February 5, 2018

Accounting Standards and Procedures for Counties

2018 Edition

California State Controller's Office

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FOREWORD

California Government Code section 30200 requires the State Controller to prescribe uniform accounting procedures for counties that conform to Generally Accepted Accounting Principles (GAAP). In compliance with this government statute, the *Accounting Standards and Procedures for Counties* (ASP) manual was first issued in 1961.

The Governmental Accounting Standards Board (GASB), which was established as an arm of the Financial Accounting Foundation (FAF) in April 1984, is the successor organization to the National Council on Governmental Accounting (NCGA). The GASB was established to promulgate standards of financial accounting and reporting with respect to activities and transactions of state and local governments. Governmental accounting and reporting standards guidance is provided by the GASB through the issuance of GASB Statements. These statements have necessitated numerous changes be made to the ASP manual.

A complete listing of all GASB Statements (pronouncements) and their corresponding effective dates can be found at http://www.gasb.org/. After navigating to the GASB website, click on the "Standards and Guidance" link in the header section to access the list of GASB Statements (pronouncements).

This edition of the ASP manual has been updated to comply with the guidance in GASB statements up to and including GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. Compliance with recently released GASB Statements will be incorporated into future editions of the ASP manual.

The task of revising the ASP manual to reflect these changes is a cooperative effort between the State Controller's Office, the State Association of County Auditors' (SACA) *Accounting Standards and Procedures Committee* (ASC), and the SACA Policy and Interpretations (P&I) Subcommittee. The ASP manual provides current information to counties conforming to GAAP.

The ASP manual details the uniform charts of accounts, fund structures, functions and activities, and includes specific accounting procedures for specialized fields. The intent is to:

- ensure conformance with GAAP; and
- facilitate comparison and analysis of county financial reports on a statewide basis by minimizing differences between counties' philosophies, methods, and terminologies.

The ASP manual serves as a guide to aid counties in the implementation of accounting and financial systems. It also ensures that the systems as conceived will continue—through changes in personnel—to operate effectively, answer questions on procedure, offer aid in audits, and provide support in systems evaluations.

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CHAPTER 1 SUMMARY STATEMENT OF ACCOUNTING PRINCIPLES

Introduction

1.01 Foundation

The basic principles of accounting and reporting—as established by the National Council on Governmental Accounting (NCGA)—applicable to governmental units can be grouped logically into seven categories:

1) Generally Accepted Accounting Principles and Legal Compliance
2) Fund Accounting
3) Fixed Assets and Long-Term Liabilities
4) Basis of Accounting
5) The Budget and Budgetary Accounting
6) Classification and Terminology
7) Financial Reporting

Generally Accepted Accounting Principles (GAAP) and Legal Compliance

1.02 Accounting and Reporting Capabilities

A governmental accounting system must make it possible to:

- present fairly and with full disclosure, the financial position and results of financial operations of the governmental unit in conformity with generally accepted accounting principles; and
- determine and demonstrate compliance with finance-related legal and contractual provisions.

1.03 Purpose

Compliance with GAAP assures uniformity of financial reporting and, therefore a reasonable degree of comparability between state and local government financial reports.

1.04 Conflicts between Legal Provisions and GAAP

Where legal requirements conflict with GAAP, the basic financial statements should be prepared in conformity with GAAP. To conform to legal requirements, additional schedules and narrative explanations should be included in the *Comprehensive Annual Financial Report* (CAFR). The accounting system may be maintained on a legal compliance basis if sufficient records are included to permit reporting in accordance with GAAP.

1.05 Bringing Legal Provisions into Conformance with GAAP

Every effort should be made to bring applicable laws into conformance with GAAP. The laws should limit the accounting, auditing, and reporting requirements that conform to GAAP and Generally Accepted Auditing Standards (GAAS). The establishment and implementation of the details of accounting principles, systems, and practice should be the responsibility of qualified administrators. This is particularly important in view of the advances being made in the accounting profession.

Fund Accounting

1.06 Fund Definition

In governmental accounting, the term "fund" is used to mean different things in different situations. As used in this section, the term "fund" indicates only an accounting entity.

Government resources are "allocated to" and "accounted for" in separate entities—called funds—based on the purposes for which they are to be spent and controlled.

1.07 Fund Accounting Systems

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

Unlike private business, which is accounted for as a single entity, a governmental unit is accounted for through several separate funds. Each of these funds accounts for assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position or fund balance within each fund.

Fund accounting systems not only need to be capable of recording the day-to-day transactions in the appropriate funds, but must also facilitate the preparation of the basic financial statements. These basic financial statements require both government-wide and fund reporting for most counties.

1.08 Types of Funds

The following types of funds should be used:

Governmental Funds are used to report most governmental functions.

- *General Fund* — used to account for and report all financial resources except those required to be accounted for in another fund.
- *Special Revenue Funds* — used to account for and report the proceeds of specific revenue sources (other than debt service or capital projects) that are legally restricted or committed to expenditure for specified purposes.
- *Capital Projects Funds* — used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of major capital facilities and other capital assets (other than those financed by Proprietary Funds and Trust Funds).
- *Debt Service Funds* — used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest (other than those financed by Proprietary Funds and Trust Funds).
- *Permanent Governmental Funds* — used to account for and report financial 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.

Proprietary Funds are used to account for a government's ongoing organizations and activities that are similar to those found in the private sector.

- *Enterprise Funds* — used to account for an activity for which a fee is charged to external users for goods or services.
- *Internal Service Funds* — used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost-reimbursement basis.

Fiduciary Funds are used to account for assets held by a government in a trustee capacity or as an agent that therefore cannot be used by the government to support its own programs.

- *Pension (and Other Employee Benefit) Trust Funds* —used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans, or other employee benefit plans.
- *Investment Trust Funds* —used to report governmental external investment pools in separately issued reports and the external portion of these same pools when reported by the sponsoring government.
- *Private-Purpose Trust Funds* —used to report all trust arrangements, other than those properly reported in pension trust funds or investment trust funds, under which principal and income benefit individuals, private organizations, or other governments.
- *Agency Funds* —used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities) that thus do not involve measurement of results of operations.

1.09 Number of Funds

Governmental units should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established.

Using too many funds causes inflexibility and undue complexity in financial management. It should be avoided in the interest of efficient and economical financial administration.

Fixed Assets and Long-Term Liabilities

1.10 Capital Assets

Capital assets are those assets used in operations that benefit more than a single fiscal period. Typical asset classes are land, buildings and improvements, equipment, infrastructure, and intangible assets (software, patents, trademarks, land rights, water rights, etc.).

Capital assets owned by proprietary or fiduciary funds are accounted for through those funds and are included in the fund financial statements. The government-wide financial statements include capital assets that are used in the operations of both governmental and proprietary funds. Ownership of capital assets may also arise from provisions of Service Concession Arrangements (SCAs).

1.11 Valuation of Capital Assets

Capital assets are those assets that benefit more than a single fiscal period. Typical examples are land, improvements to land, buildings and improvements, vehicles, machinery, equipment, historical treasures and infrastructure.

1.12 Depreciation Expense

Depreciation expense and accumulated depreciation are reported in the government-wide financial statement. Depreciation of capital assets is not reported in the fund financial statements for governmental funds. Depreciation is recorded in proprietary funds and fiduciary funds where expenses, net income, and/or capital maintenance are measured.

1.13 Long-Term Liabilities

Long-term liabilities expected to be financed from governmental funds are reported in the government-wide statement, but not in the fund financial statement for governmental funds.

Long-term liabilities of proprietary or fiduciary funds are accounted for in those funds respectively and are reported in the corresponding fund financial statements for proprietary and fiduciary funds.

General long-term liabilities must be maintained in sufficient detail in the debt accounting records to provide sufficient information for financial reporting.

1.14 Deferred Resources

Deferred Outflows of Resources and *Deferred Inflows of Resources* accounts represent certain defined transactions related to future periods that do not qualify for treatment as either assets or liabilities. Inflows of resources (revenues) are an acquisition of net assets applicable to the current reporting period, while outflows of resources (expenses/expenditures) are a consumption of net assets applicable to the current reporting period.

Amounts that are required to be reported as deferred outflows of resources should be reported in a statement of financial position in a separate section following assets. Similarly, amounts that are required to be reported as deferred inflows of resources should be reported in a separate section following liabilities. The total for deferred outflows of resources may be added to the total for assets, and the total for deferred inflows of resources may be added to the total for liabilities to provide subtotals.

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

The primary differences between “current” and “deferred” outflow/inflow of resources are the timing in which expenses and revenues are recognized and the financial statements on which they are reported. Current outflow/inflow of resources (expenses/revenues) are recognized when incurred/received and are reported on the income statement. On the other hand, expenses/revenues for deferred outflow/deferred inflow of resources are “deferred” (delayed) until a future period and are reported on the *Statement of Net Position* following assets/liabilities.

For additional information on *Deferred Outflows of Resources* and *Deferred Inflows of Resources* refer to Section 8.44, *Outflow/Inflow Flowchart* and Section 8.45, *Transaction Types That May Be Classified as Outflows/Inflows*.

1.15 Unavailable Revenues

When an asset is recorded in the governmental fund financial statements but the revenue is unavailable, the government should report the unavailable revenue as a deferred inflow of resources until such time as the revenue becomes available.

Basis of Accounting

1.16 Measurement Focus and Basis of Accounting

The modified accrual or accrual basis of accounting, as appropriate, should be used in measuring financial position and operating results.

Government-wide revenues and expenses should be recognized on an accrual basis and economic resources measurement focus. Revenues should be recognized in the accounting period in which they are earned and become measurable. Expenses, if measurable, should be recognized in the period incurred.

Governmental fund revenues and expenditures should be recognized on a modified accrual basis and financial resources measurement focus. Revenues should be recognized in the accounting period in which they become available and measurable. Expenditures, if measurable, should be recognized in the period that the fund liability is incurred.

Proprietary fund revenues and expenses should be recognized on an accrual basis and economic resources measurement focus. Revenues should be recognized in the accounting period in which they are earned and become measurable. Expenses, if measurable, should be recognized in the period incurred.

Fiduciary fund revenues and expenses should be recognized on an accrual basis and economic resources measurement focus.

Transfers should be recognized in the accounting period in which the interfund activity arises.

The Budget and Budgetary Accounting

1.17 Budgets and Budgetary Control

A budget should be adopted by every governmental unit. The accounting system used by the governmental unit should provide the basis for appropriate budgetary control.

Government Code sections 29000 through 29144 and section 30200 (commonly referred to as the *County Budget Act* — see *Appendix B*), require the use of annual operating budgets. Budgets adopted to comply with these provisions provide the legal authorization and basis for control of financial operations for the fiscal year.

Budgetary comparisons, at a minimum, should be included in the appropriate financial statements and schedules for governmental funds for which an annual budget has been legally adopted by the governing body. For reporting purposes, comparisons should include the original adopted budget and the final revised budget compared with the actual data on a budgetary basis. If the legally prescribed budgetary basis differs materially from GAAP, then budgetary data should present a comparison of the legally adopted budget with actual data on the budgetary basis. This comparison should be performed at the level of control used by the governmental unit.

The manner in which budgetary control should be achieved and reported may differ significantly between proprietary and governmental funds, and to a lesser extent among the several types of governmental funds.

1.18 Types of Budgets

A budget is a plan of financial operation embodying an estimate of proposed expenditures for a given period and the proposed means of financing them.

Annual Budget —authorizes and provides the basis for control of financial operations during the fiscal year as required by the County Budget Act.

Long-Term Budgets — may be prepared to present estimates of available financing and financing requirements (as appropriate) for several fiscal periods. These are planning documents that typically emphasize major programs and capital outlay plans. This type of budget is strongly recommended as a necessary tool for efficient financial management.

Capital Budgets — may be prepared to present proposed capital outlays and the proposed means of financing and usually:

- cover a period of four to six years;
- are revised annually; and
- are extended for one year to keep their length constant over time.

This budget provides for long-range projections usually required for capital projects planning and financing.

Classification and Terminology

1.19 Transfer, Revenue, Expenditure, and Expense Account Classification

Interfund and intrafund transfers and proceeds of long-term debt issues should be classified separately from fund revenues and expenditures or expenses.

Governmental fund revenues should be classified by fund, function, activity, budget unit, and source. Expenditures should be classified by fund, function, activity, budget unit, objects, and subobjects.

Proprietary fund revenues and expenses should be classified in essentially the same manner as those of similar business organizations, functions, or activities.

1.20 Interfund Activity

Interfund activity is the 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.

- Interfund loans represent amounts provided between funds and blended component units of the primary government with a requirement for repayment.
- Interfund services provided and used represent sales and purchases of goods and services between funds and blended component units of the primary government for a price approximating their external exchange value.

Nonreciprocal interfund activity comprises interfund transfers and interfund reimbursements.

- Interfund transfers represent 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.
- Interfund reimbursements represent repayments from the funds or blended component units of the primary government responsible for particular expenditures or expenses to the funds or blended component units of the primary government that initially paid for them.

1.21 Intrafund Transfers

Intrafund transfers are transfers of costs between budget units in the same governmental type fund.

1.22 Governmental Funds and Terminology

Common language and uniform classification can enhance effective management control and accountability. The established terminology and classifications should be used consistently in all phases of budgeting, accounting, and reporting.

1.23 Proprietary Funds Terminology

The accounts and financial reports of proprietary funds should be maintained and prepared in essentially the same manner as those of similar business enterprises. The terminology and classifications of the flexible budgets (operating plans) should be consistent with those used in financial reports.

Financial Reporting

1.24 Interim and Annual Financial Reports

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.

At a minimum, basic financial statements as defined by GAAP, must be issued. It is recommended, but not required, that a Comprehensive Annual Financial Report (CAFR) be prepared and published. The CAFR covers all funds of the governmental unit including government-wide funds; appropriate combined, combining and individual fund statements; notes to the financial statements; schedules; narrative explanations; and statistical tables to comply with GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments.*

Basic Financial Statements

Government-Wide Financial Statements

- Statement of Net Position
- Statement of Activities

Governmental Funds

- Balance Sheet
- Reconciliation of the Balance Sheet — Governmental Funds to the Statement of Net Position
- Statement of Revenues, Expenditures, and Changes in Fund Balances
- Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances — Governmental Funds to the Statement of Activities

Proprietary Funds

- Statement of Net Position
- Statement of Revenues, Expenses, and Changes in Fund Net Position
- Statement of Cash Flows

Fiduciary Funds

- Statement of Fiduciary Net Position
- Statement of Changes in Fiduciary Net Position
- Combining Statement of Net Position — Discretely Presented Component Units
- Combining Statement of Activities — Discretely Presented Component Units

Notes

- Notes to the Basic Financial Statements

Required Supplementary Information (RSI) other than Management's Discussion and Analysis (MD&A)

- Budgetary comparison schedules for Governmental Funds
- Information about infrastructure assets reported using the modified approach
- Schedule of Funding Progress for other post-employment benefits

Budgetary comparison schedules should present both the original and final cash basis financial plans for the fiscal year as well as actual inflows, outflows, and balances stated on the county's budgetary basis.

Comprehensive Annual Financial Report (CAFR) Sections

In addition to the Basic Financial Statements, the CAFR is a thorough and detailed presentation of the county's financial condition. It reports on the county's activities and balances for each fiscal year. The CAFR is presented in three sections:

Introductory section includes:

- Transmittal letter

Financial section includes:

- Independent auditor's report
- MD&A
- Basic financial statements
    - Government-wide financial statements
    - Fund financial statements
        - Governmental Funds
        - Proprietary Funds
        - Fiduciary Funds
    - Notes to financial statements
- RSI
- Combining financial statements
- Schedules

Statistical section includes:

- Additional financial, economic, and demographic information

1.25 Financial Statements and Schedules

Financial statements and schedules are derived from the county's accounts and related records. Interim financial statements (optional) cover periods of less than one year (monthly, quarterly, etc.) and are primarily for internal use. Annual financial statements (mandatory) are prepared for each fiscal year to serve the needs of both internal and external users. The financial statements and schedules should adhere to any applicable GASB Standards.

1.26 Inclusion of Component Units in Financial Statements

Annual financial statements must include financial data for the entire "financial reporting entity". The financial reporting entity consists of the primary government and all component units or organizations for which the primary government's elected officials are financially accountable. A component unit is a separate legal entity and may be a governmental organization, a nonprofit corporation, or a for-profit corporation.

A county (primary government) is financially accountable if it appoints a voting majority of the members of the organizations' governing body and:

- it is able to impose its will on that organization; <u>or</u>
- the organization is fiscally dependent on the county (primary government); <u>or</u>
- there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the county (primary government).

An organization is fiscally dependent on the county (primary government) if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the county (primary government), regardless of whether the organization has:

- a separately elected governing board;
- a governing board appointed by another government; or
- a jointly appointed board.

The benefit or burden may result from legal entitlements or obligations, decisions, or agreements by and between the primary government and component unit.

When an organization meets the criteria of the *Financial Accountability Concept* as defined in GASB Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statement No. 14 and No. 34*, the organization must be included as a "component unit" of the financial reporting entity.

A component unit may also be included in the financial reporting entity through an exercise of management's professional judgment when it is determined that the inclusion of the organization is necessary to prevent the financial reporting entity's financial statements from being misleading.

Organizations identified as component units must be included in financial statements in one of two methods:

- *Blended* — financial data is reported as if the component unit is a separate fund of the county.
- *Discrete* — financial data is reported in separate columns in the basic financial statements.

A primary government's intent and majority ownership of the equity interest in a separate legal organization also determines whether the organization is presented as a component unit or as an investment of the primary government.

If the purpose of the majority ownership of equity interest in the organization is to enhance a governmental service, then report it as a component unit of the primary government. If the purpose of the majority ownership of equity interest is to obtain income or profit, then report it as an investment

Refer to all applicable GASB publications, including GASB Statements No. 61, No. 34, and No. 14, for additional information in determining whether an organization is a component unit, whether a component unit's financial data should be reported using the blended or the discrete method, and whether footnote disclosures regarding the reporting entity are required. GASB Statement No. 61, *Appendix C*, provides a flowchart for evaluating and presenting component units.

1.27 Component Unit Use of Not-For-Profit Accounting and Financial Reporting Principles

GASB allows component units to continue to use not-for-profit accounting and financial reporting principles, if they used such principles prior to June 30, 1099. Not-for-profit accounting and financial reporting principles are generally defined as those contained in the American Institute of Certified Public Accountants' Statement of Position 94-3, *Reporting of Related Entities by Not-for-Profit Organizations*, or Industry Audit Guide, *Audits of Voluntary Health and Welfare Organizations*, except for the provisions relating to the joint costs of information materials and activities that include a fund-raising appeal. The standard specifically requires that certain GASB pronouncements be applied if the basic not-for-profit model is being used. Counties with component units using the not-for-profit model should refer to applicable GASB publications for additional information.

1.28 County Use of Not-For Profit Accounting and Financial Reporting Principles

With the exception of proprietary activities accounted for in proprietary funds of the component unit financial data, county financial statements may not reflect the use of not-for-profit accounting or financial reporting principles.

CHAPTER 2 POLICIES

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CHAPTER 2 POLICIES

General

2.01 Recognized Authorities

This manual is issued in compliance with Government Code section 30200, which requires the State Controller to prescribe uniform accounting procedures for counties in compliance with Generally Accepted Accounting Principles (GAAP).

The Governmental Accounting Standards Board (GASB) is the accepted authority on the establishment of accounting principles and practices. The standards established by GASB provide guidance primarily for accounting and reporting for governmental operations. Government operations that are similar to business enterprises closely parallel commercial accounting and reporting. In these instances, applicable business accounting practices and professional pronouncements are to be followed.

Governmental accounting and reporting guidance is provided through the issuance of GASB Statements (pronouncements). This edition of the *Accounting Standards and Procedures for Counties* (ASP) manual has been updated to comply with statements (pronouncements) up through GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*.

A complete listing of all GASB Statements (pronouncements) and their corresponding effective dates can be found at http://www.gasb.org/. After navigating to the GASB website, click on the "Standards and Guidance" link in the header section to access the list of GASB Statements (pronouncements).

The GASB also issues additional authoritative guidance in the form of Technical Bulletins and Interpretations to clarify or interpret GASB Statements.

In addition, pronouncements of the American Institute of Certified Public Accountants (AICPA), as recognized by the Financial Accounting Standards Board (FASB), are also authoritative documents. Particularly significant is the AICPA *Audit and Accounting Guide—State and Local Governments*.

The Government Finance Officers Association (GFOA) has issued a revised, 2012 edition of the publication, *Governmental Accounting, Auditing, and Financial Reporting* (GAAFR). The 2012 GAAFR provides detailed professional guidance on the practical applications of GAAP for governments.

2.02 Objective

Accountability is the paramount objective of governmental financial reporting from which all other financial reporting objectives flow. Financial information should be useful for economic, social, and political decisions.

To meet this objective, financial reports should contain information useful for:

- comparing actual financial results with the legally adopted budget;
- assessing financial condition and the results of operations;
- assisting in determining compliance with finance-related laws, rules and regulations; and
- assisting in evaluating efficiency and effectiveness.

2.03 Internal Controls

All accounting systems must contain appropriate internal controls. Manual and automated financial systems development should be made available for review by qualified accounting personnel to verify the adequacy of the accounting procedures, internal controls, and audit trails. The systems covered should not only include purely financial/accounting systems, but also those with financial/accounting elements.

2.04 Documentation and Retention

All financial transactions and records are subject to audit. Therefore, complete documentation on all of these matters should be maintained and the records retained as required by the applicable laws and regulations.

2.05 Legal and Contractual Restrictions

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

2.06 Manual Review and Update

The Accounting Standards and Procedures Committee of the State Association of County Auditors should periodically review this manual to ensure that it reflects current GAAP and meets the needs of county governments. When required, recommendations for changes should be made to the appropriate bodies.

Funds

2.07 Fund Overview

Fund financial statements should be used to report additional and detailed information about the primary government. Governments should report governmental, proprietary, and fiduciary funds to the extent that they have activities that meet the criteria for using those funds.

Governmental Funds

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

Proprietary Funds

- Enterprise Funds
- Internal Service Funds

Fiduciary Funds

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

Capital Assets and Long Term Liabilities

2.08 Capital Assets

Capital assets other than those accounted for in proprietary funds or fiduciary funds are included in the government-wide financial statements but are excluded from the fund financial statements. The term "capital assets" includes land, buildings and improvements, equipment, infrastructure, and intangible assets.

Capital assets are reported in governmental funds as expenditures when purchased. Capital assets associated with existing facilities should have been reported as expenditures when purchased. No additional reporting is needed when the existing facility becomes subject to a Service Concession Arrangement (SCA).

2.09 Basis for Capital Assets

Capital assets should be accounted for at original cost or at their estimated cost at the time of acquisition if the original cost is not available. Gifts are valued at their estimated fair value at the time received.

2.10 Depreciation Expense

Depreciation of capital assets is not reported in the fund financial statements for governmental funds. However, depreciation expense and accumulated depreciation are reported in the government-wide financial statements. Depreciation is recorded in proprietary funds and fiduciary funds, e.g., pension (and other employee benefit) trust funds, where expenses, net income, and/or capital maintenance are measured.

