</u>
LIABILITIES:	
Customer deposits	5,378
Due to other community groups	5,043
Round up program	<u>2,405</u>
Total liabilities	<u>12,826</u>
NET ASSETS:	<u><u>\$0</u></u>

The accompanying notes are an integral part of these statements.

---

---

# City of Post Falls

## NOTES TO FINANCIAL STATEMENTS September 30, 2002

The accounting methods and procedures adopted by the City of Post Falls conform to generally accepted accounting principles as applied to governmental entities. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following notes to the financial statements are an integral part of the City's general purpose financial statements.

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity - The City of Post Falls (the City) is an Idaho municipality. The City provides public safety, street lighting, street construction and maintenance, recreation, parks, library, planning and zoning, animal control, cemetery, general administration, construction, water sewer, and sanitation collection services to its citizens.

The accompanying financial statements include all aspects controlled by the City Council of the City of Post Falls. Criteria for inclusion is determined by Governmental Accounting Standards Board Statement No. 14 (GASB No. 14) which states, in general, that legally separate organizations for which the elected officials of the City are financially accountable for must be included in the City's financial statement as a component unit.

Under Idaho Code, in May 1991, the Post Falls City Council passed an ordinance which created the Post Falls Urban Renewal Agency (the Agency), a legally separate entity from the City. The Agency was established to promote urban development and improvement in blighted areas in and around the City. A board of five directors, which are appointed by the City Council, governs the Agency. The City Council has the ability to appoint, hire, reassign, or dismiss those persons having responsibility for the day-to-day operations of the Agency. These powers of the City meet the criteria set forth in GASB No. 14 for having financial accountability for the Agency. Based on the above, the Agency has been discreetly presented in the accompanying financial statements of the City as a component unit.

Under Idaho Code, the Agency has the authority to issue bonds. Any bonds issued by the Agency are payable solely from the proceeds of tax increment financing, and are not a debt of the City. The City Council is not responsible for approving the Agency budget or funding any annual deficits. The Agency controls its disbursements independent of the City Council.

The Agency operates on a calendar year basis. Complete financial statements of the Agency can be obtained directly from:

Post Falls Urban Renewal Agency  
P. O. Box 236  
Post Falls, ID 83854

### Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the City of Post Falls are organized and operated on the basis of funds and account groups. The fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

(Continued)

# City of Post Falls

## NOTES TO FINANCIAL STATEMENTS September 30, 2002

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City has the following fund types and account groups:

Governmental funds are used to account for the City's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers all revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, certain compensated absences and claims, and judgments which are financial resources.

Property taxes, licenses, interest and special assessments are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the City and are recognized as revenue at that time. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Governmental funds include the following fund types:

1. The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
2. *Special revenue funds* account for revenue sources that are legally restricted to expenditure for specific purposes (not including expendable trusts or major capital projects).
3. *Debt service fund* accounts for the servicing of general long-term debt not being financed by proprietary funds.

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenditures are recorded at the time liabilities are incurred. The City applies all applicable FASB pronouncements issued after November 30, 1989 in accounting and reporting for its proprietary operations. All proprietary funds and enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Account groups - The *general fixed assets account group* is used to account for fixed assets not accounted for in proprietary or trust funds. The *general long-term debt account group* is used to account for general long-term debt and certain other liabilities that are not specific liabilities of proprietary or trust funds.

Budgetary Data - Annual operating budgets are adopted each fiscal year for each governmental, enterprise and trust and agency fund through passage of an annual budget ordinance. The budget is prepared on a basis consistent with the basis of accounting utilized for each respective fund type (i.e. the modified accrual basis for the governmental funds and accrual basis for the enterprise funds) with the exception that in the enterprise funds, capitalization fees are budgeted as a revenue source, bond principal payments and capital

(Continued)

# City of Post Falls

## NOTES TO FINANCIAL STATEMENTS September 30, 2002

disbursements are budgeted as expenses, and depreciation is not budgeted for. These items are reconciled to GAAP in the statements of Revenues and Expenses - Budget and Actual.

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Obligations under capital leases are budgeted in each of the respective funds on a fiscal year basis. Each capital lease agreement has a nonappropriation clause, which generally states that each fiscal year's lease payments are subject to City Council approval. The lease payment appropriations are included in the operating budget.

Reported budgeted amounts are as originally adopted or as amended by Council resolution. Presented budgetary information in these financial statements include amendments. The level of budgetary control for the City is at the total fund level per Idaho statute. The appropriated budget is prepared by function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Administrator. The legal level of budgetary control is the fund level. Any changes in the total budget of each fund must be approved by a majority vote of the City Council. The original and amended budgets were properly approved by ordinance during the fiscal year. Encumbrance accounting is not employed as an extension of formal budgetary integration. All outstanding encumbrances lapse and are closed to fund balance at the end of each fiscal year and any remaining unencumbered appropriations lapse at fiscal year end.

Cash and Investments - The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "cash and investments".

Cash and investments, except for small amounts of cash on hand, are deposited in pooled accounts of the City. The City invests cash surpluses in these accounts, and investments earnings, as well as gains and losses on sales of securities, are allocated to the various funds on the basis of average cash balances. Funds with deficit cash balance averages (interfund payables) are charged interest equivalent to the average investment earnings lost in financing the deficits.

For purposes of the statement of cash flows, the Proprietary consider all unrestricted investments held in the pooled accounts of the City to be cash equivalents because this pool is used essentially as a demand deposit account.

The pooled investments are recorded at cost, which approximates fair value. Investments in mutual funds are recorded at their current redemption value.

Statement of Cash Flows - The City defines cash and cash equivalents used in the statement of cash flows as all cash and highly liquid investments with an original maturity of three months or less (both restricted and unrestricted.)

Investments - Investments are stated at cost and are comprised principally of time certificates of deposit, government backed securities, and Idaho State pooled investments. Cost at September 30, 2002 materially approximates fair value. Investments on hand at September 30, 2002 meet the guidelines as set by regulations of the State of Idaho. These guidelines include securities of the U.S. Government or its agencies, certificates of deposit placed with commercial banks and savings and loans, banker's acceptances, commercial paper, repurchase agreements, State and County investment pools, insured money market accounts, and passbook savings account demand deposits.

(Continued)

**City of Post Falls**

**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2002**

(Continued)

# City of Post Falls

## NOTES TO FINANCIAL STATEMENTS September 30, 2002

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Due To and From Other Funds - Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Property, Plant and Equipment - Fixed assets used in governmental fund type operations are accounted for in the General Fixed Assets Account Group. Public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings, such as roads, sidewalks, and bridges, are not capitalized. Property, plant, and equipment acquired or constructed for general governmental operations are recorded as expenditures in the fund making the expenditure and capitalized at cost in the general fixed assets account group.

Property, plant, and equipment acquired for proprietary funds are capitalized in the respective funds to which it applies.

Property, plant, and equipment are stated at cost. Where cost could not be determined from the available records, estimated historical cost was used to record the estimated value of the assets. Assets acquired by gift or bequest is recorded at their fair market value at the date of transfer.

