SUBJECT:

Financial Reporting Responsibilities/Requirements

PURPOSE:

To provide information related to county financial operations and conditions.

PRINCIPLES:

Appropriate interim financial statements and reports of financial position, operating results, and other pertinent information should be prepared to facilitate management control of financial operations, legislative oversight, and where necessary or desirable, for external reporting purposes.

Counties must prepare and publish an annual financial report covering all funds of the reporting entity, including management's discussion and analysis, appropriate government-wide financial statements, fund financial statements, and notes to the financial statements. Combining and individual fund statements and supporting schedules are also recommended to be included.

The requirements for financial reporting in accordance with generally accepted accounting principles (GAAP) are established by the Governmental Accounting Standards Board (GASB). GASB has adopted the standards prescribed by its predecessor, the National Council on Governmental Accounting, including Statement 1, principle 12, which states:

1. Appropriate interim financial statements and reports of financial position, operating results, and other pertinent information should be prepared to facilitate management control of financial operations, legislative oversight, and where necessary or desired, for external reporting purposes.

2. A comprehensive annual financial report covering all funds--including appropriate combining and individual fund statements, schedules, narrative explanations, and statistical--should be prepared and published.

The annual financial statements prepared by local governments were revisited and improved substantially by GASB Statement 34, enacted in June 1999.

PROCEDURES:

Interim Reporting

Timely and accurately presented financial reports are essential to managers, legislative officials, creditors, financial analysts, the general public, and others with needs for county financial information.

Principally, interim financial reports comprise statements that reflect the current financial position at the end of the month or quarter. These reports generally compare actual financial results with budgetary estimates and limitations for the month, quarter, and year-to-date. Interim reports are typically prepared only for internal use. Thus, they often are prepared on a budgetary basis and do not include government-wide statements on the accrual basis. Further, they may properly contain budgetary or cash flow projections and other information deemed pertinent to effective management control during the year.

External Reporting

External annual financial statements will include management's discussion and analysis, government-wide financial statements, fund financial statements, notes to the financial statements, and required supplementary information other than management's discussion and analysis, if applicable. Combining and individual fund statements and supporting schedules are also recommended to be included. Sample report formats are displayed in Section 4000.

RESPONSIBILITIES:

Management assumes responsibility for:

- Preparing financial statements,
- Adopting sound accounting policies,
- Maintaining an effective accounting system,
- Safeguarding assets, and
- Maintaining a system of internal control that ensures production of proper financial statements.

The independent auditor is responsible for properly testing management systems of internal control and for reporting whether management's financial statements were prepared in conformity with generally accepted accounting principles.

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SUBJECT:

Financial Reporting Entity

PURPOSE:

To describe the units of government which must be reported as part of the county's financial reporting entity.

PRINCIPLES:

Background

Accountability is the cornerstone of all financial reporting in government. Financial reporting plays a major role in fulfilling government's duty to be publicly accountable in a democratic society. Accountability is the basis for defining the financial reporting entity. Financial reporting based on accountability enables the financial statement reader to focus on the body of organizations that are related by a common thread of accountability to the constituent citizenry.

For various reasons, as allowed by statute, many separate organizations related to counties have been established. Some of these public authorities have legal, financial, or administrative autonomy that departments and agencies of the county do not have. Despite the outward appearance of autonomy, or separateness, these organizations customarily are administered by governing bodies that have been appointed by the board of county commissioners.

The county commissioners are elected by the citizenry to serve as their representatives to promote the public health, safety, and general welfare of the citizens in the county. Thus, the board is accountable to those citizens for its public policy decisions through the operations of the county or by its designees through the operations of specially created organizations.

This broad-based notion of accountability by elected officials leads to the underlying concept of the governmental financial reporting entity. Governmental organizations are responsible to elected governing officials at the federal, state, or local level; therefore, financial reporting by state or local governments should report the elected officials' accountability for those organizations.

Definitions

Primary Government - The foundation of a primary government is a separately-elected governing body--one that is elected by the citizens in a general, popular election. As the nucleus of the financial reporting entity, the primary government generally is the focal point for the users of the financial statements. A primary government is any state government or general purpose local government, such as a county.

A primary government consists of all the organizations that make up its legal entity. All funds, organizations, institutions, agencies, departments, or offices that are not legally separate are, for financial reporting purposes, part of the primary government.

Component Unit - Component units are legally separate organizations for which the elected officials of the primary government are financially accountable or 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.

PROCEDURES:

What Makes a Component Unit?

Two general rules will make an organization part of the county's reporting entity.

1. If the county board of commissioners appoints the governing board of the other organization *and* it can either impose its will on it or has a financial benefit/burden relationship with it.

2. If the legally separate organization is fiscally dependent on the county.

Appointment of Governing Board

A county may be financially accountable if the county board appoints a voting majority of the organization's governing body (or is, by law, the governing body of the organization) and it is: (1) able to impose its will on that organization, *or* (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the county.

Imposition of Will

A primary government that is accountable for an organization because it appoints a voting majority of that organization's governing body frequently has the ability to affect that organization's operations. This ability is referred to as the primary government's ability to impose its will on the organization. A primary government is able to impose its will on an organization if it can significantly influence the programs, activities, or level of service performed or provided by the organization. The existence of *any one* of the following conditions clearly indicates that a primary government has the ability to impose its will on an organization:

a. The ability to remove appointed members of the organization's governing body at will.

b. The ability to modify or approve the budget of the organization.

c. The ability to modify or approve rate or fee changes affecting revenues, such as water usage rate increases.

d. The ability to veto, overrule, or modify the decisions of the organization's governing body.

e. The ability to appoint, hire, reassign, or dismiss those persons responsible for the day-to-day operations (management) of the organization.

Financial Benefit/Burden

A primary government that is accountable for an organization because it appoints a voting majority of that organization's governing body frequently receives a financial benefit or incurs a financial burden in the relationship. An organization has a financial benefit or burden relationship with the primary government if *any one* of these conditions exists:

a. The primary government is legally entitled to or can otherwise access the organization's resources.

b. The primary government is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization.

c. The primary government is obligated in some manner for the debt of the organization.

Fiscal Dependency

The county may be financially accountable if an organization is fiscally dependent on the county regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board.

Fiscal dependency does not necessarily imply that a financial benefit or burden relationship exists. An organization is fiscally dependent on the county if the county is able to reduce or modify the organization's budget, the county has to approve tax levies or rates set by the organization, or the county has to approve bonded debt issues of the organization. A distinction should be made between substantive approvals and ministerial (or compliance) approvals.

PRESENTATION:

Financial statements of the county should provide an overview of the county based on financial accountability, yet allow users to distinguish between the primary government and its component units. Because of the closeness of their relationships with the primary government, some component units should be blended as though they were part of the primary government; however, most component units should be discretely presented.

Most component units should be included in the financial reporting entity by discrete presentation. Discrete presentation entails reporting component unit financial data in columns/rows separate from the financial data of the primary government.

Even though it is desirable for users to be able to distinguish between the primary government and its component units, there are some component units that, despite being legally separate from the primary government, are so intertwined with the primary government that they are, in substance, the same as the primary government. These component units are reported as if they were funds of the primary government. This method of inclusion is known as blending.