2.11 Lease-Purchase Agreements

Contractual agreements extending beyond the current accounting period which are referred to as leases, but which are in substance purchases, are treated as long-term liabilities and the assets are capitalized.

2.12 Long Term Liabilities

Long-term liabilities expected to be financed from governmental funds are reported in the government-wide statements, not in the fund financial statements for governmental funds. Long-term liabilities associated with proprietary funds and fiduciary funds are accounted for in those funds.

Classification and Terminology

2.13 Common Terminology and Classifications

Common terminology and classifications are to be used throughout the budgeting, accounting, and financial reporting activities.

2.14 Use of Terms

The term “expenditure” should be used only in connection with governmental funds.

The term “fund balance” should be used only in connection with governmental funds and should not be used in government-wide financial statements.

The term “expense” applies only to proprietary funds and to the government-wide financial statements.

The term “deferred” should be limited to items reported as deferred outflows of resources or deferred inflows of resources.

The term "net position" is the calculation of assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources. The net position should be displayed in three components: net investment in capital assets; restricted; and unrestricted.

The terms “receipts” and “disbursements” imply cash basis accounting and are not used in connection with accrual or modified accrual basis financial statement reporting.

2.15 Minimum Number of Accounts

The minimum number of accounts necessary for efficient management and compliance with legal requirements should be used.

2.16 Revenue Classification

Revenues are classified by fund and source. Where additional detail is desired, an additional breakdown by subaccount may be made. When possible, revenues are also classified by organizational unit.

2.17 Expenditure Classification

Expenditures are classified by fund, function, activity, organizational unit, and object. A subobject (account) and a subaccount may be established for each object.

2.18 Organizational Units

The basic organizational units are classified by function and activity. Because of differences in size and organizational structure, specific budget units are not mandated. Uniformity is achieved through the function and activity classification.

2.19 Fund Balance Classifications

Fund balance classifications are maintained in all funds as required to properly reflect the financial position of each fund. There are five components of fund balance: Nonspendable, Restricted, Committed, Assigned, and Unassigned. Fund balance classifications are reported in the fund level financial statements.

2.20 Nonspendable Fund Balance

The *nonspendable fund* balance classification includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. The not spendable in form includes items that are not expected to be converted to cash (e.g., inventories and prepaid amounts).

This classification also includes long-term loans and notes receivables, as well as property held for resale. If the use of proceeds from the collection of the receivables or from the sale of the properties is restricted, committed, or assigned, then the proceeds should be included in the appropriate fund balance classification rather than the *nonspendable fund* balance. The corpus (or principal) of a permanent fund is an example of an amount that is legally or contractually required to be maintained intact.

2.21 Restricted Fund Balance

Restricted fund balance should be used when constraints placed on the use of resources are either imposed by external parties, constitutional provisions, or enabling legislation.

2.22 Committed Fund Balance

Amounts that are constrained for a specific purpose by a government using its highest level of decision-making authority should be classified as committed fund balance. The formal action of the government’s highest level of decision-making authority that commits the fund balance should occur prior to the end of the reporting period, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period.

2.23 Assigned Fund Balance

Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed, should be reported as assigned fund balance, except for stabilization arrangements. For all governmental funds other than the general fund, assigned fund balance includes any remaining positive amounts not classified as nonspendable, restricted, or committed.

2.24 Unassigned Fund Balance

Unassigned fund balance is the residual classification of amounts not classified as nonspendable, restricted, committed, or assigned in the general fund. The general fund is the only fund that should report a positive amount in the unassigned fund balance. In other governmental funds, unassigned fund balance is the amount expended in excess of resources that are nonspendable, restricted, committed, or assigned (i.e., a residual deficit). In determining a residual deficit, no amount should be reported as assigned.

2.25 Contingency Appropriation

A contingency appropriation is an appropriation established for unforeseen requirements. No specific purpose is designated for this appropriation. No expenditures may be made against a contingency appropriation. The funds are only available for transfer to a specific purpose appropriation by the governing body. This type of transfer must be accomplished through the legally specified process.

2.26 Interfund Transfers and Transactions

Care must be exercised in the handling of transactions and transfers between funds to ensure that the proper financing sources and uses are reflected in each fund.

Accounting Process

2.27 Uniformity

To provide comparability from year to year and between counties, the systems and procedures prescribed in the *Accounting Standards and Procedures for Counties* (ASP) manual are applicable to all California counties.

2.28 Basis of Accounting

In fund financial statements, governmental funds should be accounted for on the modified accrual basis. Proprietary and fiduciary funds should be accounted for on the accrual basis. Accruals do not need to be recorded on a daily basis. They may be recorded at the close of the accounting period. In government-wide financial statements, all fund types are reported on the accrual basis.

2.29 Account Adjustments

Adjustments to revenue and expenditures are made only to state the correct account balance. Transactions that are applicable to a prior year are recorded as current charges or credits, but are segregated in special accounts.

2.30 General Reserves (Refer to Gov. Code, §29085)

It is recommended that a general reserve be established in whatever fund might need such a reserve. For financial reporting purposes, general reserves should be reclassified to either assigned or committed fund balance if the general reserve represents amounts that have been constrained for specific purposes.

Reclassifying general reserves to restricted fund balance is appropriate when the amounts are restricted to specific purposes and when constraints placed on those resources are either imposed by others external to the government or imposed by law through constitutional provisions or enabling legislation, including ordinances. General reserves established in a general fund without specific purpose constraints should be reclassified as unassigned fund balance.

2.31 Stabilization Arrangements

Stabilization arrangements by governments are created to set aside amounts for use in emergency situations or when revenue shortages or budgetary imbalances arise. Stabilization amounts should be reported in the general fund as restricted or committed fund balance if they meet the criteria based on the constraint on their use. Stabilization arrangements that do not meet the criteria to be reported within the restricted or committed fund balance should be reported as unassigned fund balance in the general fund.

2.32 Materiality

The test of materiality may be applied to transactions, classifications, and recommended procedures to determine if the result would be a possible distortion of the financial conditions and operations.

2.33 Consistency

Not only should there be consistency in the application of accounting procedures, but care should be exercised in the changes to organizational structure and accounts. Material changes should be explained in statement footnotes.

2.34 Cash Management

As control of cash is an essential element of sound financial operations, an adequate cash management system is required.

2.35 Interest on Bond Proceeds

When bond proceeds are invested prior to their use for the purpose for which the bonds were issued, the earnings are applied toward debt service, unless some other disposition was prescribed in the bond indenture or the proposition approved by the electorate.

2.36 Uncollectible

Allowances for uncollectible should be established as appropriate. For all fund types, the offsetting entry is a reduction in the appropriate revenue account.

2.37 Balanced Budget and Fund Balances

A balanced budget is required. If conditions change such that the estimated revenues will not be realized, both the estimated revenues and appropriations should be reduced by the amount of under-realization.

CHAPTER 3 THE ACCOUNTING PROCESS

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CHAPTER 3 THE ACCOUNTING PROCESS

3.01 Accounting Equation

All double-entry accounting systems are based on the following relationship:

Assets + Deferred Outflows of Resources = Liabilities + Deferred Inflows of Resources + Net Position
Assets + Deferred Outflows of Resources = Liabilities + Deferred Inflows of Resources + Fund Balance

3.02 The Accounting Cycle

The recording and processing of accounting data follows the cycle indicated in the figure below:

3.03 Source Documents

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

3.04 Journals

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

Some examples of a journal include:

- a warrant register records all warrants drawn;
- a deposit permit register records all deposit permits; or
- a general journal records all journal entries

Journals are more useful if the source documents being journalized are recorded in numerical order. Accordingly, to ensure completeness of the record and to assist in its audit, source documents should be either pre-numbered or numbered as prepared.

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

3.05 General Ledgers

A general ledger receives postings from the journals. It contains accounts in which all of the recognized transactions of a fund are classified in detail or in summary.

3.06 Subsidiary Ledgers

A subsidiary ledger is any group of accounts, the sum of the balances of which is equal to the balance of the related control account. Ledgers may be subsidiary to a general ledger control account or they may be subsidiary to an account in another subsidiary ledger.

Control Account	Subsidiary Ledger
Expenditures	Expenditure ledger
Revenues	Revenue ledger
Taxes receivable: current -secured	Current secured tax roll
Construction	Road project ledger

3.07 Trial Balance

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

The term “trial balance” is also used to designate the act of adding all balances in a subsidiary ledger and comparing it with the balance of the related control account.

3.08 Adjusting Entries

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

3.09 Closing Entries

Closing entries transfer the balances in the operating accounts to fund balance or net position. After closing, only the real accounts (balance sheet and statement of financial position accounts) have balances. Budgetary accounts, though separately classified because of their specialized purposes, are also operating accounts in the sense that they pertain only to a given fiscal period and are closed, along with revenues and expenditures. An exception occurs in the case of capital project funds, where the accounting period is the period of construction rather than the fiscal year.

3.10 Reversing Entries

If the daily bookkeeping is on a cash basis, it is evident that adjusting entries can have the effect of recording certain revenues and expenditures before they would have been normally entered in the books. This situation requires that, at the beginning of the new period, cash transactions be analyzed to determine whether or not they represent items already recorded in the previous period. To avoid this disruption of normal posting routines, adjusting entries may be reversed at the beginning of the new period. Amounts recorded as part of the operations of the prior period are thereby automatically excluded from the current totals and postings may continue as though no adjustments had been made.

3.11 Journal Entries

The journal entry is a concise method of expressing the accounting effect of a transaction. Account names and amounts to be posted are shown to be either debits or credits by their relative position rather than by a written designation.

The standard journal entry form used in this manual is shown below.

Account Names	Debits	Credits	Debits	Credits
	Subsidiary Ledger		*General Ledger*	
General ledger accounts debited			X	
General ledger accounts credited				X
Subsidiary ledger accounts debited	X			
Subsidiary ledger accounts credited		X		

If subsidiary accounts are involved, the total of their debit or credit postings agrees with that of the related general ledger control account. This entry infers that the general ledger "Cash" account is debited $40,000 and the "Revenues" control account is credited $40,000.

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

Account Names	Debits	Credits	Debits	Credits
	Subsidiary Ledger		*General Ledger*	
Cash			$ 40,000	
Revenues				$ 40,000
Property Taxes: prior year — secured		$ 39,000		
Property Taxes: prior year — unsecured		1,000		
(Receipt of apportioned taxes)				

The following entry infers that the general ledger control account "Expenditures" is debited $470 and "Cash" is credited $470. In the subsidiary ledger, the "Treasurer's — Office Supplies" account is debited $150 and the "Surveyor's Minor — Equipment" account is debited $320. In actual practice, the journal entry would probably be used in this form only in the general journal.

Account Names	Debits	Credits	Debits	Credits
	Subsidiary Ledger		*General Ledger*	
Expenditures			$ 470	
Cash				$ 470
Treasurer — office supplies	$ 150			
Surveyor — minor equipment	320			
(Purchases by Treasurer and Surveyor)				

3.12 Electronic Method

The accounting cycle is not altered by electronic methods of data processing, although the formal journals and ledgers associated with hand or accounting machine-posted records are often bypassed. The journalizing and summarizing of transactions are performed by the machine and the results are produced directly in statement or schedule form.

Transactions are stored on media other than books of entry. Physically, the data may progress from source documents, to storage media, to statements. The accounting cycle, however, is not changed. In effect, transactions are still journalized and summarized, accounts adjusted, operating accounts closed, and statements prepared.

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CHAPTER 4 FUNDS

4.01 Purpose and Concepts

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

The governmental fund concept means that:

- the fund is an independent fiscal and accounting entity;
- the fund consists of a self-balancing group of accounts; and
- all interfund receivables and payables are included on the fund's balance sheet.

Governmental Funds

Governmental funds account for the current operating expenditures of the county. General and special revenue funds are used to account for most of these expenditures and, in certain instances, for capital outlay and debt service. Governmental funds include the *General Fund, Special Revenue Funds, Capital Projects Funds, Debt Service Funds,* and *Permanent Funds.*

Governmental funds are based on the following relationship:

Assets + Deferred Outflows of Resources = Liabilities + Deferred Inflows of Resources + Fund Balance

4.02 General Fund

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

4.03 Special Revenue Funds

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

4.04 Capital Projects Funds

(CP)	
Category	Governmental.
Purpose	To account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.
Basis of Accounting	Modified accrual.
Primary Means of Spending Control	Grant provisions and/or annual budget appropriation limitations and/or bond indentures.
Usual Financing Sources	Grants, contributions from other funds, bonds.
Measurement Focus	Flow of current financial resources.
Specific Accounting Treatment	While the accounting and reporting is oriented to the annual period, accounting records must contain sufficient data to provide supplementary information and/or special purpose reporting on a project-length basis.

4.05 Debt Service Funds

(DS)	
Category	Governmental.
Purpose	To account for and report financial resources that are restricted, committed or assigned to expenditure for principal and interest. Debt service finds should be used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in debt service funds.
Basis of Accounting	Modified accrual.
Primary Means of Spending Control	Bond indenture provisions.
Usual Financing Sources	Special taxes or contributions from the General Fund.
Measurement Focus	Flow of current financial resources.
Specific Accounting Treatment	Debt service funds are required only if they are legally or contractually mandated and/or if the financial resources are being accumulated for principal and interest payments maturing in future years.

4.06 Permanent Funds

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

Proprietary Funds

Proprietary Funds are considered self-supporting in that the services they render are generally financed through user charges or on a cost reimbursement basis. Proprietary funds include *Enterprise Funds* and *Internal Service Funds.*

Proprietary funds are based on the following relationship:

(Assets + Deferred Outflows of Resources) – (Liabilities + Deferred Inflows of Resources) = Net Position

The above relationship can also be displayed as:

Assets + Deferred Outflows of Resources = Liabilities + Deferred Inflows of Resources + Net Position

Regardless of the format used, the statement of net position should report the residual amount as "net position".

4.07 Enterprise Funds

(EF)	
Category	Proprietary.
Purpose	To account for the provision of supplies and/or tangible services to the general public that are similar to service provided by business enterprises. Enterprise funds include not only services financed primarily by user charges, but also any activity that has significant potential for user charge financing and that the governing body decides should be treated as a commercial enterprise.
Basis of Accounting	Accrual.
Primary Means of Spending Control	For supplies and/or services provided, matching the total cost (including non-cash expense and overhead) with the service charge revenues generated; if competition is feasible, the marketplace; if bonds are issued, the bond indenture; the annual budget (operating plan), to the extent that it is required by the governing body.
Usual Financing Sources	User charges, capital contributions, and operating subsidies.
Measurement Focus	Flow of economic resources.
Specific Accounting Treatment	Accounting practices of similar commercial enterprises are followed. Long-term liabilities directly related to and expected to be paid by the fund, as well as its capital assets, are included in its accounts. All expenses (including non-cash and overhead) are charged to the fund.
Rates	Service charges should recover the full cost (including non-cash expenses and overhead), less any authorized subsidy.

4.08 Internal Service Funds

(IS)	
Category	Proprietary.
Purpose	To account for supplies and tangible services provided to other units of the same government or different governments on a cost reimbursement basis.
Basis of Accounting	Accrual.
Primary Means of Spending Control	The total cost for the supplies and/or services provided (including non-cash expenses and overhead) must be matched with the service charge revenues generated. If purchases from competing commercial operations are not prohibited, the marketplace will also exercise control. Other controls include the annual budget, to the extent required by the governing body, and indirectly through the annual budgets of the units receiving the product and/or service.
Usual Financing Sources	User charges and capital contributions.
Measurement Focus	Flow of economic resources.
Specific Accounting Treatment	Accounting practices of similar commercial enterprises are followed. Long-term liabilities directly related to and expected to be paid by the fund, as well as its capital assets, are included in the accounts. All expenses, including non-cash and overhead, are charged to the fund.
Rates	Service charges should recover the full cost, including non-cash expenses and overhead. Subsidizing internal service fund activities should not be required.

Fiduciary Funds

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and, therefore, cannot be used to support the government's own programs. Fiduciary funds include *Pension (and Other Employee Benefits) Trust Funds, Investment Trust Funds, Private-Purpose Trust Funds,* and *Agency Funds.*

Resources held in trust for the benefit of the agency's own programs, taxes, or individuals are accounted for in a governmental or proprietary fund rather than a fiduciary fund. Fiduciary funds are required to report net position as the difference between assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources. The three components of net position (restricted, net investment in capital assets, and unrestricted) are not required to be presented in the statement of fiduciary net position.

4.09 Pension (and Other Employee Benefit) Trust Funds

(PT)	
Category	Fiduciary.
Purpose	To account for assets held by a government in a trustee capacity for public employee retirement systems.
Basis of Accounting	Accrual.
Primary Means of Spending Control	Flow of economic resources.
Usual Financing Sources	Retirement provisions and laws.
Measurement focus	Employee and employer contributions and investment earnings.
Specific Accounting Treatment	Capital assets and long term liabilities are included in the funds' accounts. Plan assets used in plan operations (for example, buildings, equipment, furniture and fixtures, and leasehold improvements) should be reported at historical cost, less accumulated depreciation or amortization.

4.10 Investment Trust Funds

(IT)	
Category	Fiduciary.
Purpose	To account for cash held in the county's external reporting pool. This is cash in the county treasury that belongs to other governments, other private organizations, and individuals.
Basis of Accounting	Accrual.
Primary Means of Spending Control	Cash receipts and disbursements at the direction of other entities with cash in the county treasury.
Usual Financing Sources	Deposits from external pool participants and investment earnings.
Measurement Focus	Flow of economic resources.
Specific Accounting Treatment	School funds — funds maintained by a school district (including those that service all school districts) to account for its activities. Special District Funds — funds maintained by an independently governed special district to account for its activities.

4.11 Private Purpose Trust Funds

(PPT)	
Category	Fiduciary.
Purpose	To account for assets held by a government in a trustee capacity for specified purposes, where the principal and interest may be expended during the operations for the benefit of individuals, private organizations, and other government.
Basis of Accounting	Accrual.
Primary Means of Spending Control	Trust agreements and laws.
Usual Financing Sources	Donations and earnings of private-purpose trust funds.
Measurement Focus	Flow of economic resources.
Specific Accounting Treatment	Private-purpose trust funds generally should be used only when legally mandated or a formal trust agreement exists. Capital assets and long-term liabilities are included in the funds' accounts.

4.12 Agency Funds

(AF)	
Category	Fiduciary.
Purpose	To account for assets held by a government in an agency capacity for individuals, private organization, and other governments.
Basis of Accounting	Accrual.
Primary Means of Spending Control	Fiduciary agreements and laws.
Usual Financing Sources	Receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.
Measurement Focus	Flow of economic resources.
Specific Accounting Treatment	Agency funds are custodial in nature, merely clearing accounts (assets equal liabilities). At all times, total agency fund assets are offset by related liabilities, including "due to." Where cash is the only asset, agency funds may be combined, showing one cash account and the individual liabilities.

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CHAPTER 5 GENERAL LEDGER AND BUDETARY ACCOUNTS

5.01 Chart of Accounts Terminology

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

The list of account titles in the chart of accounts in this chapter is not exhaustive. Where appropriate, counties should supplement these classifications with additional ones in light of local circumstances. For example, the chart of accounts in this chapter does not include detailed revenue and expense classifications for the varied operations of the internal services and enterprise funds used in many counties.

In addition to the accounts listed, other accounts may be required in the preparation of financial statements.

Some counties will not need all of the accounts included in this chapter.. *Counties should only use those accounts that are necessary for their specific situation*. Similar classifications enhance the comparability of governmental financial statements and hence their potential usefulness for comparative analysis purposes.

The accounts in Section 5.12, *Illustrative Chart of Accounts* are numbered consecutively. The 100 series is for *Assets*, the 200 series is for *Deferred Outflows of Resources*, the 300 series is for *Liabilities*, the 400 series is for *Deferred Inflows of Resources*, the 500 series is for *Fund Balance* and *Net Position*, and the 600 series is for *Operating* and *Budgetary* accounts.

The numbering system used in this manual is for illustrative purposes only. Each county should develop an account coding system consistent with its own accounting needs. An account coding system permits the identification of individual accounts without reporting on every occasion to their full titles. It also facilitates the referencing of entries on documents and records and aids in reflecting account relationships.

The "X's" included in Section 5.12, *Illustrative Chart of Accounts* at the end of this chapter indicate the fund types in which the individual accounts are most frequently used. Abbreviations used in the column headings indicate the various funds and fund types. These include the *General Fund* (G), *Special Revenue Funds* (SR), *Debt Service Funds* (DS), *Capital Projects Funds* (CP), *Permanent Funds* (PF), *Enterprise Funds* (EF), *Internal Service Funds* (IS), *Pension (and Other Employee Benefit) Trust Funds* (PT), *Investment Trust Funds* (IT), *Private-Purpose Trust Funds* (PPT), and *Agency Funds* (AF).

5.02 Current Assets

In some cases, the terms "Advances To/From" and "Due To/From" may actually be current or deferred outflows/inflows of resources. Refer to Section 1.14, *Deferred Outflows/Inflows of Resources*, Section 8.44, *Outflow/Inflow Flowchart,* and Section 8.45, *Transaction Types that May Be Classified as Outflows/Inflows* for additional guidance.

Code	Accounts	Definition
100	Cash (*including cash equivalents*)	Currency, coin, checks, checking accounts, savings accounts, money orders, and bankers' drafts on hand or on deposit with the County Treasurer.
101	Petty Cash	A sum of money set aside for making change or paying small obligations for which the issuance of a voucher or warrant would be too expensive and time-consuming.
102	Certificate of Deposit	A receipt given by a bank for the deposit of funds for a specific time. Certificates of deposit are usually negotiable and bear an interest rate greater than that for ordinary bank savings accounts.
103	Cash With Fiscal Agent	Deposits with fiscal agents, such as commercial banks, for the payment of matured binds and interest.
104	Deposits with Others	Amounts placed with others as a condition precedent to a contractual offer, a legal processing, or performance by a second party.
105	Temporary Investments	Securities and real estate held for the production of income in the form of interest, dividends, rentals, or lease payments. This account does not include real estate used in governmental operations.
106	Accounts Receivable	The uncollected portion of earned revenues and reimbursed projects for which a receivable account has not otherwise been provided.
107	Notes Receivable	The portion of the notes receivable which is to be received within one year of the balance sheet date.
108	Taxes Receivable	The uncollected portion of taxes that a government has levied.
109	Other Receivables	The current portion of other receivables not otherwise accounted for.
110	Inventory of Materials and Supplies	Materials and supplies on hand for future consumption.
111	Allowance for Uncollectible Taxes	That portion of taxes receivable which it is estimated will never be collected. The balance in this account is reported as a deduction from *Taxes Receivable* to indicate net taxes receivable.
112	Allowance for Uncollectible Accounts Receivables	That portion of *Accounts Receivable* which it is estimated will never be collected. The balance in this account is reported as a deduction from *Accounts Receivable* to indicate net accounts receivable.
113	Prepaid Expenses	Charges entered in the accounts for benefits not yet received. Examples of prepaid items are prepaid rent, prepaid interest, and unexpired insurance premiums.