Depreciation of exhaustible fixed assets used by proprietary funds is charged as an expense against operations and accumulated depreciation is reported on the proprietary funds' balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method of depreciation. Following are the asset classifications and estimated useful lives:

	<u>Estimated Life</u>
Machinery and equipment	3 - 10 years
Computer Equipment	3 - 5 years
Computer Software	3 - 5 years
Furniture and fixtures	3 - 15 years
Buildings/Improvements	20 - 40 years
Sewer System/Improvements	20 - 50 years
Water System/Improvements	20 - 50 years
Vehicles	3 - 5 years

Assets with a valuation greater than \$1,500 and a useful life of two or more years are capitalized.

Capitalization of Interest - In accordance with Financial Accounting Standards Board Statement No. 62, the City follows the policy of capitalizing net interest costs on funds borrowed to finance the construction of fixed assets.

Long-Term Debt - Long-term debt obligations of the City are reported in the general long-term debt account group. Long-term liabilities for certain general obligation bonds, revenue bonds, and mortgage bonds are reported in the appropriate enterprise fund.

(Continued)

# City of Post Falls

## NOTES TO FINANCIAL STATEMENTS September 30, 2002

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bond Refunding Costs - In the governmental fund types, bond discounts and issuance costs are recognized in the current period. For proprietary fund types, such amounts are deferred and amortized over the term of the bonds. Amortization is computed on the straight-line method as follows:

	<u>Years</u>
Water Bond refunding costs	16
Sewer Bond issuance costs	20

Fund Equity - The City records reservations for portions of fund equity which are legally segregated for specific future uses, or which do not represent available, spendable resources and are therefore not available for appropriation and expenditure. The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes. Designations of fund balances are amounts that have been designated by management for a specific future use, but which are not legally segregated. Undesignated fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Unreserved retained earnings for proprietary funds represent the net assets available for future operations or distribution. Reserved retained earnings for proprietary funds represent the net assets that have been legally identified for specific purposes.

Accounts Receivable - Utility accounts receivable, net of allowances for doubtful accounts for the enterprise funds as of September 30, 2002 are as follows:

Water:	
Gross accounts receivable	\$251,100
Less allowance for doubtful accounts	<u>(7,503)</u>
Accounts receivable, net	<u>\$243,597</u>
Sewer:	
Gross accounts receivable	\$266,602
Less allowance for doubtful accounts	<u>(6,922)</u>
Accounts receivable, net	<u>\$259,680</u>
Sanitation:	
Gross accounts receivable	\$101,528
Less allowance for doubtful accounts	<u>(3,019)</u>
Accounts receivable, net	<u>\$ 98,509</u>

Property Tax Revenues - Property taxes are levied each November based on the assessed value of property as listed on the previous September tax rolls. Assessed values are an approximation of market value. The County Assessor establishes assessed values. Property tax payments are due in one-half installments in December and June. Property taxes become a lien on the property when it is levied. State statute sets maximum property tax rates for the various funds of the City of Post Falls. For the general fund, the City cannot levy more than 103% of the prior year levy rate. For other funds, the 3% increase is not applicable but is limited by statute. Rates are expressed in millage of total market value. The millage rate for the 2001-02 fiscal year was .005336718.

(Continued)

# City of Post Falls

## NOTES TO FINANCIAL STATEMENTS September 30, 2002

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue - Property tax and debt service revenues are recognized when measurable and available to finance current expenditures. The criteria of available has been defined as having been received within 60 days after year-end. Any portion of taxes receivable not meeting this criteria are recorded in the deferred tax revenue account and will be recognized as revenue when measurable and available.

Compensated Absences - City employees are entitled to certain compensated absences based on their length of employment. Both current and long-term compensated absences are treated by the basic concepts set by GASB-16. Compensated absences for Proprietary Funds are accrued when vested and reported as a liability. Current compensated absences for all other funds are treated as expenditures as they occur, while vested compensated absences are treated as long-term debt and reported in the GLTDAG. No accrual is made for nonvesting (rights that cannot or will not vest) compensated absences.

"Memorandum Only" Total Columns - The combined financial statements include a total column that is described as memorandum only. Data in these columns do not present financial position, results of operations, or cash flow in conformity with generally accepted accounting principles. Interfund transactions have not been eliminated from the total column of each financial statement.

### NOTE 2: CASH AND INVESTMENTS

#### Cash and Investments

The City maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is presented on the combined balance sheet as "Cash and Investments".

Cash and Investments are comprised of the following at September 30, 2002:

Cash on hand	\$ 2,595
Deposits with financial institutions:	
Demand deposit	77,573
Time certificates of deposit	10,039
Investments	<u>20,884,291</u>
Total	<u>\$20,974,498</u>

Cash and investments are reflected on the Combined balance Sheet as follows:

Cash and Investments	\$17,868,698
Restricted Cash and Investments	<u>3,105,800</u>
Total	<u>\$20,974,498</u>

(Continued)

## City of Post Falls

### NOTES TO FINANCIAL STATEMENTS September 30, 2002

#### NOTE 2: CASH AND INVESTMENTS (Continued)

##### Deposits

The carrying amount of the City's deposits with financial institutions was \$87,612 and the bank balance was \$87,612. The bank balance is categorized as follows:

Amount insured by the FDIC or collateralized with securities held by the City in its name	\$87,612
Uncollateralized (this includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name)	-0-
<b>Total bank balance</b>	<b><u>\$87,612</u></b>

##### Investments

The City's investments are categorized as follows:

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

At September 30, 2002, the carrying amount and fair value of the investments were:

	Categories			Amount	Carrying Value	Fair
	1	2	3			
Repurchase Agreements	\$1,838,676			\$1,838,676	\$1,838,676	
U.S. Government Bonds	3,882,295			3,882,295	3,882,295	
	<u>\$5,720,271</u>			\$5,720,271	\$5,720,271	

Investments not subject to categorizations:

Idaho State Treasurer's Local Government Investment Pool, variable interest rate	15,163,320	<u>15,163,320<sup>(1)</sup></u>	
Sub-total (Investments excluding Trust and Agency Funds)	15,163,320	15,163,320	
<b>Total investments</b>	<b><u>\$20,884,291</u></b>	<b><u>\$20,884,291</u></b>	

The City's investments are categorized above to give an indication of the level of custodial credit risk assumed at year-end in conformance with state law.

<sup>(1)</sup> The City is a voluntary participant in the Idaho Local Government Investment Pool that is regulated by Idaho State Code Section 67-1210 and Section 67-1210A and under the oversight of the Treasurer of the State of Idaho. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based

(Continued)

# City of Post Falls

## NOTES TO FINANCIAL STATEMENTS September 30, 2002

*upon the City's pro-rata share of the fair value, same as the value of the pool shares, provided by the State Pool for the entire State Pool portfolio.*

(Continued)

## City of Post Falls

### NOTES TO FINANCIAL STATEMENTS September 30, 2002

#### NOTE 3: SPECIAL ASSESSMENTS RECEIVABLE

Special assessments receivable from benefited property owners of public improvements consist of the following as of September 30, 2002:

Delinquent principal amounts	\$ 48,921
Deferred principal amounts not currently due, but due at future date	<u>438,028</u>
	<u>\$486,949</u>

Installment payments of principal and interest due from property owners are billed annually.