A component unit should be blended with the primary government in either of the following circumstances:

1. The component unit's governing body is substantively the same as the governing body of the primary government.

2. The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary governments even though it does not provide services directly to it. The essence of this type of arrangement is much the same as an internal service fund.

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SUBJECT:

External Financial Reporting

PURPOSE:

To describe minimum requirements for general purpose external financial reporting and the units of government which affect the county accounting system.

PRINCIPLES:

Management's Discussion and Analysis (MD&A)

The MD&A should introduce the basic financial statements and provide an analytical overview of the county's financial activities. It is part of the required supplementary information; however, it should be presented before the basic financial statements. The MD&A should provide an objective and easily readable analysis of the county's financial activities. It should include comparisons of current year to prior year based on the government-wide financial information. It also includes information regarding the county's budget variances, capital assets, long-term debt activity, and a description of currently known facts, decisions, or conditions expected to have a significant effect on financial position or results of operations.

Basic Financial Statements

- Government-Wide Financial Statements (see Section 3340)

  The government-wide financial statements require counties to distinguish between governmental and business-type activities.

  Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Governmental activities are usually reported in the governmental fund types and internal service funds in the fund financial statements. Examples of governmental activities include public safety, highways and streets, and welfare services.

Business-type activities are financed in whole or in part by fees charged to the users of the services. They are reported in the enterprise funds in the fund financial statements. Examples include nursing homes and landfills.

Internal service funds are generally reported with the governmental activities, but they may also be reported with the business-type activities if the predominant users of these funds are enterprise funds. Some interfund balances are to be eliminated. (See *Eliminations* in Section 3340.)

The government-wide financial statements consist of a statement of net assets and a statement of activities. They are prepared using the economic resources measurement focus and the accrual basis of accounting. Each statement distinguishes between the governmental and business-type activities of the primary government and its discretely presented component units.

Statement of Net Assets

The statement of net assets presents the county as one economic unit rather than a compilation of different funds. The statement focuses on type of activities rather than type of funds. Counties should report all capital assets, including infrastructure assets, in the government-wide statement of net assets. The net assets should be reported in three categories: invested in capital assets - net of related debt, restricted, and unrestricted.

Statement of Activities

The statement of activities is a report on the results of the county's operations. The statement presents the cost of each function and the extent to which each of the county's functions, programs, or services either contributes to or takes away from the county's general revenues.

- Fund Financial Statements (see Section 3350)

Governmental Fund Financial Statements

Governmental funds should be reported using the current financial resources measurement focus and the modified accrual basis of accounting. These funds are presented by general fund, major funds, and aggregated nonmajor funds.

Two statements are required: the balance sheet and the statement of revenues, expenditures, and changes in fund balance. General capital assets and general long-term liabilities are not reported in the governmental fund balance sheet. The statement of revenues, expenditures, and changes in fund balance reports information about the inflows, outflows, and balances of current financial resources.

Each statement reports separate columns for the general fund and for other major governmental funds. The nonmajor funds are reported in aggregate in a separate column.

Proprietary Fund Financial Statements

Proprietary funds continue to be reported on the economic resources measurement focus and the full accrual basis of accounting. These funds are reported as major enterprise funds, aggregated nonmajor enterprise funds, and aggregated internal service funds.

Three statements are required for proprietary funds: statement of net assets; statement of revenues, expenses, and changes in fund net assets; and statement of cash flows.

The proprietary statement of net assets presents assets and liabilities in a classified format. Restricted assets are reported separately. Net assets should be reported in the following three components: invested in capital assets - net of related debt, restricted, and unrestricted.

The proprietary statement of revenues, expenses, and changes in fund net assets reports in a specific format. All transactions affecting net assets are included. Revenues are reported by major source. Expenses are reported by either detail (object) or function level. Revenues and expenses should distinguish between operating and nonoperating.

Fiduciary Fund Financial Statements

The fiduciary statements are prepared using the economic resources measurement focus and full accrual basis of accounting. Two statements are required: statement of fiduciary net assets and statement of changes in fiduciary net assets.

Agency funds should be reported in the statement of fiduciary net assets. Their fund assets should equal fund liabilities. Agency funds do not have operations and should not be included in the statement of changes in fiduciary net assets.

The statement of fiduciary net assets should include information about the assets, liabilities, and net assets for each fiduciary fund type and for similar discretely presented component units of the reporting entity.

The statement of changes in fiduciary net assets should include information about the additions to, deductions from, and net increase (decrease) in net assets for the year for each fiduciary fund type and component unit. It should provide information about significant year-to-year changes in net assets.

Notes to the Financial Statements

Notes to the financial statements are essential to fair presentation of the basic financial statements. The notes include the summary of significant accounting policies and summary disclosure of such matters as significant contingent liabilities, encumbrances outstanding, significant effects of subsequent events, pension plans, accumulated unpaid employee benefits (such as vacation and sick leave), material violations of finance-related legal and contractual provisions, debt service requirements to maturity, commitments under capitalized leases, construction and other significant commitments, any excess of expenditures over appropriations in individual funds, deficit balances of individual funds, and interfund receivables and payables. Any other disclosures necessary in the circumstances should be included.

Required Supplementary Information

Statements, schedules, statistical data, and other information the Governmental Accounting Standards Board deems necessary is reported as required supplementary information (RSI). Except for the MD&A, RSI, including budgetary comparison information, should be presented immediately following the notes to the financial statements.

Four types of RSI must be presented where applicable:

- Budgetary comparisons (for the general fund and major special revenue funds),
- Infrastructure condition and maintenance data (for counties using the modified approach),

- Pension trend data (for certain pension plans and participating employers), and

- Revenue and claims development trend data (for public entity risk pools).

REPORTING TO OTHER GOVERNMENTAL UNITS:

The elements of the county accounting system are subject to the reporting requirements of the agencies listed below which have administrative or statutory authority to request accounting information.

In order to comply with statutory reporting requirements, counties should utilize the Uniform Chart of Accounts in a manner that will give them the widest variety of external reporting capabilities.

The following state agencies may require financial data from Minnesota counties:

- State Auditor - financial statements and related data;

- Department of Revenue - tax and tax-related data, levy data, grants-in-aid;

- Department of Human Services - financial and programmatic data;

- Department of Health - financial and programmatic data;

- Department of Corrections - financial and programmatic data;

- Department of Transportation - basic cost accounting data and data to determine state-aid money;

- Department of Education (formerly Children, Families and Learning) - financial and programmatic data;

- Department of Public Safety - motor vehicle sales and data on fines imposed for statutory violations;

- PERA - retirement fund data;

- State Planning Agency - informational requests; and

- Department of Economic Security - financial and programmatic data.

In addition to state agencies, the following may require financial data:

- Judicial branch - under the Court Administrator's Act, financial data will be reported; and

- Legislature - specific requests.

Local units of government may require financial information as it relates to the counties' trust and agency function, court fines, special assessments, etc.

Additionally, numerous federal agencies, either directly or through state agencies, may require significant quantities of accounting-related data from counties.