5.03 Capital Assets

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

Code	Accounts	Definition
116	Land	The cost of land purchased or if acquired by gift, the appraised value at the date received. Land that is part of the county road system or flood control districts is not included.
117	Buildings and Improvements	The cost, or if acquired by gift, the appraised value of all permanent buildings, structures, monuments, fences, retaining walls, pavement sidewalks, bridges (not part of the county road system), grading and landscaping, docks and waterfront improvements, tunnels, viaducts, canals, and other feature that adds value to property. This includes the cost of fixtures attached to and forming a permanent part of buildings and improvements. It also includes the costs of improvements made by the county to leased property.
118	Accumulated Depreciation — Buildings and Improvements	The accumulation of periodic credits made to record the expiration of the estimated service life of buildings or improvements.
119	Leasehold Improvements	Alterations made to rental premises in order to customize it for the specific needs of a tenant. Leasehold improvements include painting, installing partitions, changing the flooring, putting in customized light fixtures, etc.
120	Accumulated Depreciation — Leasehold Improvements	The accumulation of periodic credits made to record the expiration of the estimated service life of leasehold improvements.
121	Furniture and Fixtures	Movable furniture, fixtures, or other equipment that has no permanent connection to the structure of a building or utilities.
122	Accumulated Depreciation — Furniture and Fixtures	The accumulation of periodic credits made to record the expiration of the estimated service life of furniture and fixtures.
123	Equipment	The cost or if acquired by gift, the appraised value at the date received, of all physical property of a permanent nature other than land, buildings, and improvements.
124	Accumulated Depreciation — Equipment	The accumulation of periodic credits made to record the expiration of the estimated service life of the equipment.
125	Infrastructure	The cost or estimates historical costs of roads, bridges, tunnels, drainage systems water and sewer systems, dams, lighting systems, sidewalks, etc.
126	Accumulated Depreciation — Infrastructure	The accumulation of periodic credits that record the expiration of the estimated useful like of the infrastructure.
127	Construction in Progress	The cost of construction work undertaken but not yet completed.
128	Intangible Assets	The cost or historical cost of easements, land use rights (water rights, timber rights, etc.), computer software, patents, and trademarks.
129	Accumulated Amortization	The accumulation of periodic credits that record the expiration of the estimated useful life of intangible assets.

5.04 Deferred Outflows of Resources

In some cases, the terms "Advances To/From" and "Due To/From" may actually be current or deferred outflows/inflows of resources. Refer to Section 1.14, *Deferred Outflows/Inflows of Resources*, Section 8.44, *Outflow/Inflow Flowchart,* and Section 8.45, *Transaction Types that May Be Classified as Outflows/Inflows* for additional guidance.

Code	Accounts	Definition
200	Grants (Provider)	Grant paid in advance of meeting the timing requirements.
201	Matured Bonds Payable	Deferred amounts from refunding of debt (debits). Examples include unpaid bonds that have reached or passed their maturity date.
202	Refundings of Debt (Loss)	Deferred loss from the difference between reacquisition price and net carrying amount of old debt.
203	Sale-Leaseback (Loss)	Loss on the sale of property that is accompanied by a leaseback of all or any part of the property for all or part of its remaining economic life.
204	Hedging Derivative Instruments	Accumulated decrease in fair value of hedging derivative instruments.
205	Government-Mandated Nonexchange Transactions (Provider)	Resources received before time requirements are met, but after all other eligibility requirements are met.
206	Intra-Entity Transfers of Future Revenues (Transferee Government)	Amount paid to be recognized over the duration of the sale agreement.
207	Voluntary Nonexchange Transactions (Provider)	Resources received before time requirements are met, but after all other eligibility requirements are met.

5.05 Current Liabilities

In some cases, the terms "Advances To/From" and "Due To/From" may actually be current or deferred outflows/inflows of resources. Refer to Section 1.14, *Deferred Outflows/Inflows of Resources*, Section 8.44, *Outflow/Inflow Flowchart,* and Section 8.45, *Transaction Types that May Be Classified as Outflows/Inflows* for additional guidance.

Code	Accounts	Definition
300	Warrants Payable (Optional)	The amount of warrants issued that have not yet been paid.
301	Vouchers Payable	Liabilities for goods and services evidenced by vouchers that have bene pre-audited and approved for payment, but have not been paid.
302	Accounts Payable	Amounts owed on open account to private persons or organizations for goods and services furnished to the county (but not including amounts owed to other funds or to other governments).
303	Salaries and Benefits Payable	Amounts owed because of accrued salaries and benefits.
304	Compensated Absences Payable	Amounts owned to employees for underpaid vacation and sick leave liabilities.
305	Interest Payable	Unpaid interest on bonds that have reached or passed their maturity date.
306	Accrued Expenses	An accounting expense recognized in the books before it is paid for.
307	Short-term Loans	This account is comprised of any debt incurred by a county that is due within one year.
308	Current Maturities of Long-Term Debt	The total amount of long-term debt that must be paid within the next year.
309	Capitalized Lease Obligations	Current portions of the discounted present value of total future stipulated principal payments on lease-purchase agreements. See account number 316, *Other Long Term Liabilities* for the long-term positon.
310	Other Current Liabilities	Current liabilities not included in the above categories.
311	Unearned Revenue	A liability for resources obtained prior to revenue recognition.

5.06 Long-Term Liabilities

Long-term liabilities of proprietary and fiduciary funds are accounted for through those funds. Other fund long-term liabilities must be maintained in sufficient detail in the debt accounting records to provide sufficient information for financial reporting for the following accounts.

Code	Accounts	Definition
312	Loans	Long-Term principal portion.
313	Notes Payable	Long-Term principal portion (other than bank notes).
314	Bonds Outstanding	Long-Term principal portion of the unmatured portion of bonds sold.
315	Capitalized Lease Obligations	The non-current unpaid principal on capital leases.
316	Other Long-Term Liabilities	A number of other long-term liabilities that should be recorded, if appropriate, are below: ▪ Pension Liabilities ▪ Worker's Compensation liability ▪ Other self-insurance liabilities ▪ Compensated absences

5.07 Deferred Inflows of Resources

In some cases, the terms "Advances To/From" and "Due To/From" may actually be current or deferred outflows/inflows of resources. Refer to Section 1.14, *Deferred Outflows/Inflows of Resources*, Section 8.44, *Outflow/Inflow Flowchart,* and Section 8.45, *Transaction Types that May Be Classified as Outflows/Inflows* for additional guidance.

Code	Accounts	Definition
400	Deposits from Others	Amounts received from others as a condition precedent to a contractual offer, a legal proceeding, or performance by the county.
401	Unavailable Revenues	Resource inflows that do not qualify for recognition as revenue in a governmental fund because they are not yet considered to be available.
402	Property Taxes Receivable	Resources received or reported as a receivable before (a) the period for which property taxes are levied or (b) the period when resources are required to be used or when use is first permitted for all other imposed nonexchange revenues in which the enabling legislation includes time requirements.
403	Assessments Received in Advance	Derived tax revenues (e.g., sales tax, MVFT, hotel/motel tax, etc.), imposed nonexchange revenues, and/or any other assessments received in advance.
404	Hedging Derivative Instruments	Accumulated increase in fair value of hedging derivative instruments.
405	Service Concession Arrangements (Transferor)	Difference between any up-front payments or the present value of installment payments (asset) received from an operator and any contractual obligations (liabilities).
406	Regulatory Credits	Regulatory credits (gains or other reductions).
407	Sale-Leaseback (Gain)	Gain on the sale of property that is accompanied by a leaseback of all or any part of the property for all or part of its remaining economic life.
408	Securities Sold Under Agreement to Repurchase	Proceeds from sales of future revenues that have been added to Investments for "reverse repo" of the investment pool.
409	Refundings of Debt (Gain)	Deferred gain from the difference between reacquisition price and net carrying amount of old debt.
410	Tax Anticipation Notes Payable	Taxes received in advance for amounts owed on notes issued in anticipation of the collection of taxes.
411	Grants (Recipient)	Grants received in advance of meeting timing requirements.
412	Imposed Nonexchange Revenue Transactions	Resources associated with imposed nonexchange revenue transactions received or reported as a receivable before (a) the period for which property taxes are levied or (b) the period when resources are required to be used or when use is first permitted for all other imposed non-exchange revenues in which the enabling legislation includes time requirements.
413	Government-Mandated Nonexchange Transactions (Recipient)	Resources received before time requirements are met, but after all other eligibility requirements are met.
414	Voluntary Nonexchange Transactions (Recipient)	Resources received before time requirements are met, but after all other eligibility requirements are met.
415	Intra-Entity Transfers of Future Revenues (Transferor Government)	Amount received reported in the government-wide and fund financial statements and recognized as revenue over duration of the sale agreement.
416	Sales of Future Revenues (Transferor Government)	Proceeds should be reported in both the government-wide and fund financial statements, except for instances wherein recognition as revenue in the period of sale is appropriate. Revenue should be recognized at the time of the sale only if the revenue sold was recognized previously because of the uncertainty of realization or the inability to reliably measure the revenue.
417	Loan Origination Fees (Points)	Points received by a lender in relation to a loan origination should be reported as a deferred inflow of resources and recognized as revenue in a systematic and rational manner over the duration of the related loan.

5.08 Fund Balance

Code	Accounts	Definition
500	Nonspendable Fund Balance — ____	Fund balance amounts that are segregated and cannot be spent because they are (a) not in spendable form (not expected to be converted to cash) or (b) legally or contractually required to be maintained intact for specific purposes and not available for financing the budget requirements.
501	Restricted Fund Balance — ____	The amount of fund balance that is segregated for specific purposes due to constraints placed by external creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation and is not available for financing the budget requirements.
502	Committed Fund Balance — ___	The amount of fund balance that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority and is not available for financing the budget requirements.
503	Assigned Fund Balance — ____	The amount of fund balance that has been segregated to indicate the government's tentative plans for financial resource utilization in a future period, such as for equipment replacement. The tentative managerial plans or intent should be clearly distinguished from nonspendable, restricted, or committed fund balances.
504	Unassigned Fund Balance	That portion of the fund balance that has not been restricted, committed, or assigned to specific purposes and is available to finance the budgetary requirements.
The following account is optional and may be used by counties to facilitate the accounting for encumbrances. However, for financial reporting purposes, this account must be reclassified to restricted, committed, or assigned fund balance depending on the county's spending prioritization policy.		
505	Fund Balance — Reserved for Encumbrances	The amount of actual fund balance reserved for outstanding contractual obligations for which goods and services have not yet been received.

5.09 Net Position

Code	Accounts	Definition
506	Net Position — Net Investment in Capital Assets	Component of net position consisting of capital assets (including restricted capital assets), net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
507	Net Position — Restricted For _____	Component of net position consisting of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. When constraints on its use are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or law or regulations of governments, or (b) imposed by law through constitutional provisions or enabling legislation.
508	Net Position — Unrestricted _____	Component of net position consisting of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the *Net Investment in Capital Assets* or the *Restricted* components of net position.

5.10 Operating Accounts

Code	Accounts	Definition
600	Other Financing Sources	Increases in the net position of a governmental fund other than revenues.
601	Other Financing Uses	Decreases in the net position of a governmental fund other than expenditures.

5.11 Budgetary Accounts

Code	Accounts	Definition
602	Estimated Revenues and Estimated Other Financing Sources	The amount of revenues estimated to accrue or be collected (depending on accounting basis) during a fiscal period.
603	Unanticipated Revenues and Other Financing Sources	The amount of revenues which had not been estimated in the budget and which are appropriated for expenditure or applied to the increase of specific fund balance classifications during the current fiscal period.
604	Unrealized Estimated Revenues and Estimated Other Financing Sources	The amount of appropriations and segregated fund balance provisions which are canceled because of failure to realize budgeted estimated revenues.
605	Appropriations and Estimated Other Financing Uses	The authorizations by the board of supervisors to make expenditures and incur obligations for specific purposes.
606	Budgetary Nonspendable Fund Balance — _____	The use of this account simplifies the integration of budgetary accounts into the general ledger and permits the periodic testing of budgetary account balances with a budgetary trial balance.
607	Budgetary Restricted Fund Balance — _____	The use of this account simplifies the integration of budgetary accounts into the general ledger and permits the periodic testing of budgetary account balances with a budgetary trial balance.
608	Budgetary Committed Fund Balance — _____	The use of this account simplifies the integration of budgetary accounts into the general ledger and permits the periodic testing of budgetary account balances with a budgetary trial balance.
609	Budgetary Assigned Fund Balance — _____	The use of this account simplifies the integration of budgetary accounts into the general ledger and permits the periodic testing of budgetary account balances with a budgetary trial balance.
610	Budgetary Unassigned Fund Balance — _____	The use of this account simplifies the integration of budgetary accounts into the general ledger and permits the periodic testing of budgetary account balances with a budgetary trial balance.
611	Encumbrances	Obligations in the form of purchase orders, contracts or other commitments which are chargeable to an appropriation and for which a part of an appropriation is to be segregated as an appropriate fund balance classification.
612	Budgetary Fund Balance — Reserved for Encumbrances	The segregation of a portion of the budgetary fund balance for expenditure upon satisfactory performance by the supplier.

5.12 Illustrative Chart of Accounts

In some cases, the terms “Advances To/From” and “Due To/From” may actually be current or deferred outflows/inflows of resources. Refer to Section 1.14, *Deferred Outflows/Inflows of Resources*, Section 8.44, *Outflow/Inflow Flowchart,* and Section 8.45, *Transaction Types that May Be Classified as Outflows/Inflows* for additional guidance.

The abbreviations used in the column headings of Section 5.12, *Illustrative Chart of Accounts* indicate the various funds and fund types. These include the *General Fund* (G), *Special Revenue Funds* (SR), *Debt Service Funds* (DS), *Capital Projects Funds* (CP), *Permanent Funds* (PF), *Enterprise Funds* (EF), *Internal Service Funds* (IS), *Pension (and Other Employee Benefit) Trust Funds* (PT), *Investment Trust Funds* (IT), *Private-Purpose Trust Funds* (PPT), and *Agency Funds* (AF).

Fund Categories		Governmental					Proprietary			Fiduciary		
Fund Types		G	SR	DS	CP	PF	EF	IS	PT	IT	PPT	AF
CURRENT ASSETS												
100	Cash *(including cash equivalents)*	X	X	X	X	X	X	X	X	X	X	X
101	Petty Cash	X	X				X	X				
102	Certificate of Deposit	X	X	X	X	X	X	X	X	X	X	X
103	Cash With Fiscal Agent	X	X	X	X	X	X	X	X	X	X	X
104	Deposits with Others	X	X	X	X	X	X	X	X	X	X	X
105	Temporary Investments	X	X	X	X	X	X	X	X	X	X	X
106	Accounts Receivable	X	X			X	X	X			X	X
107	Notes Receivable	X	X	X	X	X	X	X	X	X	X	X
108	Taxes Receivable	X	X	X								X
109	Other Receivables	X	X			X	X	X	X	X	X	X
110	Inventory of Materials and Supplies	X	X				X	X				
111	Allowance for Uncollectable Taxes	X	X	X								X
112	Allowance for Uncollectable Accounts Receivables	X	X			X	X	X			X	X
113	Prepaid Expenses	X	X			X	X	X			X	
CAPITAL ASSETS												
116	Land						X	X	X		X	
117	Buildings and Improvements						X	X	X		X	
118	Accumulated Depreciation — Buildings and Improvements						X	X	X		X	
119	Leasehold Improvements						X	X	X		X	
120	Accumulated Depreciation — Leasehold Improvements						X	X	X		X	
121	Furniture and Fixtures						X	X	X		X	
122	Accumulated Depreciation — Furniture and Fixtures						X	X	X		X	
123	Equipment						X	X	X		X	
124	Accumulated Depreciation — Equipment						X	X	X		X	
125	Infrastructure						X	X				
126	Accumulated Depreciation — Infrastructure						X	X				
127	Construction In Progress						X	X	X		X	
128	Intangible Assets						X	X				
129	Accumulated Amortization						X	X				
DEFERRED OUTFLOWS OF RESOURCES												
200	Grants (Provider)	X	X	X	X	X						X
201	Matured Bonds Payable	X	X	X			X					
202	Refundings of Debt (Loss)	X	X	X			X					
203	Sale-Leaseback (Loss)	X	X	X			X					
204	Hedging Derivative Instruments						X		X	X	X	
205	Government-Mandated Nonexchange Transactions (Provider)	X	X	X			X					
206	Intra-Entity Transfers of Future Revenues (Transferee Government)	X	X	X			X	X				
207	Voluntary Nonexchange Transactions (Provider)	X	X	X			X					
CURRENT LIABILITIES												
300	Warrants Payable (Optional)	X	X	X	X	X	X	X	X	X	X	X
301	Vouchers Payable	X	X	X	X	X	X	X	X	X	X	X
302	Accounts Payable	X	X	X	X	X	X	X	X	X	X	X
303	Salaries and Benefits Payable	X	X				X	X	X		X	X
304	Compensated Absences Payable	X	X				X	X				X
305	Interest Payable	X	X	X			X					
306	Accrued Expenses	X	X	X	X	X	X	X				
307	Short-term Loans	X	X	X	X	X	X	X				
308	Current maturities of Long-Term debt	X	X	X	X	X	X	X				
309	Capitalized Lease Obligations						X	X				X
310	Other Current Liabilities	X	X	X	X	X	X	X	X	X	X	X
311	Unearned Revenue	X					X	X				

Fund Categories (Continued)		Governmental				Proprietary			Fiduciary			
Fund Types		G	SR	DS	CP	PF	EF	IS	PT	IT	PPT	AF
LONG-TERM LIABILITIES												
312	Loans	X	X	X	X	X	X	X				
313	Notes Payable	X	X	X			X	X				
314	Bonds Outstanding						X					
315	Capitalized Lease Obligations						X	X				
316	Other Long-Term Liabilities						X	X				
DEFERRED INFLOWS OF RESOURCES												
400	Deposits from Others	X	X			X	X	X			X	X
401	Unavailable Revenues	X	X				X	X				X
402	Property Taxes Receivable	X	X	X	X	X						
403	Assessments Received in Advance	X	X	X	X	X	X	X				
404	Hedging Derivative Instruments						X		X	X	X	
405	Service Concession Arrangements (Transferor)	X	X	X	X	X	X					
406	Regulatory Credits	X	X	X			X					
407	Sale-Leaseback (Gain)	X	X	X			X					
408	Securities Sold Under Agreement to Repurchase	X	X	X	X		X	X	X	X	X	X
409	Refundings of Debt (Gain)	X	X	X			X					
410	Tax Anticipation Notes Payable	X	X									X
411	Grants (Recipient)	X	X	X	X	X						X
412	Imposed Nonexchange Revenue Transactions	X	X	X			X					
413	Government-Mandated Nonexchange Transactions (Recipient)	X	X	X			X					
414	Voluntary Nonexchange Transactions (Recipient)	X	X	X			X					
415	Intra-Entity Transfers of Future Revenues (Transferor Government)	X	X	X			X					
416	Sales of Future Revenues (Transferor Government)	X	X	X			X					
417	Loan Origination Fees (Points)	X	X	X			X					
FUND BALANCE ACCOUNTS												
500	Nonspendable Fund Balance _____	X	X	X	X	X			X	X	X	
501	Restricted Fund Balance — _____	X	X	X	X	X			X	X	X	
502	Committed Fund Balance — _____	X	X	X	X	X			X	X	X	
503	Assigned Fund Balance — _____	X	X	X	X	X			X	X	X	
504	Unassigned Fund Balance	X	X	X	X	X			X	X	X	
505	Fund Balance — Reserved for Encumbrances	X	X		X	X						
NET POSITION ACCOUNTS												
506	Net Position — Net Investment in Capital Assets						X	X				
507	Net Position — Restricted For _____						X	X				
508	Net Position — Unrestricted _____						X	X				
OPERATING ACCOUNTS												
600	Other Financing Sources	X	X	X	X	X	X	X	X	X		
601	Other Financing Uses	X	X	X	X	X	X	X	X	X	X	
BUDGETARY ACCOUNTS												
602	Estimated Revenues and Estimated Other Financing Sources	X	X	X	X	X						
603	Unanticipated Revenues and Other Financing Sources	X	X									
604	Unrealized Estimated Revenues and Estimated Other Financing Sources	X	X									
605	Appropriations and Estimated Other Financing Uses	X	X	X	X	X						
606	Budgetary Nonspendable Fund Balance — _____	X	X	X	X	X						
607	Budgetary Restricted Fund Balance — _____	X	X	X	X	X						
608	Budgetary Committed Fund Balance — _____	X	X	X	X	X						
609	Budgetary Assigned Fund Balance — _____	X	X	X	X	X						
610	Budgetary Unassigned Fund Balance — _____	X	X	X	X	X						
611	Encumbrances	X	X		X	X						
612	Budgetary Fund Balance — Reserved for Encumbrances	X	X		X	X						

CHAPTER 6 EXTERNAL FINANCING SOURCES
(Revenues, Other Financing Sources, and Transfers)

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CHAPTER 6 EXTERNAL FINANCING SOURCES (Revenues, Other Financing Sources, and Transfers)

6.01 Use of Accounts

The Revenue Chart of Accounts has been designed as a complete instrument for the accounting of the revenues of California counties. It provides all the data necessary for preparation of the State Controller's *Counties Financial Transactions Report.*

However, it is acknowledged that financial statement requirements and local situations or customs may make require a further breakdown of certain revenues. In this event, the accounts listed on the chart may be broken down to the necessary subaccounts.

For example, "Franchises" might be set up in the chart of accounts as:

- Franchises - "X" Gas Company
- Franchises - "Y" Electric Company
- Franchises - "Z" Telephone Company

Used in this manner, the chart of accounts allows a county to accumulate all of the detail necessary to meet local needs, while still facilitating consolidation into the prescribed account form for state reporting purposes.

For interfund transactions between governmental fund types that result in revenues and expenditures, it is recommended that interfund accounts or subaccounts be used to identify and control these transactions. When preparing consolidated statements such as the State Controller's *Counties Financial Transactions Report* and financial statements in accordance with GAAP, adjustments will be necessary to remove the effects of these transactions. The use of interfund subobject accounts is acceptable and will aid in making the appropriate adjustment.

For interfund revenues, either of the following methods is acceptable. Account for interfund accounts:

1) within account numbers 118, 140, and 141 (Interfund Revenue, Sales and Intra-Entity Transfers of Future Revenues, and Transfers-In); or
2) within a subaccount of an appropriate existing revenue account. If method (2) is used, the subaccount must be clearly identified as an interfund account.

As an example, under account number 107, *Road and Street Services*, a subaccount 107, *Road and Street Services — Interfund* would be established for work performed by the road fund for the general fund.

6.02 Chart of Accounts

Accounts used in the sample chart on the next page are numbered in sequence for reference purposes only.