#### NOTE 4: FIXED ASSETS

A summary of changes in the general fixed assets account group for the year ended September 30, 2002, is as follows:

	<u>Balance</u> <u>10/1/01</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>9/30/02</u>
Land	\$3,372,084			\$3,372,084
Buildings & Imp.	4,161,030	1,248,457		5,409,487
Equipment	2,516,231	338,866	\$(30,219)	2,824,878
Vehicles	<u>1,326,626</u>	<u>133,042</u>	<u>(17,220)</u>	<u>1,442,448</u>
	<u>\$11,375,971</u>	<u>\$1,720,365</u>	<u>\$(47,439)</u>	<u>\$13,048,897</u>

A summary of proprietary fund property, plant and equipment at September 30, 2002, is as follows:

#### Cost

Land	\$ 2,326,909	\$ 31,964		\$ 2,358,873
Wells	1,424,405		\$ (7,700)	1,416,705
Water Sys.	9,566,622	534,992		10,101,614
Equipment	1,542,615	6,200	(68,185)	1,480,630
Sewer Sys.	31,497,182	2,220,285	(2,322)	33,715,145
C.I.P.	<u>793,786</u>	<u>519,991</u>	<u>(1,004,188)</u>	<u>309,589</u>
	<u>\$47,151,519</u>	<u>\$3,313,432</u>	<u>\$(1,082,395)</u>	<u>\$49,382,556</u>

#### Accumulated Depreciation

Wells	\$ 439,273	\$ 61,686	\$ (6,300)	\$ 494,659
Water system	1,599,189	202,550		1,801,739
Equipment	996,596	69,723	(62,936)	1,003,383
Sewer system	<u>6,433,364</u>	<u>695,049</u>	<u>(2,322)</u>	<u>7,126,091</u>
	<u>\$9,468,422</u>	<u>\$1,029,008</u>	<u>\$(71,558)</u>	<u>\$10,425,872</u>

(Continued)

# City of Post Falls

## NOTES TO FINANCIAL STATEMENTS September 30, 2002

### NOTE 5: DEFINED BENEFIT PENSION PLAN

Public Employee Retirement System of Idaho - The Public Employee Retirement System of Idaho (PERSI), a cost sharing multiple-employer public retirement system, was created by the Idaho State Legislature. It is a defined benefit plan requiring that both the member and the employer contribute. The plan provides benefits based on members' years of service, age and compensation. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. Designed as a mandatory system for eligible state and school district employees, the legislation provided for other political subdivisions to participate by contractual agreement with PERSI. Financial reports for the plan are available from PERSI upon request.

After 5 years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each year of credited service, the annual service retirement allowance is 1.917% (2.225% police/firefighter) of the average monthly salary for the highest consecutive 42 months.

For the year ended June 30, 2002, the required contribution rates for general employees was 9.77% and 5.86% of covered payroll for the City of Post Falls and its employees, respectively, and 10.01% and 7.21% for police/firefighter employees for the City of Post Falls and its employees, respectively. The City of Post Falls' contributions required and paid were \$422,617, \$373,426, and \$327,449 for the three years ended June 30, 2002, 2001, and 2000, respectively.

### NOTE 6: BONDS PAYABLE

#### General Obligation Bond

On November 4, 1997, the requisite majority of the qualified voters of the City authorized the issuance of General Obligation Bonds in the principal amount of \$2,000,000 to finance the construction of a new Library. The City issued these bonds on March 1, 1998. Repayment terms of the bonds call for semi-annual interest payments on March 1 and September 1, at rates ranging from 4.0% to 6.5%, and annual principal repayments on September 1 in amounts ranging from \$90,000 in 1999 to \$185,000 in 2013.

Presented below is a summary of debt service requirements to maturity by years:

2003	\$183,829
2004	182,772
2005	182,627
2006	182,272
2007	181,674
2008-2012	930,694
2013	<u>189,301</u>
	<u>\$2,033,169</u>

(Continued)

# City of Post Falls

## NOTES TO FINANCIAL STATEMENTS September 30, 2002

### NOTE 6: BONDS PAYABLE (Continued)

#### Sewer Revenue Bonds

On March 15, 1982, the requisite majority of the qualified voters of the City authorized the issuance of Sewer Revenue Bonds in the principal amount of \$3,900,000 to finance the acquisition and construction of improvements and additions to the sewer system of the City. The City issued these bonds on the following dates and in the following amounts: Series 1985, issued May 15, 1985 in the amount of \$929,300; Series 1989, issued May 5, 1989 in the amount of \$1,500,000; and Series 1994, issued April 1, 1994 in the amount of \$1,470,700, for a total issuance of \$3,900,000.

On August 1, 1995 the City issued \$670,000 of Sewer Revenue Refunding Bonds, named the Series 1995A Bonds. The proceeds of these bonds, along with other resources of the City, were used to defease (refund) the Series 1985 bonds. On May 16, 1994 the City received Judicial Validation under Idaho Code to issue \$3,315,750 of Sewer Revenue Bonds, and issued those bonds, as Series 1995B, on August 1, 1995 in conjunction with the issuance of the Series 1995A bonds.

Repayment terms on the Series 1989 bonds are semi-annual payments, due January 1 and July 1, in the amount of \$54,833.62, including interest at 4.00%.

Repayment terms on the Series 1994 Bonds are semi-annual payments, due April 1 and October 1, in the amount of \$53,762.54, including interest at 4.00%.

Repayment terms on the Series 1995A Bonds call for semi-annual interest payments on February 1 and August 1, at rates ranging from 3.9% to 4.9%, and annual principal repayments on August 1 in amounts ranging from \$55,000 in 1997 to \$80,000 in 2005.

Repayment terms on the Series 1995B Bonds call for semi-annual interest payments on February 1 and August 1, at rates ranging from 3.9% to 4.9%, and annual principal repayments on August 1 in amounts ranging from \$280,000 in 1997 to \$405,000 in 2005.

Presented below is a summary of debt service requirements to maturity by years:

	<u>Sewer Bonds Series 1995A</u>	<u>Sewer Bonds Series 1995B</u>	<u>Sewer Bonds Series 1989</u>	<u>Sewer Bonds Series 1993</u>
2003	\$86,285	\$420,480	\$109,667	\$107,525
2004	87,760	423,325	109,667	107,525
2005	83,920	424,845	109,667	107,525
2006			109,667	107,525
2007			109,667	107,525
2008-2012			219,335	537,625
2013				107,425
	<hr/>	<hr/>	<hr/>	<hr/>
	<u>\$257,965</u>	<u>\$1,268,650</u>	<u>\$767,670</u>	<u>\$1,182,675</u>

(Continued)

## City of Post Falls

### NOTES TO FINANCIAL STATEMENTS September 30, 2002

#### NOTE 7: GENERAL LONG-TERM DEBT

General long-term debt as of September 30, 2002 consists of the following:

The special assessment bonds payable are as follows:

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
L.I.D. 91-1:	4/15/03	7.95%	\$20,000	\$7,950	\$27,950
	4/15/04	7.95	20,000	6,360	26,360
	4/15/05	7.95	20,000	4,770	24,770
	4/15/06	7.95	20,000	3,180	23,180
	4/15/07	7.95	<u>20,000</u>	<u>1,590</u>	<u>21,590</u>
			<u>\$100,000</u>	<u>\$23,850</u>	<u>\$123,850</u>
C.L.I.D. #1:	11/1/02	6.90%	<u>\$10,000</u>	<u>\$690</u>	<u>\$10,690</u>
			<u>\$10,000</u>	<u>\$690</u>	<u>\$10,690</u>
L.I.D. 91-4:	9/1/03	5.60%	<u>\$35,000</u>	<u>\$1,960</u>	<u>\$36,960</u>
			<u>\$35,000</u>	<u>\$1,960</u>	<u>\$36,960</u>
C.L.I.D. #2:	9/1/03	5.50%	\$80,000	\$14,047	\$94,047
	9/1/04	5.60	85,000	9,647	94,647
	9/1/05	5.75	<u>85,000</u>	<u>4,887</u>	<u>89,887</u>
			<u>\$250,000</u>	<u>\$28,581</u>	<u>\$278,581</u>
L.I.D. #96-1:	9/30/03	4.90%	\$35,001	\$14,085	\$49,085
	9/30/04	5.00	35,000	12,370	47,370
	9/30/05	5.10	35,000	10,620	45,620
	9/30/06	5.20	40,000	8,835	48,835
	9/30/07	5.30	40,000	6,755	46,755
	9/30/08	5.40	40,000	4,635	44,635
	9/30/09	5.50	<u>45,000</u>	<u>2,475</u>	<u>47,475</u>
			<u>\$270,001</u>	<u>\$59,775</u>	<u>\$329,775</u>

(Continued)

## City of Post Falls

### NOTES TO FINANCIAL STATEMENTS September 30, 2002

#### NOTE 7: GENERAL LONG-TERM DEBT (Continued)

The City is fully obligated for the local improvement debt, placing liens against the property owners to ensure payment to the City. The LID Guarantee Fund was established by ordinance to provide additional security for the local improvement district bondholders. This fund is maintained at a level equivalent to 7% of the outstanding LID bonds. The required balance for this fund at September 30, 2002 is \$46,550. As of September 30, 2002, \$117,639 is set-aside in this fund.

Changes in general long-term debt are as follows (See Note 10):

	Balance 10/1/01	Additions	Deletions	Balance 9/30/02
Compensated absences	\$ 290,485	\$ 48,536		\$339,021
Notes payable	6,551		\$ 6,551	
Capital leases (Note 8)	194,399	4,260,863	86,362	4,368,900
General Fund Bonds Payable	1,715,000		110,000	1,605,000
Local Improvement Bonds payable	<u>835,001</u>		<u>170,000</u>	<u>665,001</u>
	<u>\$3,041,436</u>	<u>\$4,309,399</u>	<u>\$372,913</u>	<u>\$6,977,922</u>

#### NOTE 8: CAPITAL LEASES

General Fund - The General Fund has entered into 5 equipment leases and 1 building/land lease, which qualify as capital leases, as ownership of the assets transfers to the City at the end of the lease. The leases carry interest rates ranging from 2.50% to 5.60%, and require annual principal payments. The equipment secures the leases. The booked asset value of the leased equipment is \$458,407 and the booked asset value of the building/land is \$1,437,695, with \$3,681,298 held in US Government bonds for the remainder of the construction of this building. No depreciation is recorded on general fixed assets. All of the capital leases have non-appropriation clauses, which state that if funding is unavailable during the budget process to make the annual required lease payments, then the lease is canceled and the equipment returned to the lending institution.

Future minimum lease payments are as follows:

2003	\$ 473,605
2004	400,733
2005	350,779
2006	348,247
2007	347,070
2008-2012	1,747,248
2013-2017	1,863,600
2018-2022	<u>1,900,800</u>
Future minimum lease payments	7,432,082
Less amounts representing interest	<u>(3,063,182)</u>
	<u>\$4,368,900</u>

(Continued)

## City of Post Falls

### NOTES TO FINANCIAL STATEMENTS September 30, 2002

#### NOTE 9: SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains three enterprise funds, which provide water, sewer and sanitation collection services.

Segment information for the year is as follows:

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Operating revenues	\$1,266,602	\$2,402,340	\$947,218	\$4,616,160
Depreciation expense	284,848	743,739	422	1,029,009
Operating income	401,048	577,402	153,805	1,132,255
Operating transfer to other funds	278,023	324,253	132,010	734,286
Net Income	240,408	344,138	23,668	608,214
Property, plant, and equipment	12,175,763	37,192,109	14,684	49,382,556
Property, plant, and equipment depreciation	(2,540,744)	(7,870,444)	(14,684)	(10,425,872)
Property, plant, and equipment additions	732,863	1,576,382		2,309,245
Property, plant, and equipment deletions	(43,674)	(30,315)	(4,219)	(78,208)
Working capital	3,842,712	7,704,903	107,573	11,655,188
Total assets	13,773,050	37,778,931	175,120	51,727,101
Revenue bonds payable		3,003,171		3,003,171
Contributed capital	11,116,331	33,019,963		44,136,294
Retained earnings	2,361,400	1,602,989	107,573	4,071,962
Total fund equity	13,477,731	34,622,952	107,573	48,208,256

#### NOTE 10: COMPONENT UNIT DISCLOSURES

As disclosed in Note 1, the Post Falls Urban Renewal Agency meets the criteria for discrete presentation in the City's financial statements as a component unit. The following paragraphs describe significant transactions between the two entities and provide relevant disclosures related to the Agency.

Agency Bond Payable - On August 15, 1998, the Agency issued \$995,000 revenue allocation (tax increment) bonds, named Series 1998 Bonds. The purpose of this issue is to refund the Agency's Revenue Allocation Bonds, Series 1997. The notes were issued to partially finance the construction and development of the project within the Urban Renewal Area. Repayment terms are semi-annual payments, due February 1 and August 1, bearing interest ranging from 4.2% to 4.6%.

(Continued)

## City of Post Falls

### NOTES TO FINANCIAL STATEMENTS September 30, 2002

#### NOTE 10: COMPONENT UNIT DISCLOSURES (Continued)

The annual requirements to retire the debt are as follows:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$225,000	\$20,818	\$245,818
2004	<u>230,000</u>	<u>10,580</u>	<u>240,580</u>
	<u>\$455,000</u>	<u>\$31,398</u>	<u>\$486,398</u>

The long-term note payable balance of \$477,410 at September 30, 2002 is a note payable to Jacklin Land Company, L.P., with no interest. The loan was made in order to cover the cash flow requirement for payment of the August 1, 2000, 2001 and 2002 bond payments on the Riverbend Project Bonds. The debt will not be repaid until after revenues have been received by the Agency in excess of debt service payments on the Series 1998 Bonds.

The general long-term debt as of September 30, 2002 is as follows:

<u>Revenue Allocation Bonds</u>	<u>Balance Outstanding 9/30/00</u>	<u>Issued During Year</u>	<u>Retired During Year</u>	<u>Balance Outstanding 9/30/01</u>
Notes payable	\$297,034	\$180,376		\$447,410
1998 Series	<u>675,000</u>	<u>          </u>	<u>\$220,000</u>	<u>455,000</u>
	<u>\$ 972,034</u>	<u>\$180,376</u>	<u>\$220,000</u>	<u>\$902,410</u>

#### Agency Cash and Investments

The Agency maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is presented on the combined balance sheet as "Cash and Investments".