SUBJECT:

Government-Wide Financial Statements

PURPOSE:

To describe minimum requirements for the government-wide financial statements on the economic resources measurement focus and the full accrual basis of accounting.

PRESENTATION:

The government-wide financial statements consist of a statement of net assets and a statement of activities. They are prepared using the economic resources measurement focus and the accrual basis of accounting. Each statement distinguishes between the governmental and business-type activities of the primary government and its discretely presented component units. Statements should always have a total column/row for the primary government. A total column for the county as a whole is permitted but not required. Prior year or comparative data may be presented in the government-wide statements but are not required.

The reports should follow the basic format illustrated in Section 4000 of this manual.

Statement of Net Assets

The statement of net assets presents the county as one economic unit rather than a compilation of different funds. The statement focuses on type of activities rather than type of funds. Counties should report all capital assets, including infrastructure assets, in the government-wide statement of net assets. They should report the net assets in three categories: invested in capital assets - net of related debt, restricted, and unrestricted.

The financial statements should include separate information for each major discretely presented component unit. The county can meet this requirement in one of three ways:

1. Include a separate column 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).

2. Within the basic financial statements, include a combining statement of net assets for major discretely presented component units (with a single aggregated column--nonmajor component units--and a total column that supports the presentation on the face of the government-wide statement of net assets).

3. Include condensed financial statements for each major component unit in the notes to the financial statements.

The county has two format options to present net assets--either the net assets format (assets minus liabilities equal net assets) or the balance sheet format (assets equal liabilities plus net assets). COFARS illustrates the net assets format in Section 4000.

Assets

Assets should be presented either in order of their relative liquidity or in the classified format. Liquidity describes how readily an asset can be converted into cash. Liquidity may also depend on whether restrictions exist limiting the use of those resources. Restricted assets should be analyzed as to their liquidity and placed accordingly in the financial statement.

The statement's lines are not specifically defined and the county should use its own judgment regarding how much detail it wants to present in the statement of net assets. For example, capital assets may be one line or have separate lines for land, buildings, infrastructure, and others. The county should list separately any assets with significant balances.

Liabilities

Liabilities should be presented in order of their relative liquidity based on their maturity or when cash will be used to liquidate them.

Liabilities with average maturities greater than one year should be reported in two parts: the amount due within one year and the amount due in more than one year. The face of the financial statement should include a summary of liability balances and the details about changes in liabilities should be provided in the notes to the financial statements. This requirement applies not only to bonded debt but also to operating liabilities like compensated absences and claims and judgments. The portion "due within one year" needs to be reasonably estimated.

Net Assets

The difference between a county's assets and liabilities is its net assets. The county should display net assets in three components:

- Invested in capital assets, net of related debt;
- Restricted net assets; and
- Unrestricted net assets.

Invested in Capital Assets - Net of Related Debt

The amount should be calculated as follows:

1. Capital asset balances in the statement of net assets (including restricted capital assets);
2. Minus accumulated depreciation (if capital assets are not reported net); and
3. Minus outstanding balances of any bonds, mortgages, notes, or other capital-related debt attributable to the acquisition, construction, or improvement of those assets.

If no capital debt exists, the line should be captioned "invested in capital assets."

All capital assets should be reported in "invested in capital assets, net of related debt," regardless of restrictions, but financial resources restricted for capital asset acquisition should not be included. That is, unspent bond proceeds or capital grants on hand would be reported as restricted net assets offset by the unspent portion of the bonds payable.

Capital assets related debt should include debt issued to refund existing capital-related debt. When deducting the related debt, the amount of the debt should be adjusted for any accumulated amounts of non-interest bearing or deep-discount debt discounts.

If a county issued debt to finance the capital assets of another government, this debt should not reduce the "invested in capital assets, net of related debt" unless the capital assets are also reported by the county issuing the debt. If the assets are not reported, the debt should be reported in "unrestricted net assets." If the amount is significant, the county should disclose details in the notes to the financial statements.

Restricted Net Assets

Net assets should be reported as restricted when constraints placed on their use are either externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

Restricted net assets should be reduced by liabilities related to those assets. Restricted net assets should be reported by the major categories of restrictions. No category of restricted net assets can be negative. If liabilities related to restricted assets exceed those assets, no balance should be reported, and the negative amount should be reported as a reduction to unrestricted net assets.

Restricted net assets of permanent funds should be reported as expendable and nonexpendable.

Unrestricted Net Assets

No specific criteria exist for determining when an asset is an unrestricted net asset. It is the default category. If the asset does not meet the criteria for "capital assets, net of related debt" or "restricted net assets," it should be reported as unrestricted. Designations of unrestricted net assets should not be reported on the face of the statement of net assets, but can be disclosed in the notes to the financial statements.

It is possible for the "unrestricted net assets" to be a negative number.

Statement of Activities

The statement of activities is a report on the results of the county's operations. The statement presents the cost of each function and the extent to which each of the county's functions, programs, or services either contributes to or takes away from the county's general revenues.

The statement of activities distinguishes between governmental and business-type activities. Eliminations are required between and within the fund/programs of the primary government. Eliminating entries are not required between the primary government and its discretely presented component units. These transactions are considered external, and the receivables/payables between them should be reported on separate lines.

Internal service funds are not reported on the statement of activities unless they provide goods or services to entities outside the primary government.

Expenses/Functions

At a minimum, the statement of activities should present activities accounted for in governmental funds by function. The standards define a function as a group of activities aimed at accomplishing a major service or regulatory responsibility (for example, general government, public safety, or human services). All functions of a government have expenses. Some functions generate revenues.

The activities accounted for in the enterprise funds should be presented by different identifiable activities. The activity is identifiable if it has a specific revenue stream and related expenses and gains and losses accounted for separately.

The county should be careful in determining what level of detail it will present in the statement of activities. Programs may be presented for all or some functions. The statement, when too detailed, may be overwhelming for its users. The same level of detail is not required for each function.

Direct Expenses

Report all expenses by function, except the special or extraordinary items and transfers. At a minimum, counties should report direct expenses for each function. Direct expenses are those specifically associated with a service, program, or department and clearly identifiable to a particular function. All expenses reported in the enterprise fund financial statements (except special and extraordinary items) should be reported in the business-type activities function as direct expenses of that function.

Indirect Expenses

Indirect functions, such as general government, support services, or administration should report as direct expenses those expenses that are indirect expenses of other functions. However, counties may allocate some or all indirect expenses to other functions. If counties choose to allocate some or all indirect expenses, they must use a separate column in the statement of activities. A total column of direct and indirect expenses is optional.

Depreciation Expense

Depreciation expense should be reported on the statement of activities. Counties can use any systematic and rational depreciation method. Depreciation expense for capital assets that can be specifically identified with a function should be included in the direct expenses of that function. Depreciation expense for shared capital assets should be allocated to the functions sharing the assets.

If a capital asset, such as the county courthouse, serves essentially all functions and it is not practical to allocate the depreciation to those functions, that expense should be reported in a separate line or as part of the expenses of the general government function. If a county chooses a separate line, it should clearly indicate that the line excludes the direct depreciation reported in the specific functions. Depreciation may also be allocated through a separate indirect expense column.