Revenue Chart of Accounts	
Taxes	
1	Property Taxes — Current Secured
2	Property Taxes — Current Unsecured
3	Property Taxes — Prior Secured
4	Property Taxes — Prior Unsecured
5	Supplemental Property Taxes — Current
6	Supplemental Property Taxes — Prior
7	Residual Property Taxes
8	Pass-through Property Taxes
9	Property Tax In Lieu of Vehicle License Fee (VLF)
10	Sales and Use Taxes
11	Other taxes
12	(Intentionally Left Blank)
Licenses, Permits, and Franchises	
20	Animal Licenses
21	Business Licenses
22	Construction Permits
23	Road Privileges and Permits
24	Zoning Permits Administration
25	Franchises
26	Other Licenses and Permits
Fines, Forfeitures, and Penalties	
30	Vehicle Code Fines
31	Other Court Fines
32	Forfeitures and Penalties
33	Penalties and Costs on Delinquent Taxes
Revenue From Use of Money and Property	
40	Investment Income
41	(Intentionally Left Blank)
42	Rents and Concessions — including Service Concession Arrangements (SCAs)
43	Royalties
Intergovernmental Revenues	
50	State — Aviation
51	State Highway Users Tax
52	State — Motor Vehicle In Lieu Tax
53	(Intentionally left blank)
54	Other State — In Lieu Taxes
55	State — Public Assistance Administration
56	State Public Assistance Programs
57	State — Health Administration
58	State — California Children Services
59	State — Cerebral Palsy
60	State — Mental Health
61	State — Tuberculosis Control
62	Other State — Health
63	State — Agriculture
64	State — Civil Defense
65	State — Construction
66	State — Corrections
67	State — County Fairs
68	State — Disaster Relief
69	State — Veterans Affairs
70	State — Homeowners Property Tax Relief
71	(Intentionally Left Blank)
72	State — Proposition 172 Public Safety Funds
73	State — Citizens Option for Public Safety (COPS)
74	State — Other

Revenue Chart of Accounts (Continued)	
Intergovernmental Revenues (Continued)	
75	Federal — Public Assistance Administration
76	Federal — Public Assistance Programs
77	Federal — Health Administration
78	Federal — Construction
79	Federal — Disaster Relief
80	Federal — Forest Reserve Revenue
81	Federal — Grazing fees
82	Federal — In Lieu Taxes
83	Federal — Other
84	Other — In Lieu Revenues
85	Other — Governmental Agencies
Charges for Services	
90	Assessment and Tax Collection Fees
91	Special Assessments
92	Auditing and Accounting Fees
93	Communication Services
94	Election Services
95	Legal Services
96	Personnel Services
97	Planning and Engineering Services
98	Purchasing Fees
99	Agricultural Services
100	Civil Process Services
101	Court Fees and Costs
102	Estate Fees
103	Commitment Fees
104	Humane Services
105	Law Enforcement Services
106	Recording Fees
107	Road and Street Services
108	Health Fees
109	Mental Health Services
110	California Children's Services
111	Sanitation Services
112	Adoption Fees
113	Institutional Care and Services
114	Educational Services
115	Library Services
116	Park and Recreation Services
117	Other
118	Interfund Revenue
Miscellaneous Revenues	
120	(Intentionally Left Blank)
121	Other Sales
122	Tobacco Settlement
123	Miscellaneous
Other Financing Sources	
130	Sale of Capital Assets
131	Long-Term Debt Proceeds
132	Other
Transfers	
140	Sales and Intra-Entity Transfers of Future Revenues
141	Transfers-In
Special Items	
150	Contributions
151	Special and Extraordinary Items

6.03 Explanation of Accounts

Following are the account titles and the recommended usage of each account. Usage is indicated by either an explanation, example, or both in some instances. In some instances, the title alone is considered self-explanatory and indicative of usage.

Examples are of two category types and are grouped as follows:

- Under “Include” are examples of the types of revenue that should be posted to this account.
- Under “Do Not Include” are examples of the types of revenue that should not be posted to this account. This category also notes the type of account to which they should be posted.

Explanation of Revenue Accounts	
Taxes	
1	**Property Taxes — Current Secured** Includes all taxes apportioned as a result of levies made against the secured roll of the county for the current fiscal year.
2	**Property Taxes — Current Unsecured** Includes all taxes apportioned as a result of levies made against the unsecured roll of the county for the current fiscal year.
3	**Property Taxes — Prior Secured** Includes all taxes and interest apportioned as a result of levies made against the secured roll of the county in prior fiscal periods; also includes revenues from tax-defaulted land sales.
4	**Property Taxes — Prior Unsecured** Includes all taxes apportioned because of levies made against the unsecured rolls of the county in prior fiscal periods.
5	**Supplemental Property Taxes — Current** Includes all taxes apportioned because of supplemental levies made against the secured and unsecured property of the county for the current fiscal year.
6	**Supplemental Property Taxes — Prior** Includes all taxes and interest apportioned as a result of supplemental levies made against the secured and unsecured property of the county in prior fiscal periods.
7	**Residual Property Taxes** Includes apportioned taxes, which exceed the enforceable obligations, pass-through payments and other costs associated with successor agencies of dissolved redevelopment agencies.
8	**Pass-through Property Taxes** Includes apportioned taxes as a result of pass-through agreements or statutory pass-through revenues associated with successor agencies of dissolved redevelopment agencies.
9	**Property Tax In Lieu of Vehicle License Fee (VLF)** Property tax revenue in lieu of vehicle license fees received from the Vehicle License Fee Property Tax Compensation Fund (VLF Compensation Fund) as allocated by statute.
10	**Sales and Use Taxes** Includes the net amount received from the levy of a sales and use tax under the Bradley-Burns Uniform Sales Tax Law. **Include** ▪ Revenues received under the Transportation Act of 1971.
11	**Other Taxes** Includes county-levied taxes not included elsewhere. **Include** ▪ Raw material processing fees ▪ Hotel (transient lodging) taxes ▪ Property transfer taxes ▪ Race horse taxes ▪ Timber yield taxes ▪ Aircraft taxes **Do Not Include** ▪ Revenue from the state, federal government, or other agencies in lieu of taxes; post to the appropriate account under "Intergovernmental Revenues".
12	(Intentionally Left Blank)
Licenses, Permits, and Franchises	
20	**Animal Licenses** **Include** ▪ Dog licenses **Do Not Include** ▪ Kennel licenses; post to "Licenses, Permits, and Franchises — Business Licenses". ▪ Impounding fees, placement fees, boarding fees, vaccination fees, and sale of animal carcasses; post to "Charges for Services — Humane Services".

Explanation of Revenue Accounts	
Licenses, Permits, and Franchises (continued)	
21	**Business Licenses** Includes revenues from the licensing of business, occupations, and amusements. **Include** ▪ Taxicab licenses ▪ Private investigator licenses ▪ Second-Hand store licenses ▪ Food market licenses ▪ Carnival licenses ▪ Food processing health permits ▪ Milk and dairy health permits ▪ Kennel licenses ▪ Fire extinguisher serviceman permits ▪ Motion picture operator permits ▪ Pest Control Business registration ▪ Other business licenses or permits issues primarily for regulation **Do not include** ▪ Services provided that are not primarily regulatory; post to the appropriate account under "Charges for Services".
22	**Construction Permits** **Include** ▪ Building permits ▪ Electrical permits ▪ Plumbing permits ▪ Sidewalk, curb, and gutter permits ▪ Air pollution construction permits **Do Not Include** ▪ Plan or map checking services when not included above; post to "Charges for Services — Planning and Engineering Services". ▪ Road Excavation permits; post to "Licenses, Permits, and Franchises — Road Privileges and Permits". ▪ Permit for breaking curb and gutter; post to "Licenses, Permits, and Franchises — Road Privileges and Permits". ▪ Air pollution variance permits; post to "Licenses, Permits, and Franchises — Other Licenses and Permits".
23	**Road Privileges and Permits** Includes revenue form the issuance of permits for the special use or obstruction of county roads. **Include** ▪ Transportation permits for movement of usual loads on county roads ▪ Excavation permits ▪ Permits for mains laid ▪ Road obstruction permits ▪ Permits for breaking curb and gutter
24	**Zoning Permits Administration** Includes revenue from the issuance of permits to be property other than as provided in the zoning ordinance. **Include** ▪ Zone changes ▪ Zone exceptions and special permits ▪ Cemetery permits ▪ Agricultural preserve application fees **Do Not Include** ▪ Subdivision fees; post to "Charges for Services — Planning and Engineering Services".
25	**Franchises** Incudes revenue from persons, firms, and corporations for the continuing use of property, usually involving the elements of regulation and monopoly. **Include** ▪ Bids for franchises awarded ▪ Franchises based on gross receipts ▪ Franchises based on number of miles of pipeline, electrical transmission line, street railway, etc. **Do Not Include** ▪ Permits for attaching privately owned pipelines to county bridges; post to "Licenses, Permits, and Franchises — Other Licenses and Permits".

Explanation of Revenue Accounts	
Licenses, Permits, and Franchises (continued)	
26	**Other Licenses and Permits** Includes revenue from all licenses and permits not included elsewhere. **Include** ▪ Bicycle licenses ▪ Gun Permits ▪ Fire permits ▪ Marriage licenses ▪ Air pollution variance permits ▪ Oil well permits ▪ Burial Permits ▪ Other non-business licenses and permits that are primarily regulatory ▪ Permits for attaching privately owner pipelines to bridges ▪ Pleasure-riding permit fees ▪ Mobile home use permit fees ▪ Permit fees for explosives **Do Not Include** ▪ Air pollution construction permits; post to "Licenses, Permits, and Franchises — Construction Permits". ▪ Other license and permits where the payment is primarily rent or a charge for correct services; post to the appropriate account under "Revenue from Use of Money and Property" or "Charges for Services".
Fines, Forfeitures, and Penalties	
30	**Vehicle Code Fines** Includes revenue from court fines and forfeiture of bail for violations of the State Vehicle Code. **Include** ▪ The county's share of State Vehicle Code Fines, including the county's share from arrests made in cities ▪ Fines for "driving under the influence" (DUI) **Do Not Include** ▪ Violations of county traffic ordinances; post to "Fines, Forfeitures, and Penalties — Other Court Fines". ▪ Fines, penalties and court costs imposed as a condition of probation; post to "Fines, Forfeitures, and Penalties — Forfeitures and Penalties".
31	**Other Court Fines** Includes revenue form court fines and forfeitures of bail for violations of other that the state Vehicle Code. **Include** ▪ Violations of county traffic ordinances ▪ Violations for other county ordinances ▪ Violations of the Fish and Game Code ▪ Violations of any state law other than the Vehicle Code ▪ Fines for possession of controlled substances ▪ Littering fines ▪ Unlawful burning fines ▪ The county's share of fines, other than State Vehicle Code fines resulting from arrest by city officers ▪ Fees for attending traffic school
32	**Forfeitures and Penalties** Includes all forfeitures and penalties other than those included under "Fines, Forfeitures, and Penalties — Penalties and Costs on Delinquent Taxes". **Include** ▪ Judgment and damages ▪ Forfeitures of faithful performance bonds or deposits ▪ Penalties and court costs imposed as a condition of probation ▪ The sale of vehicles used in commission of a crime ▪ Surcharge and penalty assessment on parking, non-parking, and criminal fines **Do Not Include** ▪ Penalties assessed for failure to secure business license; post to "Licenses, Permits, and Franchises — Business Licenses". ▪ The state share of penalty assessments.

Explanation of Revenue Accounts	
Fines, Forfeitures, and Penalties (Continued)	
33	**Penalties and Costs on Delinquent Taxes** Includes all amounts apportioned as a result of penalties and costs charged against property owners for tax delinquency exclusive of such amounts required to be apportioned as taxes. **Include** ▪ 10% penalties for late payment of first and second installments of secured taxes ▪ 10% penalty for late payment of unsecured tax ▪ $10 charge on each item of real estate unpaid as of April 10th for publishing delinquent roll ▪ $15 fee for seizure and sale of unsecured personal property ▪ 1 1/2 % per month redemption penalty on delinquent taxes ▪ Advertising of tax-defaulted land sales
Revenue From Use of Money and Property	
40	**Investment Income** Investment earnings on bank deposits, other forms of investment, and equity interest. **Include** ▪ Interest ▪ Dividends ▪ Changes in the fair value of investments
41	(Intentionally Left Blank)
42	**Rents and Concessions — including Service Concession Arrangements (SCAs)** Includes revenue form the use of land, buildings, or equipment belonging to the county. **Include** ▪ County parking facilities ▪ Parking meter collections ▪ Vending machines ▪ Public telephones ▪ Pole attachment charges ▪ Cafeteria ▪ Airport Space ▪ Rents from employees living on institutional grounds ▪ Revenue from county fairs, including off-season rentals ▪ Concession Payments, other than for recreation purposes ▪ Tenant farmers ▪ Leases ▪ Service Concession Arrangements (SCAs) **Do Not Include** ▪ Rental of voting booths; post to “Charges for Services — Election Services”. ▪ Concessions for county recreation facilities; post to “Charges for Services — Park and Recreation Services”.
43	**Royalties** Includes revenues from the use, operation, or development of property rights belonging to the county, other than public utility use. **Include** ▪ Oil and gas royalties ▪ Revenue form rights for removal of oil, gas, and other natural resources from county property **Do Not Include** ▪ Sales of rock and gravel form county operated facilities; post to “Miscellaneous Revenues — Other Sales”.
Intergovernmental Revenues	
NOTE: State and federal revenues for construction of facilities are posted to the appropriate construction accounts, rather than to accounts indicating the purpose pf the construction. For example, state revenue for the construction of mental facilities is posted to “State Construction”, not to “State Mental Health”.	
50	**State — Aviation**
51	**State — Highway Users Tax**
52	**State — Motor Vehicle In Lieu Tax**
53	(Intentionally Left Blank)
54	**Other State — In Lieu Taxes** Includes any apportionments to the county of state in lieu taxes not included elsewhere. **Include** ▪ Amounts received from the State from the rental of lands held for state highway purposes.

Explanation of Revenue Accounts	
Intergovernmental Revenues (continued)	
55	**State — Public Assistance Administration** Includes amounts received form the State as reimbursement for administrative costs of county welfare activities. **Do Not Include** ▪ Assistance payments, as distinguished from administrative reimbursements; post to "Intergovernmental Revenues — State Public Assistance Programs".
56	**State Public Assistance Programs** Includes amounts received from the State for families with dependent children, adoptions, potentially self-supporting blind individuals, and for other direct assistance programs.
57	**State — Health Administration** Includes amounts received from the State for the administration of the country health program. **Include** ▪ Payment for partial support of the country health department to provide an increased level of service.
58	**State — California Children Services**
59	**State — Cerebral Palsy**
60	**State — Mental Health**
61	**State — Tuberculosis Control**
62	**Other State — Health** Includes any state revenue for health purposes not included elsewhere. **Include** ▪ Tumor registry ▪ Mosquito/gnat control ▪ Medically Indigent Adult Program ▪ AB 8 Health Subvention
63	**State — Agriculture** **Include** ▪ Partial reimbursement of the salary of the agricultural commissioner ▪ The unclaimed agricultural gas tax refund
64	**State — Civil Defense** **Do Not Include** ▪ State revenues for disaster resulting from fire, flood, etc.; post to "Intergovernmental Revenues: State — Disaster Relief".
65	**State — Construction** **Include** ▪ State Revenue for constriction of hospitals, juvenile halls, and camps, etc. ▪ State revenue for construction of civil defense facilities ▪ State revenue for railroad crossings **Do Not Include** ▪ Amounts received for restoration of roads and other facilities damaged by disaster; post to "Intergovernmental Revenues: State — Disaster Relief".
66	**State — Corrections** **Include** ▪ State revenue for the operation of juvenile halls and camps
67	**State — County Fairs**
68	**State — Disaster Relief** Incudes amounts received from the State for emergency relief from disasters. **Include** ▪ Amounts received for restoration of damages roads and other facilities
69	**State — Veterans Affairs**
70	**State — Homeowners Property Tax Relief** Includes amounts received form the State to compensate the county for revenue lost because of the Homeowners Property Tax Exemption.
71	(Intentionally Left Blank)
72	**State — Proposition 172 Public Safety Funds**
73	**State Citizens Option for Public Safety (COPS)**

Explanation of Revenue Accounts	
Intergovernmental Revenues (continued)	
74	**State — Other** Includes amounts received from the State for any purpose not included elsewhere. **Include** ▪ SB 90 reimbursements ▪ Tax-defaulted land rentals ▪ State revenues for juvenile hall school operation and special milk program (where the school is regarded as a general county activity); if the school is considered a separate school district, these amounts are school fund receipts ▪ Cigarette taxes ▪ State Subventions for county libraries ▪ State Subventions based on recoveries from absent parents ▪ Payments for tax loses because of open space assessments (Williamson Act) ▪ Off-highway motor vehicle license fees ▪ Cotton bale in lieu taxes
75	**Federal — Public Assistance Administration** Includes amounts received from the federal government as reimbursement for administrative costs of county welfare activities. (See Chapter 19: *Public Assistance Program*)
76	**Federal Public Assistance Programs** Includes amounts received from the federal government for families with dependent children and other direct assistance programs. (See Chapter 19: *Public Assistance Program*)
77	**Federal — Health Administration** Includes amounts received from the federal government for administration of the county health program.
78	**Federal — Construction**
79	**Federal — Disaster Relief** Includes amounts received from the federal government for emergency relief from disaster.
80	**Federal — Forest Reserve Revenue** Includes amounts received from the federal government as the county's share of revenues of national forest areas. **Do Not Include** ▪ Rental payments for grazing lands; post to "Intergovernmental Revenues: Federal — Grazing Fees".
81	**Federal — Grazing Fees** Includes amounts received from the federal government as the county's share of revenues from the rental of grazing lands.
82	**Federal — In Lieu Taxes** **Include** ▪ Federal housing authorities
83	**Federal — Other** Incudes all aid from the federal government not included elsewhere. **Include** ▪ Flood control land receipts ▪ Funds for the purchase of surplus equipment for civil defense ▪ Research grants ▪ Subventions for maternal and child health, seasonal and farm workers, chronic illness and aging ▪ Grants received from the California Council on Criminal Justice ▪ Federal manpower program finds for which the county is responsible ▪ Federal health grants ▪ Child support enforcement incentives
84	**Other — In Lieu Revenues** Includes amounts received from other agencies as payments in lieu of taxes and assessments **Include** ▪ Payments from public housing authorities, other than federal authorities **Do Not Include** ▪ Payments by federal housing authorities; post to "Intergovernmental Revenues: Federal — In Lieu Taxes".

Explanation of Revenue Accounts	
Intergovernmental Revenues (continued)	
85	**Other — Governmental Agencies** Includes amounts, other than in lieu revenues, received from other governmental agencies. **Include** Revenues from redevelopment Successor Agencies that are from the following sources: ▪ Excess Low and Moderate Income Housing Funds ▪ Excess funds, other than housing funds ▪ Sales of Capital Assets ▪ Reserve balances
Charges for Services	
90	**Assessment and Tax Collection Fees** Includes revenues from tax segregation and collection of taxes and special assessments of other governmental agencies. **Include** ▪ The sale of copies of assessment roll ▪ The sale of indices ▪ Tax Collectors' $150 per parcel reimbursement for tax-defaulted land sales ▪ The county's share of redemption fees ▪ Document fees charged by assessor, tax collector, auditor ▪ The supplemental property tax administrative fee (5%)
91	**Special Assessments** **Include** ▪ Levies against specified properties to defray all or part of a specific improvement or service benefiting these properties, whether or not collected on the tax roll
92	**Auditing and Accounting Fees** **Include** ▪ Special district audits ▪ Accounting and systems services for other governmental agencies
93	**Communication Services** **Include** ▪ Services provided under contact to other governmental agencies ▪ Telephone service provided to quasi-county agencies
94	**Election Services** **Include** ▪ Services provided to governmental agencies under contract ▪ Charges for consolidating elections ▪ Rental of voting booths **Do Not Include** ▪ Sales of voters' indices; post to "Miscellaneous Revenue — Other Sales".
95	**Legal Services** **Include** ▪ Legal services provided in connection with the public administrator's duties ▪ City prosecution services provided under contract ▪ Legal services for other governmental agencies
96	**Personnel Services** **Include** ▪ Services provided under contract to other governmental agencies ▪ Examination fees

Explanation of Revenue Accounts	
Charges for Services (Continued)	
97	**Planning and Engineering Services** **Include** ▪ Subdivision fees ▪ Planning services provided to cities under contract ▪ Engineering services provided to cities under contract ▪ Legal advertising required by planning ordinance ▪ Traffic surveys ▪ The sale of plans and specifications ▪ The sale of blueprints ▪ Plan or map-checking fees when not an integral part of permits listed below **Do Not Include** ▪ Building permits, electrical permits, plumbing permits for constriction or alteration; post to "Licenses and Permits — Construction Permits".
98	**Purchasing Fees** Includes revenue from commissions from the purchase of materials and supplies for other governmental agencies.
99	**Agricultural Services** **Include** ▪ Enforcement of the plan pest quarantine program for the State Controller's Office ▪ Rodent abatement ▪ Noxious weed abatement ▪ Quarantine inspection fees ▪ Standardization inspection fees for fruits, vegetables, milk, eggs, poultry, honey, aviaries, and nurseries
100	**Civil Process Services** **Include** ▪ Fees and mileage for service or executing notices, writs, levies of attachment, warrants or orders ▪ Posting advertising or conducting sales of real or personal property ▪ Subpoenaing witnesses ▪ Summoning trial juries ▪ Garnishment fees ▪ Fees charged by the auditor for filing an abstract of judgement **Do Not Include** ▪ Advertising tax-defaulted land sales; post to "Fines, Forfeitures, and Penalties — Penalties and Costs on Delinquent Taxes".
101	**Court Fees and Costs** **Include** ▪ Civil filing fees ▪ Probate filing fees ▪ Transcript fees ▪ Fees for issuance of writs, orders, and certificates ▪ Fees for preparing abstracts ▪ Naturalization fees ▪ Court reporter fees ▪ Notary fees **Do Not Include** ▪ Witness and jury fees received from County employees; post to "Miscellaneous Revenues — Miscellaneous". ▪ Book fines and payments for lost books; post to "Charges for Services — Library Services".
102	**Estate Fees** **Include** ▪ Statutory and extraordinary fees allowed to the public administrator for administering estates ▪ Handling charges for deposits by the public administrator ▪ Compensation for the public guardian from estates of wards **Do Not Include** ▪ Legal services provided by county counsel for the district attorney; post to "Charges for Services: Legal Services — Penalties and Costs on Delinquent Taxes".
103	**Commitment Fees** Includes fees received for a commitment to originate or purchase a loan or group of loans and is recorded as a liability — if exercised, it is recognized as revenue in the period of exercise. If the commitment expires unexercised, the fees are recognized as revenue upon expiration of the commitment.