Cash and Investments are comprised of the following at September 30, 2002:

Deposits with financial institutions:	
Demand deposit	\$ 64,197
Investments	<u>470,063</u>
Total	<u>\$534,260</u>

Cash and investments are reflected on the Combined balance Sheet as follows:

Cash and Investments	<u>\$474,491</u>
Total	<u>\$474,491</u>

(Continued)

## City of Post Falls

### NOTES TO FINANCIAL STATEMENTS September 30, 2002

#### NOTE 10: COMPONENT UNIT DISCLOSURES (Continued)

##### Deposits

The carrying amount of the Agency's deposits with financial institutions was \$64,197 and the bank balance was \$64,197. The bank balance is categorized as follows:

Amount insured by the FDIC or collateralized with securities held by the Agency in its name	\$64,197
Uncollateralized (this includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Agency's name)	
<b>Total bank balance</b>	<b><u>\$64,197</u></b>

##### Investments

The Agency's investments are categorized as follows:

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

At September 30, 2002, the carrying amount and fair value of the investments were:

	<u>Categories</u>			<u>Amount</u>	<u>Carrying Value</u>	Fair
	<u>1</u>	<u>2</u>	<u>3</u>			
Investments not subject to categorizations:						
Idaho State Treasurer's Local Government Investment Pool, variable interest rate				\$ 470,063	\$ 470,063	
Total investments				<u>\$470,063</u>	<u>\$470,063</u>	

(Continued)

# City of Post Falls

## NOTES TO FINANCIAL STATEMENTS September 30, 2002

### NOTE 11: EXPENDITURES IN EXCESS OF BUDGETED APPROPRIATIONS

The following funds had expenditures in excess of budget:

	<u>Budgeted Expenditures</u>	<u>Actual Expenditures</u>
General Revenue:	\$8,681,648	\$9,868,670
Special Revenue:		
Street Lights	\$164,500	\$165,563

The over expenditures in all of the funds occurred because their budgets were not amended during the year to handle the resultant over expenditures. In all cases, adequate cash was available to handle the additional costs.

The over expenditure in General Fund was primarily due to the construction work on the Police Facility. The over expenditure in Street Lights was caused from an increase in electricity.

### NOTE 12: DEFICIT FUND EQUITY

The following fund had a deficit fund equity at September 30, 2001:

<u>Fund</u>	<u>Deficit</u>
Special Revenue:	
Cemetery/Perpetual Care	\$ 44,538
Debt Service:	
LID 99-1	\$ <u>97,621</u>

Management is aware of these deficits and is taking appropriate action.

### NOTE 13: COMMITMENTS AND CONTINGENCIES

Commitments – The City is currently working on a building a new police facility. Property was purchased last fiscal year and construction is started this summer. The project is due to be completed in June 2003. Certificates of participation were sold in May 2002 to finance this project. Also, the City began construction of LID 99-1 this summer and the project should be complete in the Spring of 2003. This LID involves two federal grants and participation from Idaho Department of Transportation. This has been a lengthy project to coordinate. Last the City has started the process of adding additional water capacity. Planning has been taking place during this fiscal year and the option to finance the project through DEQ was approved by Council. No money has been borrowed on the project yet. This project should be completed in FY 03.

Litigation - The City is a party to legal actions arising in the ordinary course of its business. In management's opinion, the City has adequate legal defenses and/or insurance coverage relative to each of these actions and does not believe that they will materially affect the City's operations or financial position.

Intergovernmental Grants - The City has received several federal and state grants for specific purposes that are subject to review and audit by grantor agencies. Such audits could lead to request for reimbursements to grantor agencies for expenditures disallowed under the terms

(Continued)

## City of Post Falls

### NOTES TO FINANCIAL STATEMENTS September 30, 2002

of the grant. Based upon prior experience, City management believes such disallowances, if any, will be immaterial.

**NOTE 14: DEFERRED COMPENSATION PLANS**

Employees of the City may elect to participate in a Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. The plan is available to all employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, death, retirement or unforeseeable emergency.

As per GASB #32, the City does not list this plan on its Financial Statements.

**NOTE 15: OPERATING TRANSFERS:**

Operating transfers in Exhibit 2 and Exhibit 4 do not equal because of transfers made with the Enterprise Funds and Government Fund Types. Following is a reconciliation of operating transfers for the year ended September 30, 2002:

	<u>Transfers In</u>	<u>Transfers Out</u>
Total operating transfers included in Exhibit 2	\$745,286	\$ 11,000
Transfers from Enterprise Funds – Exhibit 4	<u>                    </u>	<u>734,286</u>
Totals	<u>\$745,286</u>	<u>\$745,286</u>

**NOTE 16: INTERFUND RECEIVABLES/PAYABLES:**

The composition of interfund balances as September 30, 2002 is as follows:

Interfund receivable/payable:

<u>Receivable Fund</u>	<u>Payable Fund</u>	Amount
General Fund	Cemetery/Perpetual Care	\$ 45,632
Debt Service – LID Guarantee	Debt Service – LID 96-1	<u>22,737</u>
Total		<u>\$ 68,369</u>

**NOTE 17: CONTRIBUTED CAPITAL:**

Changes in contributed capital are as follows:

	<u>Enterprise Funds</u>	
	<u>Water Fund</u>	<u>Sewer Fund</u>
Balance, September 30, 2001	\$10,383,218	\$30,440,562
Contributed by Developers	<u>733,113</u>	<u>2,579,401</u>

(Continued)

# City of Post Falls

## NOTES TO FINANCIAL STATEMENTS September 30, 2002

Balance, September 30, 2002	<u>\$11,116,331</u>	<u>\$33,019,963</u>
-----------------------------	---------------------	---------------------

### NOTE 18: RISK MANAGEMENT

The City faces a considerable number of risks of loss, including: a) damage to and loss of property and contents, b) employee torts, c) professional liability, i.e., errors and omissions, d) environmental damage, e) workers' compensation, i.e., employee injuries, and f) medical insurance costs of employees. A variety of methods are used to provide insurance for these risks. The only area they do not have insurance coverage for is environmental damage. This is due to lack of available coverage. During the last three years, the City has not had a claim in excess of insurance coverage. Therefore, there have been no outstanding claims at the end of those three years.

The first method the City provides is participation in a risk management program called the Idaho Counties Reciprocal Management Program (ICRMP). ICRMP is an insurance pool which serves all public entities in Idaho through provision of property, general liability (employee torts), auto liability and physical damages, and public officials' insurance (errors and omissions). ICRMP provides loss prevention training to enable its subscribers to minimize their exposure to loss through implementation of proper policies and procedures.

The costs of these insurance premiums are charged to the Comprehensive Liability Insurance fund for governmental fund operations and enterprise funds for proprietary fund operations. The Comprehensive Liability Insurance fund has the power to levy an annual property tax to provide for funds to pay premiums and settlements.

The City, also, participates in the Idaho State Insurance Fund. This statewide program provides coverage for workers' compensation claims. The City is charged premiums by a rating method the program uses. This rating method is based on a per employee job risk basis. After the end of every year, the City is audited, and based on their claims throughout the year, can be eligible for a refund. If the usage was excessive throughout the year, the Insurance Fund would increase the employee ratings where the use was excessive, causing the rates to increase for the following year. In the past, the City has received refunds on a regular basis. The premiums for this program are budgeted directly through each department.

Last the City contracts with a broker, to help provide the City with various types of employee insurance. The City has chosen to not be self insured in this area. The City provides a benefit amount to each eligible employee. This benefit amount can be used towards the purchase of eligible insurance premiums, dictated by Internal Revenue Service codes. Currently, the City makes available for the employee to purchase medical, dental, life, and some supplemental insurance. Any insurance premiums not covered by this benefit amount are taken from the employee's wages. Excessive use of these insurance programs would be reflected in increased premiums in the following year. The benefit amount paid by the City, is budgeted directly through each department.