Interest Expense

The interest on general long-term debt should be reported as a separate function. The interest expense function should include interest on bonds and notes, capital leases and other vendor financing arrangements, claims and judgments, pension-related debts, and employer net pension obligations.

In extreme situations, when the borrowing is essential to the creation or continuation of the program and omitting interest expense would be misleading (for example, loan programs), the interest on general long-term debt can be reported as a direct expense. Then, the interest expense function line should be clearly labeled to show that not all interest is reported there.

Interest expense in enterprise funds should be reported as direct expenses for those functions.

Revenues

Revenues are reported as either program or general revenues. Program revenues are generated directly by the program itself. Nonexchange revenues (except taxes) are program revenues if restricted to a specific program. If not restricted, they should be reported as general revenue. Taxes are always general revenues, even if restricted to a specific program. Revenues from the government itself (such as investment earnings) are usually general revenues.

Program Revenues

Program revenues reduce the expenses of the function/program that generates them and show the net costs of the function/program to be financed with general revenues. Generally, program revenues should not be allocated to multiple functions.

Program revenues include charges for services and program-specific operating and capital grants and contributions. Charges for services are to customers who purchase, use, or directly benefit from the goods, services, or benefits. The charges generally result from exchange or exchange-like transactions. They include fees for services, licenses, permits, fines, forfeitures, special operating assessments, and charges for interfund services. Charges for services should be reported net of any uncollectible amounts.

Charges for services are program revenues of a function/program that assesses the charge even if the money is required to be spent by a different function/program.

Operating revenues reported in enterprise funds should be reported as charges for services of business-type activities. Nonoperating revenues, with the exception of taxes and investment income, should also be reported as program revenues.

Program-specific grants and contributions, both operating and capital, arise from the transactions with other governments, organizations, or individuals that restrict the use of resources for particular purposes. They may be either mandatory or voluntary nonexchange transactions. The restrictions indicate the function/program where they should be reported. Not all grants and contributions are program revenues.

Operating grants and contributions are used to finance operations of specific functions/programs and should be reported separately from capital grants and contributions. Capital grants and contributions are restricted to purchasing, constructing, or renovating capital assets associated with a specific program.

Unrestricted grants and contributions should be reported as general revenues.

Earnings on endowments or permanent fund investments should be reported as program revenues if restricted to a program or programs specifically identified in the endowment or permanent fund agreement or contract. Also, earnings on investments not held by permanent funds may be legally restricted to specific functions or programs. Those earnings should be reported as program revenues.

General Revenues

General revenues include all revenues and gains that do not meet the definition of program revenues. The one exception is that taxes (including taxes levied for specific purposes) should always be reported as general revenues. Taxes should be reported by type of tax (property, sales, or other). General revenues also include gains from routine selling or disposing of capital assets. General revenues are reported in the statement of activities after the total net expense of the county's functions.

All general revenues, including taxes, should be reported net of estimated refunds and uncollectible amounts.

Shared revenues and entitlements should be reported in the same way as grants and contributions.

Investment income (including realized and unrealized gains and losses) should be reported as general revenues. Some possible exceptions include investment earnings with specific restrictions, such as legal restrictions on permanent fund investments or earnings on grants.

Investment income in enterprise funds should be reported as general revenues in the business-type activities column in the statement of activities.

Net Program (Expense) Revenue

Separate columns should be used to identify net program (expense) revenue for each function/program category of the governmental activities and business-type activities and for discretely presented component units.

Contributions to term and permanent endowments and permanent fund principal should be reported in a separate category after general revenues. They cannot be used to finance any function/program, so they cannot be reported as a reduction of functional expenses.

Extraordinary and special items should be reported in a separate category after general revenues and endowment and permanent fund contributions.

Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. Examples of extraordinary items might include environmental or natural disasters.

Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence (for example, the sale of certain capital assets, an early retirement program, or the forgiveness of significant debt). Transactions or other events that are either unusual or infrequent, but not within the control of management, should be disclosed in the notes to the financial statements.

Before classifying a transaction or event as extraordinary or special, a county should assess the materiality and significance of the transaction or event in the context of the financial statement in which it will be presented. Something significant or material in the fund financial statements may not be significant or material in the government-wide financial statements.

Transfers within the governmental or business-type activities are eliminated. The net amount transferred between the two types of activities should be reported as a single line after special items. Interfund payments in lieu of taxes (PILOTS) that are not payments for services (or are not reasonably equivalent to the value of services provided) should be reported as transfers.

Eliminations

Eliminations are necessary to report information about the overall county without displaying individual funds. Interfund activities and balances are eliminated to avoid inappropriate "grossing-up" of balances and activities.

Transactions between the primary government and discretely presented component units should be treated as if they are between unrelated third parties. No elimination should be made for these transactions in the primary government columns or the discretely presented component unit column(s). Payables and receivables between the primary government and discretely presented component units or between component units should be reported in separate lines in the statement of net assets.

Transactions between the primary government and blended component units should be reclassified or eliminated in the same way as internal activities and balances within the primary government. The eliminations or reclassifications will prevent the government from double counting.

First, transactions should be eliminated within the governmental activities column and business-type activities column and then separately in the primary government column for the balances between the governmental and business-type activities. An elimination column in the statements is not necessary. The internal balances can be reported in a single line in both governmental and business-type activities. One of them will be negative and they should add to zero.

Statement of Net Assets

To complete the statement of net assets, do the following eliminations:

1. Eliminate interfund receivables and payables between funds reported in the governmental activities column. Include internal service funds unless they are reported in the business-type activities column. Add the amounts together; receivables should equal payables. Eliminate both the asset and liability in the governmental activities column.

2. Eliminate interfund receivables and payables between funds reported in the business-type activities column. Include internal service funds unless they are reported in the governmental activities column. Add the amounts together; receivables should equal payables. Eliminate both the asset and liability in the business-type activities column.

3. Eliminate interfund receivables and payables between governmental and business-type activities from the primary government column. Internal payables should equal internal receivables.

4. Reclassify amounts due from or to fiduciary funds as external receivables or payables.

Statement of Activities

The following internal or interfund activities should be analyzed for elimination or reclassification in the statement of activities.

1. Internal service fund. Only residual balances are reported. Internal revenues (except investment income) and expenses (except interest) should be netted. The difference should be charged back entirely or on a pro-rata basis to the funds/functions that used services or acquired goods from that internal service fund. That is, if the internal service fund reports net income, the entire amount should be charged back to the participating funds and would reduce their expenses related to the services and goods purchased from that fund.

   Before allocating any of the balances, the county should consider their materiality. Also, instead of prorating balances to different functions, it may be sufficient to allocate the entire amount to the predominant function--that is, if such failure to allocate would not materially affect the government-wide financial statements. The revenues and expenses associated with services provided to external customers should be excluded from this allocation.

2. Interfund activity similar to internal service fund charges. When a different fund than internal service (for example, general fund) provides services to other funds and reports the charges as revenue, both amounts (revenue and expense) should be eliminated. If the fund providing the service reports the charges as a reduction of its own expenses (that is, as an interfund reimbursement), the elimination is not necessary.