Explanation of Revenue Accounts	
Charges for Services (Continued)	
104	**Humane Services** **Include** ▪ Veterinarian services provided to city zoos ▪ Placement fees ▪ Boarding fees ▪ Vaccination fees ▪ Impounding fees ▪ Sale of animal carcasses
105	**Law Enforcement Services** **Include** ▪ Services provided under contract to governmental agencies ▪ Transporting prisoners **Do Not Include** ▪ Care of prisoner; post to "Charges for Services — Institutional Care and Services".
106	**Recording Fees** Incudes all recording and related fees. These fees are not limited to those collected by the clerk and the recorder. **Include** ▪ Recording services ▪ Certified copies ▪ Corporation fees ▪ Fictitious firm name fees ▪ Certified copies of birth and death certificates **Do Not Include** ▪ Document fees charged by assessor, tax collector, and auditor; post to "Charges for Services — Tax Collection Fees".
107	**Road and Street Services** **Include** ▪ Street maintenance, construction, striping curb and gutter, and traffic signal work provided under contract to other governmental agencies ▪ Street side tree services provided under contract to other governments agencies ▪ Cooperative road projects with adjourning property owners ▪ Payments for extraordinary maintenance of roads
108	**Health Fees** **Include** ▪ Services provided under contract to other governmental agencies ▪ Search of health records ▪ Preparation of medical reports ▪ Clinic fees, other than hospital ▪ Vaccination charges **Do Not Include** ▪ Certified copies of birth and death certificates; post to "Charges for Services — Recording Fees".
109	**Mental Health Services** Includes reimbursement for services provided under Mental Health program.
110	**California Children's Services** Incudes reimbursement for services provided under California Children's program.
111	**Sanitation Services** **Include** ▪ Services provided under contract to other governmental agencies ▪ Sale of sewage by-products ▪ Service charge for use of mains and trunk lines ▪ Refuse disposal fees ▪ Sale of garbage ▪ Sewer connection charges ▪ Septic tank inspection and laboratory fees
112	**Adoption Fees** **Include** ▪ Reimbursement for board and care of adopted children

Explanation of Revenue Accounts	
Charges for Services (continued)	
113	**Institutional Care and Services** Incudes reimbursement for care in public and private institutions. **Include** ▪ In-patient hospital care ▪ Out-patient hospital care ▪ Sale of drugs and medical supplies ▪ Reimbursement for care in private institutions and boarding homes ▪ Rental of wheelchairs, crutches, iron lungs, etc. ▪ Care of prisoners ▪ Care of juvenile court wards ▪ Board and care at juvenile halls ▪ Work furlough program reimbursement ▪ Reimbursement for care in state institutions ▪ Ambulance fees ▪ Emergency hospital services ▪ Fees for medical reports ▪ Interest on judgement for services provided by county hospital **Do not include** ▪ Health clinic fees; post to “Charges for Services — Health Fees”.
114	**Educational Services** **Include** ▪ Reimbursement of the cost of the U.S. Veterans Administration medical training program ▪ Training nurses, peace officers, social workers, etc. ▪ Other services provided under contract to other governmental agencies **Do Not Include** ▪ Library services; post to “Charges for Services — Library Services”. ▪ Museum exhibit admission fees and lending service charges; post to “Charges for Services — Park and Recreation Fees".
115	**Library Services** **Include** ▪ Book fines ▪ Loss of damaged books ▪ Reservation fees ▪ Services provided under contract to other governmental agencies ▪ Film or other special materials usage fees
116	**Park and Recreation Services** Includes revenue from the use of county recreational facilities. **Include** ▪ Boat usage fees ▪ Park and recreation services to governmental agencies ▪ Concessions for county recreation facilities ▪ Golf and equipment usage fees ▪ Swimming pool fees ▪ Archery fees ▪ Swimming pool charges to organizations ▪ Arts and craft charges and sale of craft material ▪ Lighting charges ▪ Picnic area usage fees ▪ Clubhouse usage fees ▪ Use of small craft harbor facilities ▪ Camping fees ▪ Museum exhibit admission fees and lending service charges ▪ Parking fees from recreational facilities ▪ Reimbursement for lost or damaged recreational equipment ▪ Other recreational fees **Do Not Include** ▪ Revenue from county fairs, including off-season rentals; post to “Revenue from Use of Money and Property — Rents and Concessions”.

Explanation of Revenue Accounts	
Charges for Services (continued)	
117	**Other** Includes revenue for services that are not included elsewhere. **Include** ▪ Reimbursement for burials ▪ Fees for making payroll deductions ▪ Aircraft landing fees ▪ Fees for registration of bonds ▪ Aircraft flight plan fees ▪ Embalming fees ▪ Reimbursement of the cost of eradicating weeds or other hazardous conditions ▪ Equipment maintenance services to governmental agencies ▪ Meals and quarters (lodgings) for employees and others ▪ Fees for certification of safety deposit box contents ▪ Microfilming fees ▪ Reimbursement from the State Department of Education for food transportation services
NOTE: Sales of records are posted to "Miscellaneous Revenues — Other Sales", except in cases where the physical record sold is considered incidental to the service performed. In the latter case, sales are posted to the appropriate "Services" account as indicated. Transcript, notary, legal advertising, and document fees follow the revenue source whenever they are incidental to a service for which an account has been established. Other items may be subject to varying classification, depending on the circumstances (i.e. pest examination could be either a health or an agricultural service).	
118	**Interfund Revenue** Includes revenues resulting from interfund transactions between governmental fund types. **May include, but are not limited to:** ▪ Auditing and accounting fees ▪ Communication services ▪ Data processing ▪ Legal services ▪ Personnel services ▪ Planning and engineering services ▪ Purchasing services ▪ Road and street services
Miscellaneous Revenues	
120	(Intentionally Left Blank)
NOTE: The basis for segregating sales between "Charges for Services" and "Miscellaneous Revenues" corresponds to what is used by the State Board of Equalization in determining whether or not a sale is subject to sales tax. Sales posted to "Charges for Services" are generally exempt, and sales posted to "Miscellaneous Revenues" are generally taxable unless specifically exempt, such as sales for resale, food products, sales in interstate commerce, etc.	

Explanation of Revenue Accounts	
Miscellaneous Revenues (continued)	
121	**Other Sales** **Include** ▪ Salvage ▪ Surplus county supplies ▪ Poison for pest extermination ▪ Seeds ▪ Books, pamphlets, postcards ▪ Slides, tobacco, candy, etc., purchased for resale ▪ Maps ▪ Personal property sales by the Sheriff ▪ Commissary sales ▪ Fire prevention codes ▪ Directories ▪ Indices ▪ Ordinances ▪ Surveys ▪ Reports produced by the county for resale ▪ Rock and gravel ▪ Items produces in vocational programs for the agenda and blind **Do Not Include The Sale Of** ▪ Certified copies and transcripts; post to the appropriate account under "Charges for Services" ▪ Copies of the assessment roll; post to "Charges for Services — Assessment and Tax Collection Fees" ▪ Meals for employees or others; post to "Charges for Services — Other" ▪ Art craft materials; post to "Charges for Services — Park and Recreation Fees" ▪ Animal carcasses; post to "Charges for Services — Humane Services" ▪ Sewage by-products; post to "Charges for Services — Sanitation Services" ▪ Garbage; post to "Charges for Services — Sanitation Services"
122	**Tobacco Settlement**
123	**Miscellaneous** Includes monetary donations from private agencies, persons, or other sources. **Include** ▪ Prisoners' unclaimed money ▪ Witness and jury fees received from county employees ▪ Consultant fees received from county employees ▪ Services by private physicians in county institutions ▪ Contributions and donations ▪ Insurance proceeds ▪ Compensation insurance refunds ▪ Contributions from trust funds ▪ Unclaimed money in the county treasury (escheated taxes) ▪ Money seized in slot machines or other devices for gambling ▪ Cash overages ▪ Cancelled warrants and checks
Other Financing Sources	
130	**Sale of Capital Assets** **Include** ▪ Land, buildings and improvements, equipment, infrastructure, and intangible assets, etc.
131	**Long-Term Debt Proceeds** Includes long-term obligations incurred to meet operating or capital requirements. **Include** ▪ Bond proceeds ▪ Long-term notes ▪ Other long terms obligations ▪ The discounted present value of capital leases **Do Not Include** ▪ Short-term obligations ▪ Obligations incurred to cover short-term cash requirements
132	**Other** Includes other financing sources that are not included above.

Explanation of Revenue Accounts	
Transfers	
140	**Sales and Intra-Entity Transfers of Future Revenues** ▪ Sales and intra-entity transfers of future revenues should generally be reported as deferred inflows of resources. Governments that factor their receivables, should initially record the proceeds from the sale as a deferred inflow that is recognized over time.
141	**Transfers-In** Includes transfers between funds (governmental, proprietary or fiduciary) for which no reimbursement is expected. It is recommended that interfund accounts or subaccounts be used to identify and control interfund activity. Having such activity identified separately will be useful when preparing consolidated financial reports that require interfund eliminations (e.g., the State Controller's *Counties Financial Transactions Report* and governmental GAAP compliant financial statements). **Include** ▪ Transfers of tax revenues from the general fund or a special revenue fund to the debt service fund ▪ Operating subsidy transfers from the general fund or a special revenue fund to an enterprise or internal services fund ▪ Transfers from the general fund to a special revenue fund or capital projects fund **Do Not Include** Interfund revenues (see Account 118)
Special Items	
150	**Contributions** **Include** ▪ Contributions to endowments from citizens or businesses
151	**Special and Extraordinary Items** **Include** ▪ Special and extraordinary items

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CHAPTER 7 FINANCING USES
(Expenditures/Expenses, Transfers, Contingency, Appropriations, and Other Financing Uses)

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CHAPTER 7 FINANCING USES (Expenditures/Expenses, Transfers, Contingency, Appropriations, and Other Financing Uses)

Organization

7.01 Classification by Function and Activity

Each budget unit shall be classified, at a minimum, as to State Controller function and activity. The costs of combined statutory offices that engage in more than one activity shall be allocated among the activities performed. In the absence of more refined allocation methods, an estimate may be used. With respect to other budget units that perform more than one activity, allocation is recommended and is required for reports of expenditures to the State Controller. If not allocated, such units are classified according to the activity of greatest expenditure.

7.02 Definitions

Classification terms are defined as follows:

- *Function* — group of services aimed at accomplishing a certain purpose or end.
- *Activity* — specific line of work carried on by a county in order to perform its functions.
- *Budget Unit* — classification of the expenditure requirements of the budget into appropriately identified accounting or cost centers deemed necessary or desirable for control of the financial operation. Except as otherwise provided by law, such units may be devised at the discretion of the board of supervisors.

7.03 Function/Activity/Budget Unit Classification Chart

The minimum level for each function is provided on the following pages, along with examples of activity and budget units.

(Numbers assigned to functions and activities are for reference purposes only.)

Function/Activity/Budget Unit Classification Chart				
Function		**Activity**		**Example of Budget Units**
1	**General**	.01	Legislative and Administrative	▪ Board of Supervisors ▪ Clerk of the Board ▪ Administrative Officer ▪ Annual Audit, if for Supervisors ▪ Council of Governments
		.02	Finance	▪ Auditor-Controller ▪ Treasurer ▪ Assessor ▪ Tax Collector ▪ Purchasing Agent ▪ Central Collections
		.03	Counsel	▪ County Counsel ▪ District Attorney (Legal Advice)
		.04	Personnel	▪ Personnel Department ▪ Safety Committees and Internal Training ▪ Civil Service Commission ▪ Traffic Safety Commission
		.05	Elections	▪ Registrar of Voters ▪ County Clerk — Elections ▪ Primary, General, and Special Elections ▪ Election Expense — Supervisors ▪ School Elections
		.06	Communication	▪ Telephone and Radio Systems ▪ Messenger and Delivery Departments
		.07	Property Management	▪ Rents ▪ Assessments and Taxes ▪ Maintenance Departments ▪ Custodial Services ▪ Utilities ▪ Property Management Departments
		.08	Plant Acquisition	▪ Budget units accounting for acquisition of land, structures, and improvements
		.09	Promotion	▪ County Chambers of Commerce ▪ Fairs and Expositions ▪ Advertising County Resources ▪ Economic Development
		.10	Other General	▪ General Insurance and Surety Bonds ▪ Workers' Compensation Insurance ▪ Retirement and Social Security ▪ Employee Group Insurance ▪ Judgements and Damages ▪ Surveyor and Engineer ▪ Data Processing ▪ Retirement Board ▪ Central Services, Stores ▪ Motor Vehicle Pool ▪ Deferred Compensation ▪ Urban Renewal Photographer ▪ Microfilm Services
2	**Public Protection**	.01	Judicial	▪ Courts ▪ Grand Jury ▪ Family Support ▪ Juvenile Justice Commission ▪ Court-Appointed Counsel ▪ Law Library ▪ District Attorney (prosecution) ▪ Public Defender
		.02	Police Protection	▪ Sheriff ▪ Marshal

Function/Activity/Budget Unit Classification Chart				
Function		**Activity**		**Example of Budget Units**
2	**Public Protection (continued)**	.03	Detention and Correction	▪ Jails ▪ Rehabilitation Centers ▪ Honor Farms ▪ Juvenile Halls ▪ Probation Department ▪ State Correctional Schools ▪ Delinquency Prevention
		.04	Fire Protection	▪ Fire Marshal ▪ Fire Department ▪ Weed Abatement (other than noxious) ▪ State Contracts for Fire Protection
		.05	Flood Control and Soil and Water Conservation	▪ Administration and Engineering ▪ Channel Construction and Maintenance ▪ Levee Construction and Maintenance ▪ Cloud Seeding
		.06	Protection Inspection	▪ Agricultural Commissioner ▪ Building Inspector ▪ Livestock Inspector ▪ Sealer of Weights and Measures
		.07	Other Protection	▪ County Clerk ▪ Recorder ▪ Coroner ▪ Public Administrator ▪ Emergency Services — Civil Defense, Disaster Relief ▪ Medical Examiner (Coroner) ▪ Public Guardian — Conservator ▪ Local Agency Formation Commission ▪ Environmental Protection Programs ▪ Consumer Affairs ▪ Fish and Game Propagation ▪ Planning and Zoning ▪ Pound ▪ Predatory Animal Control ▪ Cemeteries ▪ Abandoned Vehicle Program ▪ Crossing Guards
3	**Public Ways and Facilities**	.01	Public Ways	▪ Road Construction and Maintenance (including ferries as part of a public road system) ▪ Deep Water Channels ▪ Street Lighting
		.02	Transportation Terminals	▪ Airports ▪ Harbors and Ports
		.03	Transportation Systems	▪ Transit Systems — Bus, Rail
		.04	Parking Facilities	
4	**Health and Sanitation**	.01	Health	▪ Health Officer ▪ Health Department ▪ Community Mental Health ▪ Health Clinics ▪ Air Pollution ▪ Vital Statistics ▪ Family Planning, Family Health ▪ Alcohol and Drug Abuse Services ▪ Environmental Health

Function/Activity/Budget Unit Classification Chart				
Function		**Activity**		**Example of Budget Units**
4	**Health and Sanitation (continued)**	.02	Hospital Care	▪ County Hospital ▪ T.B Hospitals ▪ State Institutions ▪ Emergency Hospitals ▪ Ambulance Service ▪ Chronic Diseases ▪ Care of the Mentally Ill ▪ Medical Care Services ▪ Hospital Clinics ▪ Medically Indigent Adults
		.03	California Children's Services	
		.04	Sanitation	▪ Refuse Collection and Disposal
5	**Public Assistance**	.01	Administration	▪ Social Services Department ▪ Auditor — Welfare Division ▪ Adoptions ▪ Food Stamp Program ▪ Homemaker Services
		.02	Aid Programs	
		.03	General Relief	▪ Aid to Indigents ▪ Indigent Burials and Cemetery Care
		.04	Care of Court Wards	
		.05	Veterans' Services	▪ Veterans' Service Officer
		.06	Other Assistance	▪ Vocational Retaining ▪ Day Care Centers ▪ Aid to Victims of Crime and Violence ▪ Federal Manpower Program ▪ Community Development ▪ Office on Aging ▪ Commission on the Status of Women ▪ Senior Citizens' Program
6	**Education**	.01	School Administration	▪ Board of Education ▪ Superintendent of School ▪ County Committee on School District Organization ▪ Auditor — School Claims Division
		.02	Library Services	▪ County Library
		.03	Agricultural Education	▪ Agricultural Extension Service ▪ Farm Advisor ▪ 4-H Program ▪ Home Economics
		.04	Other Education	▪ Rehabilitation Center Schools
7	**Recreation and Cultural Services**	.01	Recreation Facilities	▪ Recreation Department ▪ Contributions to Other ▪ Governmental Agencies (recreation) ▪ Parks ▪ Playgrounds ▪ Swimming Pools ▪ Aquatic Recreational Areas ▪ Golf Courses ▪ Riding Trails
		.02	Cultural Services	▪ Museums ▪ Monuments and Statues ▪ Art Galleries ▪ Botanical Gardens ▪ Planetaria ▪ Zoos ▪ Aquaria ▪ Arboreta ▪ Band and Orchestra Commissions

Function/Activity/Budget Unit Classification Chart				
Function		**Activity**		**Example of Budget Units**
7	**Recreation and Cultural Services (continued)**	.03	Veterans Memorial Buildings	▪ Community Buildings
		.04	Small Craft Harbors	
8	**Debt Service**	.01	Retirement of Long-Term Debt	
		.02	Interest on Long-Term debt	
		.03	Interest on Notes and Warrants	

7.04 Alphabetical Index of Budget Units (Not Included)

7.05 Use of Subobject Accounts

The use of subobject accounts in budgeting and accounting is left to local choice. In the event subobject accounts are used, those listed in Section 7.06, *Chart of Objects and Subobjects* are required where appropriate.

However, it is acknowledged that cost analyses, statistical comparisons, and other reporting requirements may make a further segregation of certain subobjects desirable in any particular county. In this event, the account listed on the chart may be segregated to the desired subaccount. For example "Insurance" might be set up in the accounts as:

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

Used in this manner, the chart allows a county to accumulate all of the detail desired for informational or statistical purposes, and still permit ready consolidation into the prescribed account form for reporting purposes to the State Controller.

For interfund transactions between governmental fund types that result in revenues and expenditures, it is recommended that interfund accounts or subaccounts be used for identification and control. When preparing consolidated statements such as the State Controller's *Counties Financial Transactions Report*, adjustments will be necessary to remove the effects of these transactions. The use of interfund subobject accounts is acceptable and will aid in making the appropriate adjustments.

For interfund expenditures, either one of the following methods is acceptable:

- Interfund expenditures may be accounted for within subobject account number 53 — Interfund Expenditure

  Example 53: Interfund Expenditure — Professional and Specialized Services

- Interfund expenditures may be accounted for within subaccounts within existing subobjects. The use of this method requires the identification of the subaccount as an interfund subaccount.

  Example Subobject: Professional and Specialized Services

  Subaccount: Professional and Specialized Services — Interfund

Accounts

7.06 Chart of Objects and Subobjects

Accounts are numbered in sequence for reference purposes only.

Chart of Objects and Subobjects			
Salaries and Employee Benefits			
1	Salaries and Wages	4	Workers' Compensation Insurance
2	Retirement	5	FICA/Medicare/OASDI
3	Employee Group Insurance	6	Other Benefits
Services and Supplies			
10	Agricultural	21	Miscellaneous Expense
11	Clothing and Personal	22	Office Expense
12	Communications	23	Professional and Specialized Services
13	Food	24	Publications and Legal Notices
14	Household Expense	25	Rents and Leases — Equipment
15	Insurance	26	Rents and Leases — Buildings and Improvements
16	Jury and Witness Expense	27	Minor Equipment
17	Maintenance — Equipment	28	Special Departmental Expense
18	Maintenance — Buildings and Improvements	29	Transportation and Travel
19	Medical, Dental, and Laboratory Supplies	30	Utilities
20	Memberships		
Other Charges			
40	Support and Care of Persons	48	Taxes and Assessments
41	Bond Redemption	49	Depreciation
42	Retirement of Other Long-Term Debt	50	Bad Debts
43	Interest on Bonds	51	Income Allocation
44	Interest on Other Long-Term Debt	52	Contributions to Non-County Governmental Agencies
45	Interest on Notes and Warrants	53	Interfund Expenditure
46	Judgments and Damages	54	Debt Issuance Costs
47	Rights of Way		
Capital Assets			
60	Land	63	Infrastructure
61	Buildings and Improvements	64	Intangible Assets
62	Equipment		
Transfers Out			
70	Transfers-Out		
Special Items			
80	Special Items	81	Extraordinary Items
Intrafund Transfers			
90	Intrafund Transfers		
Appropriation For Contingencies			
100	Appropriations for Contingencies		

7.07 Explanation of Objects and Subobjects

Following are the account titles and the recommended usage of each account. Usage is indicated by either an explanation, example, or both, in some instances. In some instances, the title alone is considered self-explanatory and indicative of usage.

Examples are of two category types and are grouped as follows:

- Under Include are examples of the types of expenditures that should be posted to this account.
- Under Do Not Include are examples of the types of expenditures that should not be posted to this account. This category also notes the type of account to which they should be posted. Examples are illustrated on the following pages.