### NOTE 19: EFFECTS OF GASB 34 ON FUTURE FINANCIAL STATEMENTS

The implementation of Statement No. 34 of the Governmental Accounting Standards Board in the fiscal year ending September 30, 2003 will require a prior period adjustment to be made that will be material to the financial statements. This new statement will require the City to begin depreciating their governmental fund capital assets as well as changing from a modified accrual basis of accounting to a full accrual basis of accounting for their government-wide financial statements.

(Continued)

**Table #1**

**City of Post Falls  
General Governmental Expenditures By Function  
Last Ten Fiscal Years**

General Government	Public Safety	Highways & Public Works	Culture And Recreation	Capital Outlays	Debt Service	Total Expenditures
\$1,499,012	\$1,257,668	\$602,617	\$308,276	\$1,144,486	\$51,275	\$4,863,334
\$2,189,010	\$1,442,909	\$742,403	\$369,056	\$414,287	\$82,721	\$5,240,386
\$1,792,715	\$1,749,996	\$855,071	\$536,345	\$926,226	\$113,872	\$5,974,225
\$1,926,726	\$1,832,621	\$1,165,420	\$582,777	\$375,053	\$354,159	\$6,236,756
\$1,789,099	\$2,005,513	\$1,296,461	\$598,956	\$523,530	\$329,553	\$6,543,113
\$1,955,171	\$2,128,126	\$1,927,708	\$676,318	\$806,999	\$268,813	\$7,763,135
\$2,116,467	\$2,194,066	\$949,289	\$671,279	\$2,540,527	\$923,842	\$9,395,470
\$2,419,524	\$2,249,065	\$1,048,887	\$719,488	\$1,219,679	\$525,324	\$8,181,967
\$2,571,361	\$2,381,335	\$1,136,381	\$758,193	\$1,279,537	\$498,315	\$8,625,122
\$2,943,384	\$2,603,846	\$2,487,208	\$869,370	\$2,449,428	\$507,137	\$11,860,373

neral, Special Revenue, Capital Projects and Debt Service Funds

Table # 2

**City of Post Falls**  
**General Governmental Revenues By Source**  
**Last Ten Fiscal Years**

Fiscal Year	Taxes	Special Assessments	Intergovernmental	Charges For Services	Miscellaneous	Total
1992-93	\$1,527,974	\$286,060	\$1,396,759	\$958,738	\$261,217	\$4,430,748
1993-94	\$2,023,215	\$144,850	\$1,368,213	\$871,179	\$825,637	\$5,233,094
1994-95	\$2,505,970	\$145,907	\$1,064,401	\$857,820	\$580,059	\$5,154,157
1995-96	\$2,588,554	\$180,156	\$1,192,470	\$874,351	\$540,443	\$5,375,974
1996-97	\$2,692,551	\$122,027	\$1,456,277	\$915,443	\$489,965	\$5,676,263
1997-98	\$2,828,014	\$127,020	\$1,662,858	\$1,070,906	\$2,531,773	\$8,220,571
1998-99	\$3,299,035	\$245,502	\$2,027,230	\$1,518,433	\$507,516	\$7,597,716
1999-00	\$3,486,218	\$123,554	\$2,159,833	\$1,565,164	\$666,910	\$8,001,679
2000-01	\$3,833,894	\$125,661	\$2,390,805	\$1,597,607	\$756,662	\$8,704,629
2001-02	\$4,361,376	\$107,236	\$3,588,311	\$1,723,947	\$588,896	\$10,369,766

## NOTES:

(1) Includes the General, Special Revenue, Capital Projects and Debt Service Funds

**CITY OF POST FALLS  
PROPERTY TAX LEVIES AND COLLECTIONS  
LAST TEN YEARS**

**TABLE #3**

TAX YEAR	TOTAL TAX LEVY	FISCAL YEAR TAX COLLECTIONS	% OF LEVY COLLECTED	DELINQUENT TAX COLLECTIONS	TOTAL TAX COLLECTIONS	% OF TOTAL COLLECTION TO LEVY	ADJUSTMENTS	OUTSTANDING DELINQUENT TAXES	% OF DELINQUENT TO LEVY
1992	\$1,526,060	\$1,216,157	79.69%	\$303,611	\$1,519,768	99.59%	(\$1,156)	\$5,136	0.34%
1993	\$1,992,026	\$1,469,876	73.79%	\$493,013	\$1,962,889	98.54%	(\$3,382)	\$25,755	1.30%
1994	\$2,349,312	\$1,967,905	83.77%	\$219,772	\$2,187,677	93.12%	(\$7,252)	\$154,384	6.59%
1995	\$2,429,200	\$2,335,586	96.15%	\$160,478	\$2,496,064	102.75%	(\$3,585)	\$116,322	4.80%
1996	\$2,599,770	\$2,536,953	97.58%	(\$56,785)	\$2,480,168	95.40%	(\$1,598)	\$118,004	4.54%
1997	\$2,713,597	\$2,629,635	96.91%	\$59,293	\$2,688,928	99.09%	(\$4,472)	\$79,491	2.93%
1998	\$3,211,944	\$3,053,838	95.08%	\$150,489	\$3,204,327	99.76%	(\$7,617)	\$57,673	1.80%
1999	\$3,368,327	\$3,183,069	94.50%	\$77,407	\$3,260,476	96.80%	(\$5,903)	\$157,175	4.67%
2000	\$3,631,687	\$3,504,567	96.50%	\$64,541	\$3,569,108	98.28%	(\$6,202)	\$120,918	3.34%
2000	\$3,896,692	\$3,646,882	93.59%	\$80,163	\$3,727,045	95.65%	(\$18,108)	\$151,539	3.91%

**Table #4**

**City of Post Falls  
Assessed Valuation and Tax Rate  
Last Ten Fiscal Years**

Tax Year	Assessed Valuation	Exemptions	Net Taxable Value	Valuation Increase		Tax Rate Per \$1,000 Value
				Amount	Percentage	
1992	273,156,629	50,598,133	222,558,496	37,514,704	20.27%	6.86
1993	359,943,377	67,217,184	292,726,193	70,167,697	31.53%	6.81
1994	424,346,760	76,882,272	347,464,488	54,738,295	18.70%	6.76
1995	573,920,618	103,752,421	470,168,197	122,703,709	35.31%	5.18
1996	656,498,967	113,951,342	542,547,625	72,379,428	15.39%	4.80
1997	695,182,787	122,678,457	572,504,350	29,956,725	5.52%	4.74
1998	742,251,793	132,469,458	609,782,335	37,277,985	6.51%	5.27
1999	791,143,568	140,866,247	650,277,321	40,494,986	6.64%	5.18
2000	841,776,651	152,996,162	688,780,489	38,503,168	5.92%	5.28
2001	\$ 892,717,766	\$ 162,554,696	\$ 730,163,070	\$ 41,382,581	6.01%	5.34