3. Allocation of overhead expenses. Although not acting as internal service funds, some funds charge other funds for what are, in effect, allocations of overhead expenses. These allocations should be treated the same way as interfund activity.

4. Interfund services provided and used (quasi-external transactions). The "like external" sales and purchases of goods or services should not be eliminated.

5. Transfers within the governmental or business-type activities have to be eliminated. The net amount transferred between both types of activities should be reported on a single line after extraordinary and special items.

6. Transactions between different functions but within the same fund should be eliminated. They should be reported in the function to which they were allocated.

SUBJECT:

Fund Financial Statements

PURPOSE:

To describe minimum requirements for the fund financial statements on the different measurement focuses and the full/modified accrual bases of accounting.

PRINCIPLES:

Fund Types

Funds are classified into one of three basic fund types: governmental, proprietary, or fiduciary.

The *governmental* fund type consists of:

- General Fund
- Special Revenue Funds
- Debt Service Funds
- Capital Project Funds
- Permanent Funds

The *proprietary* fund type consists of:

- Enterprise Funds
- Internal Service Funds

Although internal service funds are classified in the proprietary fund type (and are reported as such in the fund financial statements), they should generally be included as part of the governmental activities in the government-wide financial statements. If an internal service fund's predominant customers are external entities or enterprise funds, it would be reported with the business-type activities in the government-wide financial statements.

The *fiduciary* funds are limited to account for resources that are not available to support the county's operations and programs. This fund type includes:

- Private-Purpose Trust Funds
- Pension (and Other Employee Benefit) Trust Funds
- Investment Trust Funds (GASB Statement 31)
- Agency Funds (If the agency fund holds amounts for other funds of the county, those amounts would be reclassified to the appropriate fund for financial statement reporting.)

Major Funds

The governmental and proprietary fund financial statements have to provide financial information for each major fund in a separate column. Major funds represent the county's most important funds and are determined by a mathematical calculation. However, funds that do not meet the major fund mathematical criteria may be reported as major if they are of particular importance or interest to users. A county should consider the following factors when deciding to report other funds as major funds:

- Political/social sensitivity of the activities financed from that fund,
- Impact or potential impact of that fund on other programs or services,
- Significance of that fund on financing activities that are of high interest to the public,
- Existence of known uses or users of that information (such as bond rating companies),
- Relative size, and
- Year-to-year consistency in reporting.

Major fund reporting applies only to governmental and enterprise funds. It does not apply to internal service or fiduciary funds. The determination of which funds are major must be made each year. The general fund is always reported as a major fund.

Governmental and enterprise funds are required to be reported as major funds if they meet the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses (of the year being reported) of that individual fund are at least ten percent of the corresponding element total (assets, liabilities, etc.) for all funds of that category or type (either total governmental funds or total enterprise funds); and

2. The same element (assets, liabilities, etc.) that met the above ten percent is at least five percent of the corresponding element total for all governmental and enterprise funds combined.

A spreadsheet is available on the Office of the State Auditor's website at **www.osa.state.mn.us** to help in determining major funds. However, while using the spreadsheet, remember:

1. The individual fund has to meet both criteria to be required to be reported as a major fund.

2. No elimination of interfund balances are necessary to apply the criteria, although significant amounts of interfund payables and receivables may be netted.

3. Total revenues means all revenues--both operating and nonoperating revenues of enterprise funds, including capital contributions. It does not include other financing sources, transfers, or extraordinary items.

4. Total expenditures/expenses means all expenditures or expenses--both operating and nonoperating expenses of enterprise funds. It does not include other financing uses, transfers, or extraordinary items.

5. The test should be applied to the amounts reported in the fund financial statements of the current year being reported.

Nonmajor Funds

Nonmajor funds should be aggregated and reported in a single column to the right of the major funds in the financial statements. It is not permitted to use more than one column for nonmajor funds. Interfund transactions and balances may be, but are not required to be, eliminated when nonmajor funds are combined.

If there are no major enterprise funds, all enterprise funds should be reported in one column and the internal services in a second column on the proprietary funds financial statements. Internal service funds will always be combined into one column to the right of the major and aggregated nonmajor enterprise funds on the proprietary funds financial statements.

Combining statements for nonmajor funds are presented as supplementary information.

On the balance sheet, any unreserved fund balances of nonmajor funds should be displayed by fund type.

Fiduciary funds are to be reported in the fund financial statements by fund type--pension trust, investment trust, private purpose trust, or agency.

PROCEDURES:

Governmental Funds' Financial Statements

Governmental funds should be reported using the current financial resources measurement focus and the modified accrual basis of accounting. A reconciliation of total governmental fund balances to net assets of the governmental activities in the statement of net assets is required. The reconciliation may be presented either at the bottom of the balance sheet or in an accompanying schedule.

Balance Sheet

The financial information is required to be reported in separate columns for the general fund, each major governmental fund, and all nonmajor governmental funds in the aggregate. Current assets, liabilities, and fund balances of the governmental funds should be displayed in a balance sheet format: Current Assets = Current Liabilities + Fund Balance. Capital assets and general long-term liabilities are not reported in the governmental fund balance sheet. They are reported only in the government-wide financial statements.

When preparing the governmental funds' balance sheet, remember:

- Unreserved fund balances of nonmajor funds should be reported by fund type.
- Interfund liabilities should be reported as fund liabilities regardless of their date of scheduled repayment. Interfund loans may be reported as short-term or long-term liabilities depending on their conditions. Fund balances should be reserved for noncurrent interfund receivables.
- Equity interest in joint ventures should not be reported as an asset in the governmental funds' balance sheet, except for amounts that meet the definition of financial resources (that is, receivables from/payables to the joint ventures). All equity interest should be reported in the government-wide financial statements.
- A reconciliation that shows adjustments made between the balance sheet and the government-wide statement of net assets is required on the bottom of the balance sheet.

Statement of Revenues, Expenditures, and Changes in Fund Balance

The governmental funds' statement of revenues, expenditures, and changes in fund balance reports information about the inflows, outflows, and balances of current financial resources of each major governmental fund and for the nonmajor governmental funds in the aggregate. The statement is arranged:

Revenues (detailed)
Expenditures (detailed)

Revenues over (under) expenditures

Other financing sources and uses, including transfers (detailed)
Special and extraordinary items (detailed)

Net change in fund balances

Fund balances - beginning
Fund balances - ending

When preparing the governmental funds' statement of revenues, expenditures, and changes in fund balance, remember:

- The governmental fund statements should classify revenues by major source (taxes, licenses and permits, etc.) and expenditures by function (general government, public safety, highways and streets, human services, etc.). Additional details may be included.

- Debt issue costs paid out of either debt proceeds or from existing resources should be reported as expenditures. When debt is issued, the face amount of the debt should be reported as other financing sources, and debt premiums or discounts should be shown as a separate component of other financing sources (uses).

- Sales of assets (unless considered a special item) and transfers should also be shown as separate categories of other financing sources (uses).