Explanation of Objects and Subobjects		
SALARIES AND EMPLOYEE BENEFITS		
1	**Salaries and Wages**	
	Include ▪ Elected officials ▪ Permanent employees ▪ Extra help ▪ Suggestion awards ▪ Overtime ▪ Premium pay ▪ Compensation to prisoners and inmates for services rendered ▪ Vacation and sick leave pay	**Do Not Include** ▪ Uniform allowances; post to "SERVICES AND SUPPLIES — Clothing and Personal Supplies" ▪ Allowances for incidentals to prisoners and court wards; post to "OTHER CHARGES — Support and Care of Persons"
2	**Retirement**	
	Includes the county's share of the expense of employee retirement programs.	
	Include ▪ Investment-related costs ▪ Administrative ▪ Investment management ▪ Custodial fees ▪ Employer pension contribution	**Do Not Include** ▪ Not recognized employer pension contribution; post to Deferred Outflows of Resources
3	**Employee Group Insurance**	
	Includes the county's share of employee group insurance programs.	
	Include ▪ Employer's share of health, dental, life, and accident insurance ▪ Employer's share of unemployment insurance ▪ Employer's share of state disability insurance	**Do Not Include**
4	**Workers Compensation Insurance**	
	Includes the Workers' Compensation premiums paid by the county.	
5	**FICA/Medicare/OASDI**	
	Employers share of OASDI and FICA/Medicare	
6	**Other benefits**	
	Includes employee benefits not covered in the other subobjects.	
SERVICES AND SUPPLIES		
10	**Agricultural**	
	Include ▪ Agricultural disinfecting and exterminating services ▪ Animal medicines and serums ▪ Custom farming services ▪ Ear tags ▪ Fertilizer ▪ Forage ▪ Insecticides ▪ Livestock registration ▪ Nursery stock ▪ Peat moss ▪ Pest abatement supplies ▪ Seed ▪ Topsoil ▪ Weed killer	**Do Not Include** ▪ Any of these used in building and grounds maintenance; post to "SERVICES AND SUPPLIES: Maintenance — Buildings and Improvements"

Explanation of Objects and Subobjects		
SERVICES AND SUPPLIES (continued)		
11	**Clothing and Personal**	
	Includes items for personal use, including safety appliances.	
	Include ▪ Badges, chevrons ▪ Belts ▪ Buttons ▪ Combs ▪ Facial tissue ▪ Gloves ▪ Goggles, masks ▪ Gowns ▪ Helmets ▪ Raincoats ▪ Rubber boots ▪ Safety clothing ▪ Sewing supplies ▪ Shoes ▪ Slippers ▪ Tobacco ▪ Toilet articles ▪ Uniforms, uniform allowances ▪ Yardage	**Do Not Include**
12	**Communications**	
	Include ▪ Telephone, telegraph and teletype services ▪ Radio and microwave services ▪ Messenger services ▪ Fax machines, pagers, and cell phones	**Do Not Include** ▪ Radio repair services and supplies; post to "SERVICES AND SUPPLIES: Maintenance — Equipment" ▪ Rental of communication equipment; post to "SERVICES AND SUPPLIES: Rents and Leases — Equipment"
13	**Food**	
	Includes nutriments and beverages for human consumption, either (a) presently suitable for consumption or kitchen processing, or (b) not presently suitable, such as livestock and poultry, but intended for ultimate conversion and use as food by the purchasing budget unit.	
	Include ▪ Candy, confectionery ▪ Cereals, cereal products ▪ Cocoa, cocoa products ▪ Coffee substitute ▪ Eggs, egg products ▪ Live animals, poultry, fish, meat, and related by-products ▪ Feed for live animals, poultry, and fish ▪ Milk, milk products ▪ Oleomargarine ▪ Soft drinks ▪ Spices, salt ▪ Sugar, sugar products ▪ Tea ▪ Vegetables, vegetable products	**Do Not Include** ▪ Draft, breeding, and dairy animals; post to "CAPITAL ASSETS — Equipment" ▪ Dietary supplements; post to "SERVICES AND SUPPLIES — Medical, Dental, and Laboratory Supplies" ▪ Spirituous, malt, or vinous liquors; post to "SERVICES AND SUPPLIES — Medical, Dental, and Laboratory Supplies" ▪ Meals furnished jurors; post to "SERVICES AND SUPPLIES — Jury and Witness Expense" ▪ Meals furnished indigents; post to "OTHER CHARGES — Support and Care of Persons"

Explanation of Objects and Subobjects		
SERVICES AND SUPPLIES (continued)		
14	**Household Expense**	
	Include ▪ Kitchen and dining service: o Chinaware, cooking supplies o Baking, meat cutting utensils and supplies o Glassware, napkins, tablecloths ▪ Bedding: o Bedspreads, blankets, mattresses o Pillows, pillowcases, sheets ▪ Laundry: o Clothes pins o Detergents, soaps, and washing compounds o Laundry bags, marking ink o Outside laundry, dry cleaning ▪ Other: o Brooms, mops, wax and cleaners o Clothes lockers o Contractual maid and custodial services o Curtains, drapes, rugs (when not capitalized) o Disinfectants, drinking water o Garbage cans, hot plates, small heaters o Refuse disposal, soap o Toilet tissue, towels, and towel service	**Do Not Include** ▪ Supplies issued to individuals for personal use; post to "SERVICES AND SUPPLIES — Clothing and Personal"
15	**Insurance**	
	Include ▪ Fire ▪ Burglary ▪ Collision ▪ Public liability ▪ Property damage ▪ False arrest ▪ Malpractice ▪ Boiler ▪ Individual and blanket bonds ▪ Forgery ▪ Money and securities	**Do Not Include** ▪ County share of employee group insurance; post to "SALARIES AND EMPLOYEE BENEFITS — Employee Group Insurance"
16	**Jury and Witness Expense**	
	Include ▪ Fees and expenses of jurors, witnesses, and interpreters (criminal cases only) ▪ Meals, transportation, and hotel accommodations for jurors ▪ Fees and expenses of coroners' juries	**Do Not Include** ▪ Psychiatric services; post to "SERVICES AND SUPPLIES — Professional and Specialized Services"
17	**Maintenance — Equipment**	
	Includes expenditures for keeping equipment, whether capitalized or not, in efficient operating condition.	
	Include ▪ Automotive supplies, such as lubricating oil, light bulbs, spark plugs, antifreeze, grease, polish, brake fluid, seat covers, skid chains, batteries, tires and tubes, fan belts, filters ▪ Contractual repairs, overhauls ▪ Gasoline, fuel for central garage vehicles ▪ Communication and radio repair services and supplies ▪ Repair parts ▪ Service contracts for maintenance	**Do Not Include**

Explanation of Objects and Subobjects		
SERVICES AND SUPPLIES (continued)		
18	**Maintenance — Buildings and Improvements**	
	Includes expenditures for maintaining the useful life of buildings and improvements.	
	Include ▪ Awnings ▪ Boiler compounds ▪ Electrical and plumbing supplies and services ▪ Fire extinguisher refills ▪ Gardening expense ▪ Heating and cooling system repairs ▪ Light globes, fuses ▪ Minor alterations ▪ Nursery stock ▪ Painting supplies and services ▪ Replacement parts that do not result in a betterment ▪ Gardening expense, including weed and pest control supplies for buildings and grounds	**Do Not Include** ▪ Lawnmowers, hedgers, shears ladders, etc.; post to "SERVICES AND SUPPLIES — Minor Equipment" • Water, electricity, gas, etc.; post to "SERVICES AND SUPPLIES — Utilities" ▪ Road contractual services; post to SERVICES AND SUPPLIES — Professional and Specialized Services" ▪ Road supplies; post to "SERVICES AND SUPPLIES — Special Department Expense"
19	**Medical, Dental, and Laboratory Supplies**	
	Includes all types of laboratory supplies.	
	Include ▪ Alcohol ▪ Animals, fish, insects for laboratory tests ▪ Antiseptics ▪ Antitoxins ▪ Artificial limbs ▪ Blood plasma ▪ Crime laboratory supplies ▪ Dentures ▪ Dietary supplements ▪ Drugs ▪ Embalming supplies ▪ Eyeglasses ▪ Grinding compounds ▪ Hypodermic needles ▪ Laboratory enamelware, glassware ▪ Laboratory scales ▪ Medical and dental instruments ▪ Medical gasses ▪ Medicines ▪ Medical soap ▪ Narcotics, pharmaceuticals ▪ Road materials testing supplies ▪ Rubber gloves, sheets ▪ Spirituous, malt, or vinous liquors ▪ Splints ▪ Syringes ▪ X-ray film	**Do Not Include** ▪ Any of the Objects and Subobjects given as part of the assistance program; post to "OTHER CHARGES — Support and Care of Persons"
20	**Memberships**	
	Includes Memberships in societies, associations of officials, trade associations, and other organizations that issue official publications.	

Explanation of Objects and Subobjects		
SERVICES AND SUPPLIES (continued)		
21	**Miscellaneous Expense**	
	Includes infrequent or minor expenditures, not limited in incidence to any particular department, which are not classified in any other subobject. Care should be exercised in that this account is not used for expenditures that may be properly posted to one of the other subjects.	
	Include ▪ Cash shortages ▪ Unidentifiable inventory overages and shortages	**Do Not Include**
22	**Office Expense**	
	Includes expenses for office-type supplies and services.	
	Include ▪ Accounting and report forms ▪ Binders, docket books ▪ Book binding and repair ▪ Books, manuals ▪ Bottled drinking water ▪ Dictaphone supplies ▪ Drafting paper ▪ Envelopes, stamped envelopes ▪ Filing supplies ▪ Letterheads ▪ Letter scales ▪ Metered postage ▪ Microfilm ▪ Office machine ribbons ▪ Paper ▪ Paper clips ▪ Parcel post ▪ Pencils, Pens ▪ Pencil sharpeners ▪ P.O. box rental ▪ Postcards ▪ Photography supplies ▪ Printing and binding ▪ Punch cards, tabulating forms ▪ Receipts, receipt books ▪ Registered mail and special delivery ▪ Reproductions and blueprints ▪ Rubber stamps ▪ Scissors ▪ Scotch tape ▪ Small staplers, dating and numbering machines ▪ Stamps ▪ Subscriptions for magazines, periodicals, clipping services ▪ Wastebaskets	**Do Not Include** ▪ Towel services; post to “SERVICES AND SUPPLIES — Household Expense” ▪ Film development supplies and expenses; post to “SERVICES AND SUPPLIES — Special Departmental Expense” ▪ Books and periodicals for circulating library use and their repair and bindings; post to “SERVICES AND SUPPLIES — Special Departmental Expense”

Explanation of Objects and Subobjects		
SERVICES AND SUPPLIES (continued)		
23	**Professional and Specialized Services**	
	Includes most professional and skilled services. In some cases, services of this type are excluded, being more properly included under subobject titles indicating the purpose of the expenditure. Any of the following incurred in connection with the acquisition of capital assets—e.g., appraisals, architectural services, etc.—are capitalized.	
	Include ▪ Actuarial studies ▪ Advertising and marketing ▪ Aerial surveys ▪ Ambulance service ▪ Appraisals ▪ Architectural services ▪ Armored car service ▪ Artists' fees ▪ Auditing and accounting ▪ Bounties ▪ Burial services ▪ Chemical analyses ▪ Clerical services ▪ Consultations ▪ Data processing services ▪ Engineering services ▪ Fees paid to the humane society ▪ Fiscal agents' fees ▪ Lecture and musical services ▪ Management, salary surveys ▪ Materials testing ▪ Medical and sobriety examinations ▪ Medical, dental, and laboratory services ▪ Microfilm services ▪ Outside animal boarding expense ▪ Outside defense counsel, legal services ▪ Psychiatric services ▪ Reporting and transcribing ▪ Road construction and maintenance contracts ▪ Technical identification services ▪ Weighing and measuring services	**Do Not Include** ▪ Messenger services; post to "SERVICES AND SUPPLIES — Communications" ▪ Radio technical services; post to "SERVICES AND SUPPLIES — Communications" ▪ Custodial services; post to "SERVICES AND SUPPLIES — Household Expense" ▪ Service contracts for equipment maintenance; post to "SERVICES AND SUPPLIES: Maintenance — Equipment" ▪ Service contracts for maintenance of buildings and improvements; post to "SERVICES AND SUPPLIES: Maintenance — Building and Improvements" ▪ Disinfecting and exterminating services; post to "SERVICES AND SUPPLIES — Household Expense or Agricultural" ▪ Time-lock inspection services; post to "SERVICES AND SUPPLIES: Maintenance — Building and Improvements"
24	**Publications and Legal Notices**	
	Includes expenses for the publication of legally required notices and reports.	
	Include ▪ Tax-sale notices ▪ Delinquent tax lists ▪ Employment opportunities ▪ Planning Commission hearings ▪ Public administrator's semi-annual report ▪ Transfer of unclaimed refundable taxes ▪ Proceedings of Board of Supervisors (meetings, etc.) ▪ Budgets ▪ Crop reports ▪ Financial reports ▪ Ordinances ▪ Bond sale notices ▪ Bids for purchases ▪ Advertising impounded animals	**Do Not Include** ▪ Printing and binding lists of registered voters, printing ballots; post to "SERVICES AND SUPPLIES — Special Departmental Expense"

Explanation of Objects and Subobjects		
SERVICES AND SUPPLIES (continued)		
25	**Rents and Leases — Equipment**	
	Includes rents and leases paid for the use of equipment and other articles	
	Include ▪ Amounts paid under operating lease agreements ▪ Alarm system (tied to police, fire, or alarm service company) ▪ Rent of communication equipment ▪ Rent of films, exhibits, models ▪ Cable TV rental	**Do Not Include** ▪ Rent of lease of cars and trucks; post to "SERVICES AND SUPPLIES — Transportation and Travel" ▪ Telephone service; post to "SERVICES AND SUPPLIES — Communications"
26	**Rents and Leases — Buildings and Improvements**	
	Includes rents and leases paid for the use of land, structures, and improvements.	
	Include ▪ Amounts paid under operating lease agreements ▪ Rent of polling places ▪ Storage charges	**Do Not Include** ▪ Non-removable leasehold improvements; post to CAPITAL ASSETS — Buildings and Improvements" ▪ Amounts to be paid under capital lease agreements; post to "OTHER CHARGES — Retirement of Other Long-Term Debt"
27	**Minor Equipment**	
	Includes minor equipment of insufficient life or value to require classification as a capital asset, and replacement parts of such tools and instruments.	
	Include (1) Carpentry, machine and general purpose tools: ▪ Bits, calipers, chisels, cutters ▪ Drills, files, flashlights, gauges ▪ Hammers, handsaws ▪ Ladders, lanterns, levels ▪ Oil cans, paint brushes, picks ▪ Reamers, screwdrivers, shovels ▪ Toolboxes, wheelbarrows, wrenches (2) Drafting, engineering, and surveying tools: ▪ Curve sets, drawing instruments ▪ Hand compasses, measuring tapes ▪ Plumb bobs, sextants, slide rules (3) Gardening tools: ▪ Garden hoses, hand lawnmowers ▪ Hedgers, hoes, planters, ▪ Pruning shears, rakes, sprayers (4) Other specialized tools and instruments: ▪ Art and craft ▪ Barbering, blacksmith, electrician ▪ Metal working, plumbing, tailoring ▪ Weighing and measuring	**Do Not Include** ▪ Medical, dental, and laboratory instruments; post to "SERVICES AND SUPPLIES — Medical, Dental, and Laboratory Supplies" ▪ Safety devices, such as belts, goggles, helmets; post to "SERVICES AND SUPPLIES — Clothing and Personal" ▪ Supplies such as nails, bolts, oxygen, welding rod; post to "SERVICES AND SUPPLIES: Maintenance — Equipment"; If used in construction of capital assets by force account; post to "CAPITAL ASSETS — Equipment"

Explanation of Objects and Subobjects		
SERVICES AND SUPPLIES (continued)		
28	**Special Departmental Expense**	
	Includes comparatively specialized supplies and services, generally peculiar to one of a few departments, for which an account has not otherwise been provided.	
	Include ▪ Ammunition ▪ Athletic supplies ▪ Books for circulating library use ▪ Demonstration materials ▪ Detective expense ▪ Dog food ▪ Disposal of animal carcasses ▪ Educational training, including related expenses ▪ Election officers ▪ Election expenses ▪ Film development supplies and expenses ▪ Fingerprinting supplies ▪ Fireworks ▪ Games and puzzles ▪ Handcuffs ▪ Hoses, nozzles ▪ Photograph records ▪ Pound supplies ▪ Printing and binding lists of registered votes ▪ Printing ballots ▪ Road materials ▪ Service pins ▪ Shipping supplies ▪ Unclassified expenditures from district attorney's and sheriff's special funds	**Do Not Include**
29	**Transportation and Travel**	
	Includes the transportation of persons and things, except where other services furnished in conjunction with transportation comprise the major portion of the charge, or when the transportation is more appropriately included under subobject titles indicating purposes.	
	Include ▪ Central garage services ▪ Delivery services ▪ Freight, express, and other transportation charges not chargeable to a commodity purchased ▪ Gasoline or diesel fuel, except when purchased for central garage ▪ Leased or hired vehicles ▪ Reimbursement for Private-car use ▪ Reimbursement for: meals, lodging, conference expenses, bridge tolls, train fares, bus fares, air fares, any other authorized travel expense ▪ Transportation of prisoners and court wards	**Do Not Include** ▪ Ambulance service; post to "SERVICES AND SUPPLIES — Professional and Specialized Services" ▪ Armored car service; post to "SERVICES AND SUPPLIES — Professional and Specialized Services" ▪ Packing Supplies; post to "SERVICES AND SUPPLIES — Office Expense" ▪ Transportation of indigents; post to "OTHER CHARGES — Support and Care of Persons" ▪ Purchases for central garage vehicles; post to "SERVICES AND SUPPLIES: Maintenance — Equipment" ▪ Gasoline, diesel fuel, etc. used for off-highway purposes by road department or central garage; post to "SERVICES AND SUPPLIES: Maintenance — Equipment" ▪ Natural gas, butane, fuel oil, etc. used for heating/cooling purposes; post to 'SERVICES AND SUPPLIES — Utilities"

Explanation of Objects and Subobjects		
SERVICES AND SUPPLIES (continued)		
30	**Utilities**	
	Include ▪ Coal, wood ▪ Electricity ▪ Heating and cooling supplies for county buildings ▪ Natural gas, butane, fuel oil ▪ Sewage disposal ▪ Street lighting on county grounds ▪ Water	**Do Not Include** ▪ Refuse disposal; post to "SERVICES AND SUPPLIES — Household Expense" ▪ Telephone service; post to "SERVICES AND SUPPLIES — Communications" ▪ Gasoline, fuel for central garage vehicles; post to "SERVICES AND SUPPLIES: Maintenance — Equipment" ▪ Fuel for department vehicles; post to "SERVICES AND SUPPLIES — Transportation and Travel"
OTHER CHARGES		
40	**Support and Care of Persons**	
	Includes cash or necessaries furnished indigents or other for whom the county has assumed the burden of support.	
	Include ▪ Allowances for incidentals to prisoners and court wards ▪ Contract nursing and housekeeping services for welfare recipients ▪ Groceries, clothing, and supplies for indigent persons ▪ Meals and lodging for indigent persons ▪ Medical and dental supplies furnished to public assistance recipients ▪ Payment for care in foster homes and private institutions ▪ Payment of rents and utilities of indigent persons ▪ Public assistance payments ▪ Reimbursement to other governmental agencies for care and transportation of prisoners ▪ Reimbursement to the state for care of county prisoners in state institutions ▪ Transportation of indigent persons ▪ Maternity and adoption expense	**Do Not Include** • Support and care in county institutions; post to applicable subobjects
41	**Bond Redemption**	
	Includes redemption of matured and called bonds.	
42	**Retirement of Other Long-Term Debt**	
	Includes liquidation of long term debt principal, other than bonds, including capitalized lease payments.	
43	**Interest on Bonds**	
	Includes interest and call premium payments on bonded debt.	
44	**Interest on Other Long-Term Debt**	
	Includes interest on long-term debt other than bonds.	
45	**Interest on Notes and Warrants**	
	Includes interest payments on short-term debt, such as tax anticipation notes and registered warrants.	
46	**Judgments and Damages**	
	Includes expenditures in settlement of claims against the county for injury to persons and property.	
	Include	**Do Not Include** ▪ Damages paid in connection with rights of way acquisition; post to "OTHER CHARGES — Rights-of-Way" ▪ Damages paid in connection with land acquisition; post to "CAPITAL ASSETS — Land"
47	**Rights-of-Way**	
	Includes amounts paid for the acquisition of easements where title is not acquired by the county, and for land acquired in fee title for road purposes.	
48	**Taxes and Assessments**	
	Includes taxes and assessments levied against the county by another governmental agency.	

Explanation of Objects and Subobjects		
OTHER CHARGES (continued)		
49	**Depreciation**	
	Includes the recording of expiration in the service life of capital assets, other than wasting assets attributable to wear and tear, deterioration, action of physical elements, inadequacy, and obsolescence.	
50	**Bad Debts**	
	Includes amounts incurred in the current year because of the failure to collect receivables.	
	Include	**Do Not Include** ▪ Hospital contractual allowances; post to a contra-revenue account
51	**Income Allocation**	
	Includes Allocation of net earnings to Deferred Compensation liability account (Deferred Compensation Fund only).	
52	**Contributions to Non-County Governmental Agencies**	
	Includes contributions, grants, subventions, etc., to non-county governmental agencies.	
	Include ▪ Grants to recreation, soil, conservation, air pollution control, and other types of districts ▪ Grants to state agencies for fish and game propagation and predatory animal control ▪ Contributions to cities for lifeguard services ▪ Contributions to the U.S. Forest Service ▪ Disproportionate share	**Do Not Include** ▪ Grants to other county agencies such as internal service, enterprise funds; post to "OTHER FINANCING USES — Transfers Out" ▪ Contributions to non-governmental agencies such as museums and zoos, local celebrations and chambers of commerce, blood banks, PTA milk subsidies; post to "SERVICES AND SUPPLIES — Professional and Specialized Services"
53	**Interfund Expenditure**	
	Include Expenditures resulting from interfund transactions between governmental fund types.	
	May include, but not limited to ▪ Communication ▪ Data processing ▪ Insurance ▪ Maintenance ▪ Professional and specialized services	**Do Not Include**
54	**Debt Issuance Cost**	
	Debit issuance cost, except any portion related to prepaid insurance costs, should be recognized as an expense in the period incurred.	
CAPITAL ASSETS		
60	**Land**	
	Includes expenditures for the acquisition of land; however, land acquired for infrastructure is optional.	
	Include ▪ Appraisal, negotiation, title search, and surveying fees ▪ Cost of obtaining consents and payment for condemnation costs ▪ Filing costs ▪ Clearing land for use ▪ Cost of demolishing or relocating structures	**Do Not Include** ▪ Purchase of right of way where title is not acquired by the county; post to "OTHER CHARGES — Rights-of-Way" Land acquired in fee title for infrastructure purposes if not treated as a capital asset; post to "OTHER CHARGES — Rights-of-way"

Explanation of Objects and Subobjects		
CAPITAL ASSETS (continued)		
61	**Buildings and Improvements**	
	Includes expenditures for the acquisition of structures and improvements.	
	Include ▪ Architect fees ▪ Costs of permits and licenses ▪ Condemnation costs ▪ Insurance during construction ▪ Costs of fixtures attached to and forming a permanent part of structures ▪ Major alterations or improvements of existing structures ▪ Non-removable leasehold improvements ▪ Landscaping ▪ Pipelines ▪ Wells ▪ Pavement ▪ Sewers ▪ Drains ▪ Fences ▪ Dams	**Do Not Include**
62	**Equipment**	
	Includes expenditures for the acquisition of physical property of a permanent nature, other than land, buildings and improvements, and infrastructure.	
	Include ▪ Freight or other carriage charges ▪ Sales, use, and transportation taxes ▪ Installation costs	**Do Not Include**
63	**Infrastructure**	
	Includes expenditures for land and structures for networks and subsystems not classified as buildings or building improvements.	
	Include ▪ Roads ▪ Bridges ▪ Tunnels ▪ Drainage systems ▪ Water and sewer systems ▪ Dams ▪ Lighting systems ▪ Sidewalks, walkways, etc.	**Do Not Include**
64	**Intangible Assets**	
	Includes nonphysical assets that have a useful life of greater than one year.	
	Include ▪ Trademarks ▪ Internet domain names ▪ Noncompetition agreements ▪ Order backlog ▪ Licensing agreements ▪ Broadcast rights ▪ Use rights ▪ Trade secrets ▪ Computer software ▪ Literary works, etc.	**Do Not Include**

Explanation of Objects and Subobjects	
OTHER FINANCING USES	
70	**Transfers-Out**
	Includes flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. It is recommended that interfund accounts or subaccounts be used to identify and control interfund activity. Having such activity identified separately will be useful when preparing consolidated financial reports that require interfund eliminations (e.g. the State Controller's Office *Counties Financial Transactions Report* and governmental GAAP compliant financial statements).
SPECIAL ITEMS	
80	**Special Items**
	Includes significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.
81	**Extraordinary Items**
	Includes transactions or other events that are both unusual in nature and infrequent in occurrence.
INTRAFUND TRANSFERS	
90	**Intrafund Transfers**
	Intrafund transfers are included as appropriate increases/decreases to revenues or expenditure accounts. These are optional transfers of costs between budget units in the same governmental type fund. The account is used to distribute central staff costs to operating departments for budgetary and internal operating statements purposes. In all cases: ▪ the amounts should be supported by justifiable cost allocations or cost accounting calculations; and ▪ the transfer may be shown as a single amount under (an increase for the receiving budget unit, a decrease for the servicing unit) or as a decrease of a single amount in expenditures for the servicing unit and an increase in each appropriate expenditure account of the receiving unit.
APPROPRIATION FOR CONTINGENCIES	
100	**Appropriation for Contingencies**
	A budgetary provision representing that portion of the financing requirements set aside to meet unforeseen expenditure requirements.