Table #5

**City of Post Falls  
Property Tax Rates  
Direct and Overlapping Governments  
FY 1992 thru 2001**

Governmental Unit	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
City of Post Falls	5.34	5.28	5.18	5.27	4.74	4.80	5.18	6.76	6.81	6.86
%CHANGE	1.14%	1.90%	-1.70%	11.13%	-1.17%	-7.24%	-23.43%	-0.64%	-0.76%	-0.62%
North Idaho College	0.15	1.02	1.03	1.03	1.03	1.21	1.34	1.72	1.73	1.70
Kootenai County	3.43	3.92	3.73	3.32	3.21	3.26	3.51	4.45	4.63	4.61
Kootenai Hospital District	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.13	0.16	0.18
Kootenai Ambulance District	0.85	0.13	0.15	0.15	0.14	0.14	0.15	0.21	0.18	0.23
School District #273	6.08	5.85	5.95	5.29	4.57	4.79	4.87	6.81	6.21	6.40
Post Falls Highway District #1	0.65	0.66	0.67	0.68	0.69	0.68	0.82	1.04	1.11	1.29
Post Falls Fire District	1.67	1.50	1.21	1.26	1.26	1.21	1.36	1.65	1.71	1.02
Total	18.17	18.35	17.92	17.00	15.65	16.10	17.23	22.77	22.53	22.28
% CHANGE FOR TOTAL	-0.98%	2.40%	5.41%	8.63%	-5.54%	-6.54%	-24.33%	1.06%	1.13%	-0.48%

**Notes:**

(1) Tax rates are expressed as per \$1,000 of net taxable market value

Table # 6

**City of Post Falls  
Assessments Receivable and Collected  
Last Ten Fiscal Years**

Fiscal Year	Assessments Receivable		Current & Delinquent Collections		Total Collections
	Delinquent	Deferred	Collected	Penalties & Interest Collected	
1993	1,992	501,216	251,736	34,324	286,060
1994	2,661	405,492	95,061	49,789	144,850
1995	3,294	971,754	188,720	24,614	213,334
1996	18,563	776,330	180,156	53,414	233,570
1997	15,526	656,817	122,027	56,960	178,987
1998	6,062	535,398	127,021	53,938	180,959
1999	14,382	857,618	245,502	36,017	281,519
2000	30,579	656,850	123,554	53,273	176,827
2001	53,718	545,116	125,661	50,210	175,871
2002	\$48,921	\$438,028	\$107,236	\$36,114	\$143,350

**City of Post Falls  
Bonded Debt  
Direct and Overlapping Governments  
September 30, 2002**

**Table # 7**

Governmental Unit	Gross Debt	Government's Net Market Value	Percentage Applicable to City	City Share of Debt
City of Post Falls	\$ 5,273,172	\$ 730,163,070	100.0%	<u>\$ 5,273,172</u>
Kootenai County	845,000	6,028,988,746	12.1%	102,337
School District #273	19,360,000	1,138,285,720	64.1%	12,418,637
Post Falls Fire District	1,670,000	1,633,002,474	44.7%	<u>746,706</u>
				<u>\$ 13,267,679</u>

**Table #8**

**City of Post Falls  
Property Value and Construction  
Last Ten Calendar Years**

	Residential			Commercial		Industrial		Other		Total Permits	Total Construction
	Dwelling Units	Permits	Value	Permits	Value	Permits	Value	Permits	Value		
1993	954	552	50,844,185	31	6,504,382	2	13,877,706	364	4,474,475	585	75,700,748
1994	590	437	43,443,471	29	7,622,516	1	3,763	339	5,466,384	467	56,536,134
1995	546	436	39,132,652	27	8,612,234			83	3,514,378	463	51,259,264
1996	362	329	25,974,314	23	6,331,820			330	2,791,487	682	35,097,621
1997	297	286	21,498,234	19	2,783,969	3	999,685	415	2,927,518	723	28,209,406
1998	298	291	25,193,960	15	2,906,641	6	2,438,309	492	4,525,496	804	35,064,406
1999	391	377	29,908,269	22	4,369,232	2	166,561	416	4,617,439	817	39,061,501
2000	297	400	27,502,425	60	5,451,857	4	235,770	208	506,431	673	33,696,483
2001	291	280	28,182,712	24	12,245,890	2	76,584	373	2,900,317	679	43,405,503
2002	379	370	\$ 39,575,650	26	\$ 18,717,530	4	\$ 685,708	481	\$ 3,543,729	881	\$ 62,522,617

Source: City of Post Falls

**Table # 9**

**City of Post Falls  
Major Tax Payers  
September 30, 2002**

<u>Taxpayer</u>	<u>Type Of Business</u>	<u>Assessed Market Value</u>	<u>Percentage Of Total Assessed Market Value</u>
Kimball International Mkt, Inc.	Manufacturing-Furniture	\$ 37,704,825	4.22%
Verizon Northwest, Inc.	Telecommunications Provider	12,622,777	1.41%
Wal-Mart Real Estate Business/Stores Inc.	Retail	11,507,009	1.29%
Avista Corp.	Electric and Gas Provider	10,284,869	1.15%
Puryear Family LPT	Land Owner	9,502,480	1.06%
Coeur d'Alene Factory Outlets LTD Ptn	Retail	8,963,705	1.00%
Potlatch Corp.	Manufacturing-Wood Products	8,137,879	0.91%
Idaho Veneer Co.	Manufacturing-Wood Products	6,661,236	0.75%
Cavanaugh's Hospitality LTD Ptn	Hotels/Motels/Restaurants	6,165,488	0.69%
Jacklin Land Company LPT	Commercial Business Properties	<u>5,731,723</u>	<u>0.64%</u>
Subtotal - Ten Of City's Largest Taxpayers		\$ 117,281,991	13.14%
All Other Taxpayers		<u>775,435,775</u>	<u>86.86%</u>
Total City Taxpayers		<u>\$ 892,717,766</u>	<u>100.00%</u>

**City of Post Falls  
Statistical Information  
Water Fund  
September 30, 2002**

**Schedule of Water Revenue and Production  
For Residential, Commercial and Governmental Accounts**

Total Revenue	\$1,179,703
Estimated number of active customers	6350
Total water produced (thousands of gallons)	1,266,601

**Schedule of Water Rates**

Monthly Base Fee (by meter size)

1" or less	\$ 6.20	1½"	\$10.40
2"	15.45	3"	27.30
4"	44.15	6"	86.35

Metered water Usage 65¢ per 1,000 gallons

**City of Post Falls  
Statistical Information  
Wastewater (Sewer) Fund  
September 30, 2002**

**Schedule of Treatment Volume**

Average Volume	2.010 million gallons per day
Total Volume	733,650,000 gallons

**Schedule of Monthly Sewer Rates**

The residential rate is \$18.50 for 94% of the City's customers.

The non-residential rate per customer is \$3.70 per 1,000 gallons of water consumption.