- Extraordinary and special items should be separated after other financing sources (uses).

Counties are required to provide a summary reconciliation between total change in governmental fund balances and the change in net assets in governmental activities in the statement of activities. The reconciliation may be presented either on the statement of revenues, expenditures, and changes in fund balance or in an accompanying schedule.

Proprietary Funds' Financial Statements

Proprietary funds are presented using the economic resources measurement focus and the full accrual basis of accounting, the same way as in the government-wide financial statements. Each major enterprise fund, all nonmajor enterprise funds in the aggregate, and all internal service funds in the aggregate are reported (in separate columns) in the proprietary funds' financial statements.

The following are required fund financial statements for proprietary funds:

- Statement of net assets (or balance sheet);

- Statement of revenues, expenses, and changes in fund net assets; and

- Statement of cash flows.

The statements should include a combined total column for all enterprise funds. The information in that column flows directly to the business-type activities column on the government-wide financial statements. Interfund eliminations within enterprise funds are not required.

Statement of Fund Net Assets or Balance Sheet

Governments have the option of two reporting formats: statement of net assets format (assets minus liabilities equal net assets) or balance sheet format (assets equal liabilities plus net assets).

The assets and liabilities should be presented in a classified format. This requires reporting assets and liabilities as either current or noncurrent. A one-year cut-off is typical when determining if assets are expected to be realized in cash or consumed and liabilities are expected to be paid. Current assets include cash available from current operations, receivables, inventories, prepaid expenses, and investments. Current liabilities include accounts payable, notes payable, amounts due to other funds, current portions of long-term debt, current portions of compensated absences, and claims and judgments payable.

Restricted assets are reported as a separate line item. Restrictions are required to be reported for assets restricted for use other than operations, assets restricted for the acquisition or construction of noncurrent assets, and assets restricted for sinking funds or for the liquidation of long-term debts. Most restricted assets are noncurrent. However, restricted assets to be used in current operations (for example, certain grants) should be reported as current assets. Liabilities payable from restricted assets may be reported separately.

Fund net assets should be reported in three components:

- Invested in capital assets, net of related debt;
- Restricted (list by major restriction); and
- Unrestricted.

If internal service funds are reported as business-type activities in the government-wide statement of net assets, a reconciliation may be necessary between the statement of fund net assets and the government-wide statement of net assets.

Statement of Revenues, Expenses, and Changes in Fund Net Assets

A specific format is required for this statement:

Operating revenues (detailed)
Operating expenses (detailed)
Operating income (loss)
Nonoperating revenues and expenses (detailed)
Income before other revenues, expenses, gains, losses, and transfers
Capital contributions (detailed)
Additions to permanent and term endowments (detailed)
Special items (detailed)
Extraordinary items (detailed)
Increase (decrease) in net assets
Net assets - beginning of period
Net assets - end of period

This is an all-inclusive format. All transactions (including capital contributions) that affect net assets should be included. No amounts may be reported as direct additions to net assets.

Revenues should be reported by major source. All revenues should be reported net of discounts and allowances, which should be reported parenthetically or in the notes to the financial statements. Uncollectible amounts should not be reported as expenses but as an adjustment to revenues.

Revenues and expenses should distinguish between operating and nonoperating. Counties should establish their own policy for defining operating and nonoperating revenues and expenses, and the policy should be disclosed in the notes to the financial statements. The following revenues usually would be considered nonoperating:

- Operating grants and contributions and grants and contributions that are not restricted to either operating or capital functions.
- Property or other taxes.
- Exchange-like transactions that are restricted for capital or financing purposes.
- Interest and dividends and realized and unrealized gains or losses on investments.
- Interest expense, debt issue expenses, and premiums or discounts on debt.

Counties should consider the nature of the activity being reported when classifying the revenues in the financial statements.

Both operating and nonoperating expenses may be detailed at the object or function level.

If the amounts differ between the statement of revenues, expenses, and changes in fund net assets and the business-type activities presented in the government-wide statement of changes in net assets, counties should present a summary reconciliation.

Statement of Cash Flows

For proprietary funds, a statement of cash flows is required and is prepared using the direct method of cash flows. The statement should consist of the following sections:

- Cash flows from operating activities.
- Cash flows from noncapital financing activities.
- Cash flows from capital and related financing activities.
- Cash flows from investing activities.
- The change for the year in cash and cash equivalents.
- Reconciliation of operating income (loss) to net cash provided (used) by operating activities.

Also, if applicable, a section identifying significant non-cash transactions should be included. If not clearly evident from the statement, the ending amount of cash and cash equivalents should reconcile with the statement of net assets.

Fiduciary Funds' Financial Statements

Two statements are required for fiduciary funds: statement of fiduciary net assets and statement of changes in fiduciary net assets. The fiduciary statements are prepared using the economic resources measurement focus and full accrual basis of accounting.

Major fund reporting does not apply to fiduciary funds. Component units that are fiduciary in nature should be reported within the fund type columns with the fiduciary funds of the primary government--a separate column for fiduciary component units should not be presented.

Agency funds should be reported in the statement of net assets, and fund assets should equal fund liabilities. Agency funds do not have operations and should not be reported in the statement of changes in fiduciary net assets.

Statement of Fiduciary Net Assets

This statement should include information about the assets, liabilities, and net assets for each fiduciary fund type and similar discretely presented component units. Since the statement of fiduciary net assets is an equivalent to the statement of plan assets required by GASB Statement 25, the county should provide a sufficient level of detail to meet both requirements. If not, the county should clearly indicate where else that information is displayed.

Net assets should be labeled based on the purpose for which they are held in trust, such as "held in trust for investment pool participants."

Statement of Changes in Fiduciary Net Assets

The statement of changes in fiduciary net assets should include information about the additions to, deductions from, and net increase (decrease) for the year in net assets for each fiduciary fund type and similar discretely presented component units. It should provide information about significant year-to-year changes in net assets. The county should provide additional details about investments and provide the required level of detail for all other fiduciary funds or clearly indicate where that information is displayed.

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SUBJECT:

Notes to the Financial Statements

PURPOSE:

To describe minimum requirements for the notes to the basic financial statements.

PRINCIPLES:

The notes to the financial statements are intended to communicate information necessary for a fair presentation of financial position and results of operations that is not readily apparent from, or cannot be included in, the financial statements themselves. The notes are an integral part of the financial statements and should supplement them.

Notes to the financial statements may be in various formats, such as narrative, tables, schedules, or matrices, as long as they include the required information.

PROCEDURES:

The presentation format for note disclosures is open to professional judgment. The only specific requirement addressed in authoritative guidance concerns the summary of significant accounting policies (SSAP). The SSAP must be either a separate disclosure at the beginning of the notes or at the beginning of the first note. The authoritative guidance addresses the content of the notes but does not prescribe a particular format. It is the responsibility of the preparer to present the note disclosures in the manner that most effectively (and concisely) provides the information necessary for fair presentation.

The authoritative literature requires that financial statements be accompanied by a SSAP. The SSAP should include any of the following situations:

- The selection of a policy from existing acceptable alternatives (for example, depreciating infrastructure assets rather than using the modified approach).