7.08 Alphabetical Index of Expenditures with Subobject Classification

Many of the items of expenditures shown in the preceding index are coded with more than one subobject. The proper classification for each of these items is dependent on its use. For example, an air filter pad purchased for use on a portable air conditioning unit should be posted to "Maintenance — Equipment (Account No. 17)"; an air filter pad used in a built-in air conditioner should be posted to "Maintenance — Buildings and Improvements (Account No. 18)".

When an item is purchased in quantity and will be used for more than one purpose, the expenditure should be posted to the account that properly reflects the major purpose for which the item is to be used. For example, a cylinder of acetylene gas may be purchased primarily for use in maintaining buildings. Although some of the gas may be used in the maintenance of equipment, the entry amount of the expenditures should be charged to "Maintenance — Buildings and Improvements (Account No. 18)".

Food, clothing, and related items purchased for indigent persons or others for whom the county has assumed the burden of support and who are not housed in county facilities should be charged to "Support and Care of Persons (Account No. 40)", rather than the subobject indicating the purpose of the expenditure.

Many items are coded as both "Services and Supplies" and "Capital Assets". The determination as to the proper account classification should be made by applying the capital asset policy.

Expenditures for items not included in this index should be posted to one of the subobject accounts such as "Special Departmental Expense (Account No. 28)" or "Miscellaneous Expense (Account No. 21)".

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CHAPTER 8 SPECIFIC ACCOUNTING PROCEDURES

Policy Applications

8.01 Investments

Investments should generally be reported on the balance sheet at fair value. Exceptions to this general requirement are set forth in GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The exceptions include, but are not limited to, investments in non-participating investment contracts (reported at cost) and certain short-term money market investments (reported at amortized cost). Investment income includes interest (at stated rates), dividends, and the change in the fair value of investments. Components of the change in fair value computation include amortization of premiums and discounts, gains and losses on the sale of investments, and changes in the fair value of items held at the balance sheet maturity date.

Example:

Computation of Change in Fair Value — Specific Identification Method

Computation of Change in Fair Value — Specific Identification Method							
		Fair Value					
		A	B	C	D	E	F
Security	Cost	Beginning Fair Value 7/1/20X2	Purchases	Sales	Subtotal	Ending Fair Value 6/30/20X3	Change in Fair Value
1	$ 100	$ 120	$ ---	$ 110	$ 10	$ ---	$ (10)
2	520	510	---	---	510	550	40
3	330	315	---	330	(15)	---	15
4	310	---	310	---	310	300	(10)
Total		**$ 945**	**$ 310**	**$ 440**	**$ 815**	**$ 850**	**$ 35**

Computation of Change in Fair Value — Aggregate Method

Computation of Change in Fair Value — Aggregate Method	
Fair value at June 30, 2X03	$ 850
Add: Proceeds of investments sold or maturing	440
Less: Cost of investments purchased	(310)
Fair value at July 1, 2X02	(945)
Change in fair value of investments	$ 35

Although presentation at fair value is required for financial statement purposes, GASB Statement No. 31 does not require treasurers to actually compute and distribute investment earnings using the same approach. Accordingly, care must be taken to properly account for the differences between the treasurer's distribution approach and the approach required by GASB Statement No. 31. In some years, GASB Statement No. 31 revenue recognition standards will include investment income, which will not be available in the form of cash unless the treasurer liquidates the investment portfolio. In other years, the GASB Statement No. 31 revenue recognition standards will reduce investment income even though cash availability is not decreased in a like manner.

Because of differences between the treasurer's investment earnings computation and distribution methods and the investment earnings computed pursuant to GASB Statement No. 31, and because the GASB Statement No. 31 method can introduce significant year-to-year volatility in earnings which cannot be reasonably estimated in advance, counties should carefully consider the fiscal impacts of changes in fair value when adopting budgets and in related budgetary accounting. Budgeting in accordance with GASB Statement No. 31 is not required.

8.02 Premium/Discount and Accrued Interest on Notes and Bonds Issued

For governmental fund types, premiums from the issuance of notes and bonds should be accounted for as an "other financing source" and should not be amortized. Accrued interest received upon the sale of notes or bonds is not considered an "other financing source," but should be recorded as "accrued interest payable." Premiums should be recorded in the governmental fund as determined by the governing body if there is no legal requirement that mandates how the premium is to be treated. Accrued interest should be recorded in the governmental fund that is responsible for servicing the long-term debt. Also, all long-term notes and bonds should be recorded in the debt accounting records, including premiums and discounts.

Example

Bonds are issued for capital projects with a face value of $100,000 and were sold at a premium for $105,000 and with accrued interest of $2,000. It is assumed that a *Debt Service Fund* will make the principal and interest payments over the life of the debt and there is no legal requirement that mandates how the premium is to be treated. The governing body has decided to make the premium available to the *Debt Service Fund*.

Account	Debit	Credit
Capital Projects Fund		
Cash	100,000	
Other Financing Source — bond proceeds		100,000

Account	Debit	Credit
Debt Service Fund		
Cash	7,000	
Other Financing Source — Premium on bonds sold		5,000
Accrued Interest Payable		2,000

Discounts should be accounted for using the net method. Under this method, the discount is recognized in the year of debt issuance by recording only the net proceeds (face value less discount). As with premiums, discounts should not be amortized.

Example

Bonds are issued for capital projects with a face value of $100,000 and were sold at a discount for $98,000

Account	Debit	Credit
Capital Projects Fund		
Cash	98,000	
Other Financing Source — bond proceeds		98,000

8.03 Reverse Repurchase Agreement

Reverse Repurchase Agreement - an agreement in which a broker-dealer or financial institution (buyer-lender) transfers cash to a governmental entity (seller-borrower); the entity transfers securities to the broker-dealer or financial institution and promises to repay the cash plus interest in exchange for the same securities.

The assets and liabilities arising from reverse repurchase agreements should not be netted on the balance sheet.

- Cash received under these transactions is reported as an asset.
- Securities transferred to the broker-dealer or financial institution is reported as an asset.
- Liabilities are reported under the caption "Obligations under reverse repurchase agreements."
- Interest costs of reverse repurchase agreements are reported as interest expenditures.

The interest costs should not be netted with interest earned on any related investments.

If the county pools money from several funds for investment purposes and the pool rather than the individual funds has reverse repurchase agreements, the county should report the assets and liabilities arising from the agreements in the balance sheets of the funds that have the risk of loss on those assets. In many cases, this will involve a pro-rata allocation to the various funds based on their equity in the pool. Similarly, the income and costs arising from pooled reverse repurchase agreements should be reported in the operating statements of the funds.

For additional information, refer to GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements* and GASB Interpretation No. 3, *Financial Reporting for Reverse Repurchase Agreements—an interpretation of GASB Statement No. 3*.

8.04 Securities Lending Transactions

Securities Lending Transactions - transfers of securities to broker-dealers and other entities made for collateral—which may be cash, securities, or letters of credit—with a simultaneous agreement to return the collateral for the same securities in the future.

Significant items of note in regard to these type of transactions are listed below:

- Cash received as collateral on securities lending transactions and investments made with this cash is reported as an asset if the county has the ability to pledge or sell them without a borrower default.
- Liabilities resulting from these transactions should be reported in the balance sheet.
- Securities transferred to broker-dealers and other entities should be reported as assets in the balance sheet.
- Securities lending transactions collateralized by letters of credit or by securities that the county does not have the ability to pledge or sell unless the borrower defaults should not be reported as assets and liabilities.
- Costs of securities lending transactions, such as borrower rebates (interest costs) and agent fees should be reported as expenditures or expenses.

These costs should not be netted with interest revenue or income from the investment of cash collateral, any other related investments, or loan premiums or fees.

If the county pools money from several funds for investment purposes and the pool, rather than the individual funds, has securities lending transactions, the county should report the assets and liabilities arising from the securities lending transactions in the balance sheets of the funds that have the risk of loss on the collateral assets. In many cases, this will involve a pro-rata allocation to the various funds based on their equity in the pool. Similarly, the income and costs arising from pooled securities lending transactions should be reported in the operating statements of the funds.

For additional information, refer to GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*.

8.05 Derivative Instruments

Derivative Instruments - financial arrangements with values or cash payments that are based on what happens in separate transactions or agreements and have all of the following characteristics:

- Settlement factors - the financial arrangement is able to be settled early with a cash payment or transfer of an equivalent asset. The settlement factors can be based on various interest rate indexes, security index benchmarks, or other specific events.
- Leverage - the financial arrangement requires minimal or no initial investment or cash payment on the part of the governmental entity, but the agreement achieves changes in fair value that would have required a far larger initial investment.
- Net Settlement - its terms require or permit net settlement; it can readily be settled net by a means outside the contract, or it provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

The most common examples of derivatives for governmental entities are interest rate swaps, interest rate lock agreements, or futures contracts. Some governments may restrict investment in these derivatives; refer to the government entity's investment policy for eligible derivative investments.

- Interest Rate Swaps - contracts or agreements that have a variable payment based on the price of an underlying interest rate or index.
- Interest Rate Locks - contracts that allow one party to fix an interest rate for the specified period of time. This instrument is typically used when a governmental entity is worried about increases in interest rates before long term bonds can be sold to finance a project.
- Future Contracts - exchange-traded securities to buy or sell a security, commodity, foreign currency, or other financial instrument at a certain future date for a specific price. A futures contract obligates a buyer to purchase the commodity or financial instrument and a seller to sell it, unless an offsetting contract is entered to offset one's obligation.

Other less common derivatives for governmental entities include commodity swaps, forward contracts, and options.

The fair value of derivatives should be reported in the statement of net assets of the government-wide, proprietary fund, and fiduciary fund statements.

The changes in the fair value of the hedging derivative instruments are deferred in the statement of net assets, and will not affect current investment revenue. Fair market value of derivatives can be derived from market price if there is an active market for the derivative instrument, or discount of expected future cash flows.

If the derivative fails to effectively hedge the identified risk, then the change in fair value of the derivative instrument is reported immediately as investment income or loss in the statement of activities, the statement of revenues, expenses, and changes in fund net assets and the statement of changes in fiduciary net assets.

GASB Statement No.53, *Accounting and Financial Reporting for Derivative Instruments,* outlines four methods for evaluating hedge effectiveness:

1. Consistent Critical Terms Method
2. Synthetic Instrument Method
3. Dollar Offset Method
4. Regression Analysis Method

Other methods that are based on established principles of financial economic theory are also allowed.

For additional information, refer to GASB Statement No. 53.

8.06 Inventories — Consumption Method

In the consumption method of inventory accounting, expenditures are recorded when the supplies are used. This method has particular application in stores where a physical control is maintained over the storage and there is issuance of a significant quantity of supplies. This is often the case with the purchasing agents, agricultural commissioners, and hospitals. Ordinarily, supplies to be used by departments in their normal operations are charged directly to the appropriate account at the time of purchase (purchase method). The consumption method is recommended when:

a. Supplies are purchased primarily for resale or reissue to other departments.
b. Differences between the purchase and usage of supplies could be sufficiently material to distort the operating picture.
c. The inventory on hand represents a significant investment.

Purchases for inventory are charged to the asset account *Inventory*, and also to subsidiary accounts if several inventories are maintained. When supplies are withdrawn from inventory for use, the *Inventory* account is credited and the proper expenditure account is charged in the budget unit receiving the supplies. After each posting cycle the *Inventory* account reflects the "book balance" of supplies on hand. This balance should be adjusted to the actual balance whenever a physical inventory discloses a difference. Physical inventories should be taken at least annually and preferably more often.

Normal operating shortages and overages are credited and debited, respectively, to the *Inventory* account. The offsetting entry is to the *Miscellaneous Expense* account of the budget unit controlling the inventory. Write-downs because of obsolescence are accounted for in the same manner as shortages.

Example*:*

The purchasing agent maintains a stores account for office supplies in the *General Fund*. As of July 1, the inventory is $5,000.

a) $15,000 of supplies are purchased for inventory.

Account	Debit	Credit
Inventory	15,000	
Cash		15,000

b) Supplies are issued to General Fund departments, including the purchasing agent.

Account	Sub	Debit	Credit
Expenditures		14,500	
Inventory			14,500
Tax Collector Office Expense	3,500		
Assessor Office Expense	6,500		
Treasurer Office Expense	4,000		
Purchasing Agent Office Expense	500		

c) Supplies are issues to the *Library*, a separate fund.

Account	Sub	Debit	Credit
General Fund			
Cash		1,500	
Inventory			1,500
Library Fund			
Expenditures		1,500	
Cash			1,500
Library Office Expense	1500		

d) At June 30, the physical inventory was $3,900. The book inventory was $4,000 [($5,000 + 15,000) - 16,000]

Account	Sub	Debit	Credit
Expenditures		100	
Inventory			100
Purchasing Agent Miscellaneous Expense	100		

8.07 Inventories — Purchases Method

Using the purchases method of accounting, purchases are recorded as expenditures when acquired, regardless of when they are used. The expenditure account must clearly indicate the nature of the inventory (i.e., Office Equipment, Agriculture, etc.) used. All material inventories must be reported, regardless of whether the purchases or consumption method is used.

With the purchases method, reported inventories must be offset by the *Non-Spendable Fund Balance-Inventory* account. The amounts involved were charged as expenditures when they were acquired and cannot be expended again. This account indicates that the inventories reported under the purchases method do not represent "available spendable resources" even though they are a component of the net current assets.

<u>Example</u>

a) Purchases of office supplies totaling $3,000 are made.

Account	Debit	Credit
Office Supplies	3,000	
Cash		3,000

b) Inventories of office supplies are $5,000 at the beginning of the year and offset by a *Non-Spendable Fund Balance-Inventory* amount of $2,500 at year-end.

Account	Debit	Credit
Nonspendable Fund Balance-Inventory	2,500	
Inventory of Office Supplies		2,500

8.08 Fund Balance

For governmental fund types, the fund balance is the equity section of the balance sheet. The fund balance is classified into five segments: *Nonspendable, Restricted, Committed, Assigned, and Unassigned*. These classifications provide a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts can be spent. Depending on the type of fund, each organization must choose the appropriate fund balance classification that meets its needs.

Example

Fund Balance Section	
Fund Balance:	
Nonspendable Fund Balance — Receivables	$ 20,000
Nonspendable Fund Balance — Due From Others	10,000
Nonspendable Fund Balance — Advances to Other Funds	15,000
Nonspendable Fund Balance — Inventory	5,000
Nonspendable Fund Balance — Prepaid Items	3,000
Committed Fund Balance — Encumbrances	30,000
Committed Fund Balance — Acquisition of Vehicles	7,000
Unassigned Fund Balance	100,000
TOTAL FUND BALANCE	$ 190,000

8.09 Provisions

Not all governmental-type fund budget requirements are classified as financing uses. Amounts may be classified for certain purposes without an accompanying authority to expend. Examples are amounts budgeted to create, increase, or decrease balances in non-spendable, restricted, committed or assigned fund balance. The term *provision* is used in reference to this type of budget requirement to distinguish it from an appropriation. All provisions must be separately set forth in the budget document.

Example

Budgetary provisions are required in the general fund:

- To finance an increase in receivables of $25,000;
- To establish a fund balance assignment for litigation of $40,000 ; and
- To make a long-term loan of $30,000 to the Printing Internal Service Fund.

The estimated revenues are $985,000 and the appropriations are $1,000,000.

a) Recommended Method:

A balanced set of budgetary accounts is maintained:		
Estimated Revenues	985,000	
Budgetary Unassigned Fund Balance	110,000	
Appropriations		1,000,000
Budgetary Nonspendable Fund Balance — Accounts Receivable		25,000
Budgetary Nonspendable Fund Balance — Advances to ISF		30,000
Budgetary Assigned Fund Balance — Litigation		40,000
(To record the budget adopted for the fiscal year ending June 30,20X1)		

Concurrent entries to the actual accounts are:		
Unassigned Fund Balance	95,000	
Nonspendable Fund Balance — Accounts Receivable		25,000
Nonspendable Fund Balance — Advances to ISF		30,000
Assigned Fund Balance — Litigation		40,000
To record the changes to the fund balances approved in the budget adoption)		

NOTES:

1. The unassigned fund balances are equal at the beginning of the fiscal year; however, with the initial entry to the actual accounts, the budgetary account remains $110,000 while the actual account is reduced to $15,000
2. The total fund balances are not equal
3. The budgetary unassigned fund balance accounts may not equal the actual accounts
4. The actual unassigned fund balance in the general ledger could be negative

b) Alternate Method:

The budgetary accounts are integrated with the actual accounts:		
Estimated Revenues	985,000	
Unassigned Fund Balance	110,000	
Appropriations		1,000,000
Nonspendable Fund Balance — Accounts Receivable		25,000
Nonspendable Fund Balance — Advances to ISF		30,000
Assigned Fund Balance — Litigation		40,000
(To record the budget adopted for the fiscal year ending June 30, 20X1)		

The fund balance section as of June 30, 20X1, showed:	
Fund Balance	
Nonspendable Fund Balance — Accounts Receivable	$ 40,000
Nonspendable Fund Balance — Inventory	30,000
Restricted Fund Balance — Encumbrances	10,000
Committed Fund Balance — Acquisition of Vehicles	20,000
Assigned Fund Balance — Litigation	40,000
Assigned Fund Balance — Long-Term Allowance	30,000
Unassigned Fund Balance	15,000
TOTAL FUND BALANCE	$ 185,000

8.10 General Reserves

The General Reserve is also not appropriable. It usually represents a resource restriction to provide for dry period financing.

- Establishment— The general reserve is established during the budget process primarily to provide dry period financing.
- Adjustment—The general reserve may only be adjusted during the annual budget adoption process except as provided for in Government Code section 29086.
- Use—The general reserve is not available for estimated financing requirements except during a legally declared emergency as defined in Government Code section 29127.
- Accounting—The "reserve" portion of the fund should be accounted for in the fund balance classification section.

For financial reporting purposes, the general reserves should be reclassified as restricted, committed, or assigned fund balance dependent upon the constraints placed on those resources. General reserves established in a general fund without specific purpose constraints should be reclassified as unassigned fund balance.

Example

a) To record a budgeted increase in the reserve:

Account	Debit	Credit
Budgetary Restricted/Committed Fund Balance — General Reserve	200,000	
Budgetary Unassigned Fund Balance		200,000
Unassigned Fund Balance	200,000	
Restricted/Committed Fund Balance — General Reserve		200,000

b) To make available for emergency expenditures:

Account	Debit	Credit
Restricted/Committed fund balance — General Reserve	50,000	
Unassigned fund Balance		50,000
Budgetary Unassigned fund balance	50,000	
Appropriations		50,000

8.11 Stabilization Arrangements

These represent formal arrangements to maintain amounts for budget or revenue stabilization, working capital needs, contingencies or emergencies, and other similarly titled purposes. The authority to set aside these amounts generally comes from statute, ordinance, resolution, charter, or constitution. Stabilization amounts may be expended only when certain specific circumstances exist and those circumstances should be such that they would not be expected to occur routinely. Stabilization funds can be classified as either restricted or committed fund balance if they meet the criteria; if the criteria are not met, then stabilization arrangements should be reported as unassigned. A special revenue fund may be used for stabilization arrangements when the special revenue fund criteria is met.

- Establishment — Stabilization arrangements are established and adjusted by the County Board of Supervisors.

Example

a) To record a budgeted increase in the stabilization arrangement:

Account	Debit	Credit
Budgetary Restricted/Committed Fund Balance — Stabilization Arrangement	100,000	
Budgetary Unassigned Fund Balance		100,000
Budgetary Unassigned Fund Balance	100,000	
Restricted/Committed Fund Balance — Stabilization Arrangement		100,000

b) To make available for expenditures:

Account	Debit	Credit
Restricted/Committed fund Balance — Stabilization Arrangement	30,000	
Unassigned fund balance		30,000
Unassigned fund balance	30,000	
Appropriations		30,000

8.12 Nonspendable, Restricted, and Committed Fund Balance

This section covers only governmental-type funds. Proprietary-type funds follow commercial practice. Nonspendable, Restricted, and Committed Fund Balance indicate that portion of the fund balance which is not available for appropriation until some action has occurred internally or externally and as defined below.

Nonspendable Fund Balance

This area includes nonspendable fund balance established to offset those balance sheet assets which are not available to meet expenditure requirements during the year. They include imprest cash accounts, loans and notes receivables (long-term), inventories, deposits with others, prepaid expenses, and advances to other funds.

- Entries — Budgetary accounts are recorded when the budget is adopted and the budgeted changes to the actual accounts are recorded at the same time. During the year, adjustments are made to both budgetary and actual accounts when they are officially recognized.
- Adjustments — The various actual nonspendable fund balance accounts and the available fund balance should be reflected on the interim financial statements. However, these adjustments should be performed on work papers. The general ledger is adjusted only at year-end.

Budgetary fund balance may be inadequate to meet the anticipated actual nonspendable fund balance requirements. In such cases, the budgetary fund balance must be increased by transfers from other financing requirements or, if possible, be augmented by the unanticipated financing provisions.

Example

A five-year $10,000 loan is to be made to a county service area. The budget contains no provision for this item.

a) To provide for the loan:

Account	Debit	Credit
Budgetary Committed Fund Balance — Contingencies	10,000	
Budgetary Nonspendable Fund Balance — Advances to CSA		10,000
Unassigned Fund Balance	10,000	
Nonspendable Fund Balance — Advances to CSA		10,000
(To record provisions for loaning $10,000 to CSA XYZ)		

b) To make the loan:

Account	Debit	Credit
Advances Receivable	10,000	
Cash		10,000
(To record a loan to CSA XYZ)		

Future budgets then release "Budgetary Nonspendable Fund Balance" by such amounts as will be repaid during the fiscal year covered by the budget.

Restricted Fund Balance

Restricted fund balance should be used when constraints placed on the use of resources are either imposed by external parties, constitutional provisions, or enabling legislation.