**Table # 12**  
(Continued)

**City of Post Falls  
Demographic & Misc. Statistics  
September 30, 2002**

<u>Finance Services</u>	<u>Number</u>
◆ Bank & Savings Institutions (local)	8
 <u>Municipal Services</u>	
◆ Sewer System	
Treatment Plant Design Capacity	3.1 mgd
Average Daily Usage (% of capacity)	64.84%
◆ Water System	
Maximum Plant Daily Production	11,589,120
gal/day	
Maximum Daily Usage	9,021,657 gal/day
Average Daily Usage	3,470,138 gal/day
Storage Capacity	2,500,000 gallons
◆ Fire Protection System	
Rating by Idaho Surveying & Rating Bureau	4
(1 = best; 10 = worst)	
Number of Paid and Volunteer Firefighters	42 volunteers 14 full-time
◆ Police Protection	
Number of Full-time Officers	29
Number of Sworn Officers per 1,000 population	1.6
◆ Library System	
Number of Public Libraries	1

Table # 12

**City of Post Falls  
Demographic & Misc. Statistics  
September 30, 2002**

Population 18,281

Dwelling Units 7,220

Health Care Facilities

Distance to Nearest Hospital 10 miles  
Ambulance Service Available Yes  
Number of General Clinics 2

<u>Educational Facilities</u>	<u>Average Daily 2002 Attendance (ADA)</u>	<u>Pupil/Teacher (FTE) Ratio</u>
◆ Public Schools (District #273) Total Enrollment = 4,602	4,380	19.1
◆ Private Schools (not all private schools report)		
Number of Schools	5	
Enrollment Total (5 report enrollment figures)	1,718	
◆ Community Colleges (nearest)	<u>Enrollment – 2002</u>	<u>Distance (in miles)</u>
North Idaho College	4,133	10
Spokane Community College	7,000	20
◆ Four-Year Colleges or Universities		
Gonzaga University	5,206	20
Whitworth College	1,749	20
University of Idaho	9,715	87
Eastern Washington University	8,900	35
Washington State University (Spokane Campus)	827	20
Washington State University (Pullman Campus)	18,441	90

Source: City of Post Falls, Individual Educational Facilities as Listed

**Table # 13**

**City of Post Falls  
Computation of Legal Debt Margin  
September 30, 2002**

Assessed Valuations	
Assessed Value (00 net value)	\$730,163,070
Add Back Homestead Exemptions	<u>\$162,554,696</u>
Total Assessed Value	\$892,717,766
Legal Debt Margin	
Debt Limitation*: 2% of assessed market value	\$ 17,854,355
Less Debt applicable	<u>\$ 1,605,000</u>
Legal Debt Margin	\$ 16,249,355

\* Idaho Code 50-1019

**City of Post Falls  
Insurance Schedule  
September 30, 2002**

The City is insured through the Idaho Counties Reciprocal Management Program (ICRMP), Policy No. 0902152100192. Coverage is as follows:

	<u>Coverage</u>
Premises	\$100,000 per occurrence (\$5,000 per person)
Auto:	
Liability	\$2,000,000
Uninsured/underinsured	\$500,000
Medical	\$100,000 per accident (\$5,000 per person)
Crime	\$500,000
Law Enforcement	\$3,000,000 (\$2,000,000 per occurrence)
General Liability	\$2,000,000
Errors & Omissions	\$2,000,000 (\$2,000,000 per claim)
Flood and Earthquake	At replacement cost per statement of value

The City is also enrolled in the Workmen's Compensation Insurance Program through the State of Idaho.

Table # 15

**City of Post Falls  
Revenue Bond Coverage  
Sewer Fund  
Last Ten Fiscal Years**

Fiscal Year	Gross Revenues (1)	Operating Expenses (2)	Net Revenue Available For Debt Service	Debt Service Requirements (3)			Coverage
				Principal	Interest	Total	
1993	949,331	539,251	410,080	85,173	109,600	194,773	2.11
1994	1,502,781	446,505	1,056,276	138,756	163,542	302,298	3.49
1995	1,539,347	1,154,150	385,197	146,871	197,520	344,391	1.12
1996	1,882,248	1,013,443	868,805	442,608	256,801	699,409	1.24
1997	1,868,880	1,023,640	845,240	456,579	257,359	713,938	1.18
1998	2,001,493	1,092,914	908,579	482,173	238,445	720,618	1.26
1999	2,118,666	987,608	1,131,058	441,602	222,749	664,351	1.70
2000	2,360,050	933,090	1,426,960	521,918	201,524	723,442	1.97
2001	2,497,060	980,559	1,516,501	547,450	173,888	721,338	2.10
2002	\$ 2,648,989	\$ 1,081,199	\$ 1,567,790	\$ 568,205	\$ 149,641	\$ 717,846	2.18

(1) Total revenues (including interest) exclusive of cap fees.

(2) Total operating expenses exclusive of depreciation.

(3) Includes principal and interest of revenue bonds only.

Table # 16

**City of Post Falls  
Revenue Bond Coverage  
Water Fund  
Last Ten Fiscal Years**

Fiscal Year	Gross Revenues (1)	Operating Expenses (2)	Net Revenue Available For Debt Service	Debt Service Requirements (3)			Coverage
				Principal	Interest	Total	
1993	803,510	499,960	303,550	50,000	70,340	120,340	2.52
1994	1,023,489	785,615	237,874	50,000	65,690	115,690	2.06
1995	1,040,840	798,397	242,443	55,000	58,422	113,422	2.14
1996	1,039,076	611,522	427,554	65,000	52,792	117,792	3.63
1997	990,236	631,997	358,239	70,000	45,915	115,915	3.09
1998	1,116,870	513,020	603,850	70,000	38,927	108,927	5.54
1999	1,184,270	507,373	676,897	80,000	31,027	111,027	6.10
2000	1,288,343	518,940	769,403	290,000	15,197	305,197	2.52
2001	1,273,899	541,972	731,927				N/A
2002	\$ 1,385,385	\$ 580,706	\$ 804,679	\$	\$	\$	N/A

(1) Total revenues (including interest) exclusive of cap fees.

(2) Total operating expenses exclusive of depreciation.

(3) Includes principal and interest of revenue bonds only.

**Table # 17**

**City of Post Falls  
Ratio of Annual Debt Service Expenditures for General  
Bonded Debt to General Government Expenditures  
Last Ten Fiscal Years**

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Total General Government Expenditures</u>	<u>Ratio of Debt Service to Total General Government Expenditures</u>
1992-93	15,824	979	16,803	4,863,334	0.35%
1993-94	41,058	37,969	79,027	5,240,386	1.51%
1994-95	41,589	36,088	77,677	5,974,225	1.30%
1995-96	88,053	66,137	154,190	6,236,756	2.47%
1996-97	111,589	64,804	176,393	6,543,113	2.70%
1997-98	111,589	59,478	171,067	7,763,135	2.20%
1998-99	212,589	187,902	400,491	9,395,470	4.26%
1999-00	258,040	150,445	408,485	8,181,967	4.99%
2000-01	255,000	137,633	392,633	8,625,122	4.55%
2001-02	\$ 280,000	\$ 123,976	\$ 403,976	\$ 11,860,373	3.41%

Source: City of Post Falls

**Table # 18**

**City of Post Falls  
Ratio of General Bonded Debt To Assessed Value  
And Net Bonded Debt Per Capita  
Last Ten Fiscal Years**

---

<u>Fiscal Year</u>	<u>Population</u>	<u>Assessed Value</u>	<u>Net Long-Term Debt</u>	<u>Ratio of Net Long-Term Debt to Assessed Value</u>	<u>Net Long-Term Debt Per Capita</u>
1992-93	11,500	273,156,629	628,120	0.23%	55
1993-94	12,000	359,943,377	587,062	0.16%	49
1994-95	13,000	424,346,760	1,231,938	0.29%	95
1995-96	13,500	573,920,618	1,143,885	0.20%	85
1996-97	14,500	656,498,967	1,032,296	0.16%	71
1997-98	15,000	695,182,787	2,920,707	0.42%	195
1998-99	16,684	742,251,793	3,063,041	0.41%	184
1999-00	17,500	791,143,568	2,805,001	0.35%	160
2000-01	18,000	841,776,651	2,550,001	0.30%	142
2001-02	18,281	\$ 892,717,766	\$ 2,270,001	0.25%	\$ 124