- Principles and methods peculiar to the industry in which an entity operates (for example, defining the governmental reporting entity).

- Unusual or innovative applications of generally accepted accounting principles.

The preparer may use any note disclosure sequence that is logical and consistent. Section 4XXX contains some sample note disclosures. While note disclosures themselves should be indexed in a logical manner, a separate index page (similar to a table of contents) for the note disclosures is not necessary.

Note disclosures should be included only for information specifically applicable to the entity. Negative disclosures should be avoided. For example, if a county does not have any material subsequent events, then references should not be made to subsequent events. The notes should focus on the primary government--specifically, its governmental activities, business-type activities, major funds, and nonmajor funds in the aggregate.

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

Notes to the financial statements essential to fair presentation in the basic financial statements include:

1. Summary of significant accounting policies, including:

    a. A description of the government-wide financial statements, noting that neither fiduciary funds nor component units that are fiduciary in nature are included. This section could include descriptive comments about the purposes and scope of the statements of net assets and activities. For example, disclosures could address what are governmental and business-type activities, why fiduciary funds and similar component units are not included, what are the components of net assets, and what are the key elements of the statement of activities. This discussion differs from that in the Management's Discussion and Analysis which is oriented more toward the relationship of the government-wide financial statements to the fund financial statements.

b. A brief description of the component units of the reporting entity and their relationship to the county. This should include a discussion of the criteria for including the component units and how the component units are reported. Also, it should include information about how the separate financial statements for individual component units may be obtained.

c. A description of the activities accounted for in each of the following columns--major funds, internal service funds, and fiduciary fund types--presented in the basic financial statements.

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

e. The revenue recognition policies used in fund financial statements, including the length of time used to define *available* for purposes of revenue recognition in the governmental fund financial statements.

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

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

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

i. The policy for defining operating and nonoperating revenues of proprietary funds.

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

k. The definition of cash and cash equivalents used in the statement of cash flows for proprietary funds.

l. The county's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Does the county expend restricted funds only when unrestricted amounts are insufficient or unavailable, or do they spend restricted funds first and use unrestricted resources when restricted funds are depleted (for example, tax increment monies)?

2. Cash deposits with financial institutions.

3. Investments.

4. Significant contingent liabilities.

5. Encumbrances outstanding.

6. Significant effects of subsequent events.

7. Annual pension cost and net pension obligations.

8. Significant violations of finance-related legal or contractual provisions and actions taken to address such violations.

9. Debt service requirements to maturity. Requirements should be shown separately by year for each of the five subsequent years and in five-year increments thereafter. Also, principal must be shown separately from interest for each of those years.

10. Commitments under noncapitalized (operating) leases.

11. Construction and other significant commitments.

12. Required disclosures about capital assets. The information provided should be divided into major classes of capital assets as well as between those associated with governmental activities and those associated with business-type activities. Capital assets that are not being depreciated should be disclosed separately from those that are being depreciated. Information presented should include beginning and end-of-year balances

(with accumulated depreciation presented separately from historical cost), capital acquisitions, sales or other dispositions, and current-period depreciation expense, with disclosure of the amounts charged to each of the functions in the statement of activities.

13. Required disclosures about long-term liabilities. The information provided should be divided into major classes of long-term liabilities as well as between those associated with governmental activities and those associated with business-type activities. Both long-term debt (such as bonds, notes, loans, and leases payable) and other long-term liabilities (such as compensated absences and claims and judgments) should be included. Information presented about long-term liabilities should include beginning and end-of-year balances, increases and decreases (presented separately), the portions of each item that are due within one year of the financial statement date, and which governmental funds typically have been used to liquidate other long-term liabilities in prior years.

14. Deficit fund balance or net assets of individual nonmajor funds.

15. Interfund receivables and payables.

16. For each major component unit, the nature and amount of significant transactions with other discretely presented component units or with the primary government.

17. Disclosures about donor-restricted endowments.

The above notes to the financial statements are not all-inclusive, and additional disclosures should be made, if applicable. Some possible additional disclosures include:

1. Entity risk management activities.

2. Property taxes.

3. Segment information for enterprise funds.

4. Condensed financial information for major discretely presented component units.

5. Short-term debt instruments and liquidity.

6. Related party transactions.

7. The nature of the primary government's accountability for related organizations.

8. Capital leases.

9. Joint ventures and jointly-governed organizations.

10. Debt refundings.

11. Nonexchange transactions, including grants, taxes, and contributions, that are not recognized because they are not measurable.

12. Fund balance designations.

13. Interfund eliminations in fund financial statements not apparent from headings.

14. Pension plans.

15. Bond, tax, or revenue anticipation notes excluded from fund or current liabilities (proprietary funds).

16. Nature and amount of inconsistencies in financial statements caused by transactions between component units having different fiscal year-ends or changes in component unit fiscal year-ends.

17. In component unit separate reports, identification of the primary government in whose financial report the component unit is included and a description of its relationship to the primary government.

18. Reverse repurchase and dollar reverse repurchase agreements.

19. Securities lending transactions.

20. Special assessment debt and related activities.

21. Demand bonds.

22. Post-employment benefits other than pension benefits.

23. Landfill closure and postclosure care.

24. On-behalf payments for fringe benefits and salaries.

25. Entity involvement in conduit debt obligations.

26. Sponsoring government disclosures about external investment pools reported as investment trust funds.

27. The amount of interest expense included in direct expenses in the government-wide statement of activities.

28. Significant transactions or other events that are either unusual or infrequent but not within the control of management.

29. Nature of individual elements of a particular reconciling item if obscured in the aggregated information in the summary reconciliation of the fund financial statements to the government-wide statements.

30. Discounts and allowances that reduce gross revenues when not reported on the face of the financial statements.

Governments may elect to report budgetary comparison information in a budgetary comparison statement as part of the basic financial statements rather than as required supplementary information. If the budgetary comparison information is included in the basic financial statements, the notes should include disclosures of any excess of expenditures over appropriations in individual funds presented in the budgetary comparison statements.

Section 4XXX provides a suggested disclosure sequence for the notes to the financial statements.

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SUBJECT:

Required Supplementary Information

PURPOSE:

To describe required supplementary information.

PRINCIPLES:

Required supplementary information (RSI) consists of schedules, statistical data, and other information that the Governmental Accounting Standards Board (GASB) has determined are an essential part of financial reporting and should be presented with, but not part of, the basic financial statements of a governmental entity. With the exception of the Management's Discussion and Analysis (MD&A), all RSI should be presented immediately following the notes to the basic financial statements. GASB requires as RSI:

- MD&A;
- Budgetary comparisons;
- Infrastructure condition and maintenance data, if using the modified approach;
- Pension trend data; and
- Revenue and claims development trend data for public entity risk pools.

PROCEDURES:

MD&A

The MD&A should provide the users with an introductory narrative, overview, and analysis of the basic financial statements. Although it is RSI, the MD&A should be presented before the basic financial statements. It introduces the basic financial statements and notes and is meant to guide the readers through those statements and notes.

The MD&A should be written by the county auditor, finance manager, controller, administrator, or someone in a similar position. It should be objective and easily readable. The objectivity is a result of being solely based on information that comes from the basic financial statements and facts currently known by management. It should discuss both positive and negative outcomes of the county's operations. Counties are encouraged to use charts, graphs, and tables to enhance the understandability of the MD&A.

The MD&A should focus on the primary government. The decision whether to address matters related to component units depends on the size of a particular component unit in comparison with other discretely presented component units and the nature of its relationship with the primary government. Any discussion in the MD&A involving both the primary government and its discretely presented component units must be distinguishable between the two.

The content of the MD&A is a specifically required set of information that the county must address. Since the MD&A is a required part of RSI, it should not contain additional topics that are not specified in this section. However, the county is free to provide whatever level of detail it feels is appropriate in addressing each topic.

Discussion of the Basic Financial Statements

The discussion portion of the MD&A should describe the financial statements and the significant differences in the kinds of information each statement provides. It should focus on the relationship between governmental funds and governmental activities.

Condensed Comparative Financial Data

The MD&A should provide condensed financial statements derived from the government-wide financial statements for both the current and prior fiscal period. Comparative data should be provided for:

- Total assets, distinguishing between capital and other assets.
- Total liabilities, distinguishing between long-term 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.
- Total expenses.
- Excess (deficiency) before contributions, special and extraordinary items, and transfers.
- Contributions.
- Special and extraordinary items.
- Transfers.
- Change in net assets.
- Ending net assets.

The above information should be presented in the form of condensed financial statements. The government may use graphs or charts to supplement or elaborate the statements, but not to replace them.

Overall Analysis of Financial Position and Results of Operations

The MD&A should discuss and analyze the county's financial position and results of operations. This discussion and analysis needs to address whether the county's overall financial position has improved or deteriorated. The MD&A should provide *reasons* for the significant changes in financial position, not just the changes and their size or percentage of change. The overall analysis discussion needs to address separately the governmental and business-type activities and should emphasize the current year.

Fund Analysis

The fund analysis focuses on significant balances and operations of individual major funds. The discussion should emphasize the reasons for significant changes in fund balances (governmental funds) or fund net assets (proprietary funds). Additional information should be provided on any significant limitations on the future use of fund resources.

Budget Variances in the General Fund

The MD&A should address, on a budgetary basis, the significant differences between:

- The original budget for the general fund and the final amended budget, and

- The final amended budget for the general fund and the actual amounts.

The analysis should give reasons for variances if they significantly affect either future services or liquidity.

Capital Asset and Long-Term Debt Activity

The MD&A should describe significant changes in:

- Capital assets,

- Long-term debt,

- Commitments for capital expenditures, and

- Debt limitations that could affect the financing of planned facilities or services.

This section is not intended to repeat information provided in the notes, but should be summarized and referenced to the more detailed information provided in the notes.

Infrastructure

Counties that elect to use the modified approach to infrastructure reporting should discuss all of the following in the MD&A:

- Significant changes in condition levels of infrastructure assets.

- How current condition levels compare with target condition levels established by the county.

- Significant differences between the amount estimated to be necessary for maintaining and preserving infrastructure assets at target condition levels and the actual amounts of expense incurred for that purpose during the current fiscal period.

Other Potentially Significant Matters

The MD&A should also address any currently known facts, decisions, or conditions that are expected to have a significant effect on financial position. This discussion should be based on events or decisions that have already occurred or have been enacted, adopted, agreed upon, or contracted. In some instances, issues discussed here will also be disclosed in the notes to the financial statements as subsequent events or contingencies. The discussion should also address the effect on governmental and business-type activities separately.

Examples of the types of situations for such reporting are:

- Award and acceptance of a major grant.

- Adjudication of significant lawsuit.

- Reassessment of taxable property.

- Completion of an agreement to locate a major manufacturing plant in the county.

- A flood that caused significant damage to the county's infrastructure.

- A renegotiated labor contract with government employees.

BUDGETARY COMPARISONS SCHEDULES

Budgetary comparison schedules should be presented in the RSI for the general fund and each major special revenue fund that has a legally adopted annual budget. However, counties may elect to report the budgetary comparison information in a budgetary comparison statement as part of the basic financial statements (with the fund financial statements after the related statement of changes in revenues, expenditures, and changes in fund balance), rather than as RSI. The format and contents of the budgetary comparisons are the same in either case.

Budgetary comparison schedules should provide at least three separate types of information.

1. *The original budget*--the first complete legally appropriated budget adjusted for changes occurring before the beginning of the fiscal year. The original budget should also include actual appropriation amounts automatically carried over from prior years by law.

2. *The final budget*--including all legally authorized changes occurring during and after the end of the fiscal year.

3. *Actual inflows, outflows, and balances*--these should be reported on the same basis as the legally adopted budget.

Notes to RSI should disclose an explanation of the excesses of expenditures over appropriations in individual funds presented in the budgetary comparisons. If budgetary comparison information is included in the basic financial statements, these disclosures should be in the notes to the financial statements rather than the notes to RSI. If the excess of expenditures over appropriations is considered a material violation of legal provisions, the disclosure should be made in the notes to the financial statements also.

Counties may present the budgetary comparison schedules using the same format, terminology, and classification as the budget document or using the format, terminology, and classifications in a statement of revenues, expenditures, and changes in fund balances. Regardless of the format used, the schedule should be accompanied by information that reconciles budgetary information to generally accepted accounting principles information. The reconciliation may be in a separate schedule in the notes to RSI.

INFRASTRUCTURE CONDITION AND MAINTENANCE DATA

Counties that follow the modified approach have to present the following information for all infrastructure reported using that method:

1. The results and dates of the three most recently completed condition assessments to demonstrate the assets have been maintained at or above the condition level established.

2. The estimated annual amount needed and actual amount expensed to maintain or preserve infrastructure assets at the level established, with each presented for the past five reporting periods. The estimated annual amount must be determined using the assets management system. It should be calculated at the beginning of the fiscal year and documented providing an auditor with information necessary for the comparison of estimated and actual amounts.

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 the condition.

- The condition level at which the county intends to preserve its infrastructure assets reported on the modified approach.

- Factors that significantly affect trends in the information reported in the required schedules, including any changes in the measurement scale, the basis for the condition measurement, or the condition assessment methods used during the periods covered by the schedules. If there is a change in the condition level at which the county intends to preserve the 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 should be disclosed.

PENSION TREND DATA

Governments that administer defined benefit pension plans must present a schedule of funding progress and a schedule of employer contributions as RSI. Since no counties currently administer defined benefit pension plans, examples are not included here. Information on required disclosures may be obtained in GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosure for Defined Contribution Plans,* and GASB Statement No. 27, *Accounting for Pensions by State and Local Governments.*

Revenue and Claims Development Trend Data for Public Entity Risk Pools

Governments that sponsor public entity risk pools must present tables of information on revenues and claims development trends for the pools. Since no counties currently sponsor public entity risk pools, examples are not included here. Information on required disclosures may be obtained in GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* Statement No. 30, *Risk Financing Omnibus,* and Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.*