Restricted fund balance classifications are established to offset those balance sheet assets which are not available to meet expenditure requirements during the year. They include limitations imposed externally by creditors, grantors, contributors, or laws or regulations of other governments.

- Entries — Budgetary accounts are recorded when the budget is adopted and the budgeted changes to the actual accounts are recorded at the same time. During the year, adjustments are made to both budgetary and actual accounts when they are officially recognized.
- Adjustments — The various actual restricted accounts and the available fund balance should be reflected on the interim financial statements. However, these adjustments should be performed on work papers. The general ledger is adjusted only at year-end.

Budgetary fund balance may be inadequate to meet the anticipated actual restricted requirements. In such cases, the budgetary fund balance must be increased by transfers from other financing requirements or, if possible, be augmented by the unanticipated financing provisions.

Example

a) To record a budgeted increase in the Debt Service Fund:

Account	Debit	Credit
Budgetary Restricted fund balance — Debt Service	100,000	
Budgetary Assigned fund balance		100,000
Assigned fund balance	100,000	
Restricted fund balance — Debt Service		100,000
(To record an increase to Debt Service Fund)		

Committed Fund Balance

Amounts that are constrained for a specific purpose by a government using its highest level of decision-making authority should be classified as committed fund balance. The formal action of the government's highest level of decision-making authority that commits fund balance should occur prior to the end of the reporting period, but the amount, if any, which will be subject to the constraint, may be determined in the subsequent period.

Committed fund balance classifications are established to offset those balance sheet assets which are not available to meet expenditure requirements during the year. They include limitations imposed internally like enabling legislation approved by the Board of Supervisors.

- *Entries* - Budgetary accounts are recorded when the budget is adopted and the budgeted changes to the actual accounts are recorded at the same time. During the year, adjustments are made to both budgetary and actual accounts when they are officially recognized.
- *Adjustments* - The various actual committed accounts and the available fund balance should be reflected on the interim financial statements. However, these adjustments should be performed on work papers. The general ledger is adjusted only at year-end.

Budgetary fund balance may be inadequate to meet the anticipated actual committed requirements. In such cases, the budgetary fund balance must be increased by transfers from other financing requirements or, if possible, be augmented by the unanticipated financing provisions.

Nonspendable, Restricted, and Committed Fund Balance should not be accounted for as liabilities, reductions of assets, or in a separate section between liabilities and fund balance. Where part of the fund balance is nonspendable, restricted, or committed the remainder should be reported as assigned or unassigned.

8.13 Assigned Fund Balance

Assigned fund balance are restrictions on the unassigned fund balance and are established to indicate tentative plans for financial resource utilization in future periods. These include aggregation of resources for equipment replacement, capital projects, and capital asset acquisition not subject to accrual, which are expected to develop in future periods.

- *Entries* - Budgetary accounts are recorded when the budget is adopted and the budgeted changes to the actual accounts are recorded at the same time. During the year, adjustments are made to both budgetary and actual accounts when they are officially recognized.
- *Adjustments* - As a general rule, assigned fund balance is available to be committed for financing uses during the current fiscal year or transfers may be re-assigned. These may be changed during the budget process.

When there is no longer a need for a specific assigned fund balance, the government may make all or a portion of the assigned fund balance available for other financing requirements which may require a four-fifths vote.

Restricted or committed fund balance may also be made available for emergency financing uses (see Section 8.12*, Nonspendable, Restricted,* and *Committed Fund Balance*)

8.14 Unassigned Fund Balance

Unassigned fund balance is the residual classification of amounts not classified as nonspendable, restricted, committed or assigned in the general fund. The general fund is the only fund that would report a positive amount in the unassigned fund balance.

- *Entries* - The budgetary unassigned fund balance is initially set up when recording the adopted budget. The actual accounts are changed at the same time to reflect the board's action.
- *Adjustments* - Changes in actual fund balance classifications can result from variations between estimates and actual, mid-year audit adjustments, etc. These result in changes to the prior-year actual accounts involved, including the available fund balance. When this occurs, the budgetary available fund balance must be adjusted. The contra entry would be a reduction in the budgetary available financing.

Example

As a result of an audit, it was determined that the expenses for 20X1 were understated by $100,000. The actual accounts for 20X1 are adjusted and the correction is reflected in the financial statement.

The entry in the 20X2 books would be:

Account	Debit	Credit
Assigned Fund Balance — Contingencies	100,000	
Unassigned Fund Balance		100,000
(To record 20X1 audit adjustments affecting the available fund balance)		

If the changes resulted in a material increase in the available fund balance, the estimated financing requirements could be increased using the provisions for unanticipated available financing.

8.15 Appropriation for Contingencies

Budgetary provisions for financing requirements to meet unforeseen expenditure requirements may be included with the individual funds.

Each fund may include within its total financing requirements an appropriation for contingencies. Subject to legal restrictions, this account may be utilized to increase specific appropriations as the need arises. Similarly, the appropriation for contingencies may be increased by transfers from specific appropriations or from unanticipated financing sources.

As do specific appropriations, the appropriation for contingencies expires at fiscal year-end. Appropriations for contingencies are limited in amount by the *County Budget Act* (see *Appendix B*).

Examples:

1) To record establishment of the appropriation in the budget:

   General fund appropriations of $2,000,000 include a $100,000 appropriation for contingencies, to be financed by an available fund balance of $250,000 and estimated revenues of $1,750,000.

Account	Debit	Credit
Estimated Revenues	1,750,000	
Unassigned Fund Balance	250,000	
Appropriations (Specific)		1,900,000
Appropriation for Contingencies		100,000

2) To finance a new appropriation:

   $4,000 is transferred from the “Appropriation for Contingencies” account for the purchase of surplus equipment for the Sheriff.

Account	Debit	Credit
Appropriation for Contingencies	4,000	
Appropriations: Sheriff — Equipment		4,000

3) To cancel another appropriation within the fund:

   The appropriation for a position—never filled—in the Probation Department is cancelled.

Account	Debit	Credit
Appropriations: Probation Department — Salaries and Wages	6,000	
Appropriation for Contingencies		6,000

4) To increase the "Appropriation for Contingencies" account from expendable unanticipated revenue sources:

   $1,500 has been received from services provided under contract which have not been specifically set forth in the budget. This was recorded as revenue when received. The supervisors have voted to increase the contingencies appropriation.

Account	Debit	Credit
Unanticipated Revenue	1,500	
Appropriation for Contingencies		1,500

8.16 Restricted Assets

There are occasions where restriction of assets, primarily cash, is required or prudent. Such action ensures that the resources are available when needed. This could be mandated, as in the case of loan requirements, or optional, as in the case of a capital asset replacement reserve. Restricted assets differ from restricted fund balance in that there is an actual segregation of the asset (the cash is set aside). Restricted fund balance represents external enforceable limitations on fund balance and are not backed by a specific asset.

That portion of the restricted assets that represents non-current commitments should be matched by liabilities or restricted, committed, and/or assigned fund balance as appropriate.

Examples include:

- Cash with fiscal agent
- Customer deposits
- Revenue bond construction account
- Capital asset replacement

8.17 Accrual Basis

The accrual method of accounting recognizes transactions when they occur, regardless of the timing of the related cash flow. Revenues are recognized when earned and expenses when incurred.

8.18 Modified Accrual Basis

The modified accrual basis differs from the accrual basis in that revenues are recognized when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized when incurred, except:

- Inventories may be expenditures when either purchased or used; however, significant inventories should be reported.
- Principal and interest on long-term debt are usually recognized when due.
- Prepaid expenditures extending over more than one accounting period may be accounted for as expenditures when acquired instead of being allocated between accounting periods.

Revenues and other financial resources (e.g., bond issue proceeds) are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. *Available* means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues and other increases in governmental fund financial resources that usually can and should be recorded on the accrual basis include property taxes, regularly billed charges for inspection or other routinely provided services, most grants from other governments and interfund transfers, and other transactions. Fines and forfeitures, golf and swimming fees, inspection charges, parking fees and parking meter receipts, and the vast multitude of miscellaneous revenues are best recognized when cash is received.

Property taxes or other revenues may be collected in advance of the fiscal year to which they apply. Such prepayments should be recorded as deferred revenues and recognized as revenue of the period to which they apply.

In governmental funds, when a county is the lessor in a lease situation, leases receivable should be accounted for through the use of lease receivables and deferred revenues (see Chapter 5*, General Ledger and Budgetary Accounts*). Only that portion of the receivable which represents revenues/other financing sources that are measurable and available should be recognized as such in governmental funds. The remainder of the receivable should be deferred.

8.19 Accrual of Revenues and Expenditures

Revenues and expenditures are accrued in order that the balance sheet may show an accurate picture of financial position and the operating statement a correct accounting of the changes applicable to a given period. This accrual may be performed as often as desired or only at the end of the year. The cost of goods and services received, but for which payment has not been made, is charged to the proper expenditure accounts and the liability recorded.

Judgment should be exercised in performing this step. The blanket accrual of all obligations is unnecessary. Minor regular monthly costs showing little variation in amount, such as most utilities, need not be accrued. An arbitrary dollar limit below which obligations are not accrued, may be set. The policy adopted should be followed consistently from year to year.

Example

At June 30, expenditures are accrued in the General Fund as indicated in the following entry:

Account	Sub	Debit	Credit
Expenditures		730	
Accounts Payable			730
Auditor Office Expense	150		
Board of Supervisors — Professional and Specialized Services	300		
Assessor Special Departmental Expense	280		

An encumbrance is not the equivalent of an accrued expenditure. The former merely classifies as part of an appropriation so that it will be available when the expenditure materializes. Expenditures are increased by accruals, but are unaffected by encumbrances.

8.20 Interfund Activity

Interfund activity within and among the three fund categories (*governmental, proprietary, and fiduciary*) should be classified and accounted for by the appropriate characters of revenue and expenditures/expenses. Below are examples of the different types of interfund activity.

a) Reciprocal interfund activity is the internal counterpart to exchange and exchange-like transactions. It includes (1) loans (including activity previously termed "advances") and (2) interfund services provided and used (that is, interfund sales and purchases, previously described as quasi-external transactions).

(1) Interfund Loans	
Definition	Amounts provided with a requirement for repayment.
Recording and Reporting	Interfund loans should be accounted for as interfund receivables in the lender funds and interfund payables in the borrow funds. The activity should not be reported as other financing sources or uses in the fund financial statements. If repayment is not expected within a reasonable amount of time, the interfund balances should be reduced and the amount that is not expected to be repaid should be reported as a transfer from the fund that made the loan.
Example	The General Fund loans $100,000 to a special revenue fund.

(2) Interfund services provided and used	
Definition	Interfund services are sales and purchases of goods and services between funds for a price approximating their external exchange value.
Recording and Reporting	Interfund services should be accounted for as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts should be reported as interfund receivables and payables in the fund balance sheets or the statement of net assets.
Budgetary Treatment	Estimated amounts of these transactions will be established in the budget process under appropriations and estimated revenues. Midyear budget adjustment procedures are the same as for other estimated revenues and expenditures/expenses.
Control	Control is exercised through comparison of the budgeted amounts with the actual amount in the same manner as estimated revenues and estimated expenditures/expenses.
Example	An internal service fund (Insurance) sells to a General Fund customer.
Note: Transactions must involve at least two separate funds—not general fund to general fund, etc.	

b) Nonreciprocal interfund activity is the internal counterpart to nonexchange transactions. It includes (1) transfers (redefined to include activities previously known as operating transfers and residual equity transfers, and (2) reimbursements.

(1) Interfund Transfers	
Definition	Interfund transfers are flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. This category includes payments in lieu of taxes that are not payments for, and are not reasonably equivalent in value to, services provided.
Recording and Reporting	In governmental funds, transfers should be accounted for as other financing uses in the funds making the transfers and as other financing sources in the funds receiving the transfers. In proprietary funds, transfers should be reported after nonoperating revenues and expenses. It is recommended that interfund accounts or subaccounts be used to identify and control interfund activity. Having such activity identified separately will be useful when preparing consolidated financial reports that require interfund eliminations (e.g. The State Controller's *Counties Financial Transactions Report* and governmental GAAP compliant financial statements.)
Budget Treatment	This activity is reflected in the budget under appropriations, estimated other financing uses, and estimated other financing sources. Midyear adjustments should follow the same procedures established for estimated revenue and expenditures/expenses.
Control	Exercised through comparison of actual amounts with those budgeted.
Examples	▪ One governmental fund gives money to another governmental fund. ▪ The remaining balance in a capital project fund flows to the General Fund. ▪ The General Fund subsidizes the hospital.

(2) Interfund Reimbursements	
Definition	Interfund reimbursements are repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them.
Recording and Reporting	Reimbursements should not be displayed in the financial statements.
Examples	▪ The enterprise fund (Hospital) purchases drugs and the General Fund (Health Services) reimburses the enterprise fund (Hospital) for its portion. ▪ These are reimbursements within a single fund (Intrafund Transfers).

8.21 Long-Term Debt Proceeds

Long-Term Debt Proceeds	
Definition	Long-term debt proceeds are receipts resulting from the sale of long-term notes or bonds.
Recording and Reporting	Long-term debt proceeds for proprietary and trust funds are recorded as fund liabilities. Governmental funds are recorded as Other Financing Sources under captions such as *Bond Issue Proceeds* or *Proceeds of Long-term Notes* in the operating statement.
Control	Control is exercised through the bond indenture, note restrictions, or budget.

8.22 Short-Term Debt Proceeds

Short-Term Debt Proceeds	
Definition	Short-term debt proceeds are receipts resulting from the sale of short-term notes.
Recording and Reporting	Short-term debt proceeds are recorded as "due to" in the liability section of the balance sheet.
Example	An advance payable in six months made to an enterprise fund.

8.23 Depreciation

In governmental-type funds, depreciation of capital assets is not recognized as a cost of the county operation. Since the entire cost of the asset must be regarded as an expenditure of the period in which acquired, it cannot also be treated as an expenditure of subsequent periods. However, where billings to outside parties contain charges for equipment use, depreciation equivalents should be included. Even though depreciation of capital assets is not properly chargeable as an operating expenditure, a replacement designation may be provided for through annual accumulations.

8.24 Unrealized Estimated Revenues

During the year, it may be determined that certain revenue estimates may have been overstated. When such conditions could have a significant effect on the operations, the estimated revenues should be reduced to reflect the anticipated actual revenues for the account(s) involved. At the same time, a corresponding appropriation reduction should be effected.

Where a close program revenue/expenditure correlation is maintained, management may require that the appropriation reductions be in the same organizational unit as the estimated revenue loss.

<u>Example</u>

Charges by the Sheriff's Department for contractual police services to the cities will be $100,000 under the budgeted amount.

Account	Debit	Credit
Appropriations	100,000	
Unrealized Estimated Revenues		100,000
Salaries and Employee Benefits — Sheriff	100,000	
Law Enforcement Services		100,000

8.25 Hospital Accounting

Hospitals are to be accounted for as *enterprise funds*. County hospitals are required to use the accounting system prescribed by the Office of Statewide Health Planning and Development (OHSPD). Copies of the accounting system may be obtained from:

Office of Statewide Health Planning and Development
Accounting & Reporting Systems Section (ARSS)
400 R Street, Suite 250
Sacramento, CA 95811-6213

Other Procedures

8.26 Summary of Accounts

The following accounts are used for budgeting and for the financial statements.

Account Terminology		
	Terms Commonly Used	**Formal Account Title**
Fund Balance (Budgetary Fund Balance)	Fund Balance Classifications (Budgetary Accounts)	Nonspendable Fund Balance - _____ (Budgetary Nonspendable Fund Balance -____)
		Restricted Fund Balance (Budgetary Restricted Fund Balance)
		Committed Fund Balance - _____ (Budgetary Committed Fund Balance - _____)
		Assigned Fund Balance -_____ (Budgetary Assigned Fund Balance -_____)
		Unassigned Fund Balance -_____ (Budgetary Unassigned Fund Balance -_____)
Financing Sources: Available Financing (Estimated Available Financing)	Available Fund Balance (Budgetary Available Fund Balance)	Unassigned Fund Balance -_____ (Budgetary Unassigned Fund Balance -_____)
	Provision Decreases	Decreases in Nonspendable, Restricted, Committed and Assigned Fund Balance accounts [1]
	External Financing Sources (Estimated Financing Sources)	Revenues (Estimated Revenues)
		Other Financing Sources (Estimated Other Financing Sources)
		Transfers-In (Estimated Transfers-In)
Financing Uses: Financing Requirements (Estimated Financing Requirements)	Provision Increases	Increases in Nonspendable, Restricted, Committed and Assigned Fund Balance accounts
	Financing Uses (Estimated Financing Uses)	Expenditures (Appropriations)
		Other Financing Uses (Appropriations)
		Transfers-Out (Estimated Transfers-Out)
Notes: Actual or (Budgetary references in parentheses)		

Fund Balance	
Titles	Budgetary account: Budgetary Assigned Fund Balance or Budgetary Unassigned Fund Balance (General Fund Only) Actual account: Fund Balance
Definition	The fund balance section of governmental-type funds
Control	Available fund balance position
Adjustments	Variations between estimated and actual, midyear audit adjustments, etc., can produce material fund balance changes. Decreases require the board to reduce the budgetary available fund balance and make a corresponding decrease in the available estimated financing requirements. Using the unanticipated available financing procedure increase justifies augmenting the budgetary available fund balance and making a corresponding adjustment in any of the estimated financing requirements components ($^4/_5$ vote)

Available Financing
This term is not to be used in financial statement presentation. Available Financing is the sum of those components that are available to meet the county's financing requirements for the fiscal period involved. The term usually refers to the actual accounts. When it is necessary to differentiate between budgetary and actual accounts, *Estimated Available Financing* is used to denote the budgetary process. *Available Financing* is used to specify the amount that actually was available to support the county's requirements.

Unassigned Fund Balance	
Titles	Budgetary account: Budgetary Unassigned Fund Balance Actual account: Unassigned Fund Balance Common terminology: Available Fund Balance
Definition	The portion of fund equity that is available for financing the budget requirements for the fiscal period involved
Calculation	Unassigned Fund balance less restricted, committed, and assigned equals available fund balance
Control	Maintaining a positive balance
Adjustments	See Fund Balance, Adjustments

External Financing Sources	
Titles	Budgetary account: None Actual account: None Common terminology: External Financing Sources
Definition	Increases in net current assets, excluding expenditure refunds. It is the portion of available financing represented by revenues, other financing sources, and transfers-in
Control	Control of actual vs. estimated component accounts by funding source
Entries	Entries are not made at this level

Revenues	
Titles	Budgetary account: Estimated Revenues Actual account: Revenues
Definition	Increases in net current assets from sources other than expenditure refunds, other financing sources and transfers-in
Control	Comparison of actual vs. estimated by funding source
Entries	The actual accounts follow the modified accrual basis. The budgetary accounts are recorded upon budget adoption and adjusting budgetary entries when they are officially recognized
Recording Level	Account or subaccount
Anticipated or actual material decreases in other financing sources require the board to reduce the budgetary accounts involved and made a corresponding reduction in the available estimated financing requirements. (Also see Nonspendable, Restricted, Committed and Assigned Fund Balance) If the legal requirements are met, anticipated or actual material increases may be treated as unanticipated available financing. This permits augmenting the accounts involved and corresponding increases in any of the estimated financing requirements ($^4/_5$ vote).	

Other Financing Sources	
Titles	Budgetary account: Estimated Other Financing Sources Actual account: Other Financing Sources
Definition	Income resulting from long-term debt proceeds, Transfers in, and material proceeds of capital asset dispositions
Control	Comparison of actual vs. estimated by funding source
Entries	The actual accounts follow the modified accrual basis. The budgetary accounts are recorded upon budget adoption and adjusted budgetary entries when they are officially recognized.
Recording Level	Account or subaccount
Anticipated or actual material decreases in other financing sources require the board to reduce the budgetary accounts involved and make a corresponding reduction in the available estimated financing requirements. (Also see Nonspendable, Restricted, Committed, and Assigned Fund Balance) If the legal requirements are met, anticipated or actual material increases may be treated as unanticipated available financing. This permits augmenting the accounts involved and corresponding increases in any of the estimated financing requirements ($^4/_5$ vote).	

Financing Requirements
This term is not used in financial statement presentation. Financing Requirements is the sum of those components that constitute the dollar cost of implementing the county's operating plan. The term usually refers to the actual accounts. When it is necessary to differentiate between budgetary and actual accounts, *Estimated Financing Requirements* is used to denote the budgetary process and "*Financing Requirements* is used to specify the amount actually used.

Financing Uses	
Titles	Budgetary account: None Actual account: None Common terminology: Financing Uses
Definition	Decreases in net current assets, excluding expenditure refunds; the portion of financing requirements represented by expenditures, other financing uses, and transfers out
Control	Control at the component level of actual vs. estimated
Entries	Entries are not made at this level

Expenditures	
Titles	Budgetary accounts: Appropriations (estimated expenditures) Actual accounts: Expenditures
Definition	Decreases in net current assets, except expenditure transfers, other financing uses, and transfers-out
Control	By object level within each budget unit
Entries	Actual accounts follow the modified accrual basis Budgetary accounts are recorded upon adoption of the budget and adjusted budgetary entries when they are officially recognized
Recording level	Account of subaccount within a budget unit
With board approval and within a fund, transfers may be made among the various object levels. Estimated other financing uses may be increased based on unanticipated available financing ($^4/_5$ vote). (Also see Nonspendable, Restricted, Committed and Assigned Fund Balance)	

Other Financing Uses	
Titles	Budgetary account: Appropriations (Estimated other financing uses) Actual account: Other Financing Uses
Definition	Transfers-out
Control	Transfers-out within each budget unit
Recording level	Account or subaccount within a budget unit
Entries	Actual accounts follow the modified accrual basis. Budgetary accounts are recorded upon adoption of the budget and adjusting budgetary entries when they are officially recognized
With board approval and within a fund, transfers may be made among the various object levels. Estimated other financing uses may be increased based on unanticipated available financing ($^4/_5$ vote}. (Also see Nonspendable , Restricted, Committed, and Assigned Fund Balance)	

Appropriation for Contingencies	
Titles	Budgetary account: Appropriations (Appropriation for Contingencies) Actual account: None
Definition	A budgetary provision representing that portion of the financing requirements set aside to meet unforeseen expenditure requirements
Control	The object level within each budget unit
Recording level	Account or subaccount within a budget unit
Entries	Accounts are recorded upon adoption of the budget and adjustments when they are officially recognized
With board approval and within a fund, transfers may be made to other object levels. Increases in contingency appropriations may be made based on unanticipated available financing ($^4/_5$ vote). (Also see Nonspendable, Restricted, Committed, and Assigned Fund Balance)	

Budgetary and Actual Accounts Procedures Chart

A Budgetary and Actual Accounts Procedures Chart is on the following pages for guidance.

The available financing (financing sources) account represents amounts available to meet financing requirements. To differentiate between budgetary and actual accounts, use *Estimated Available Financing* and *Actual Available Financing*.

Budgetary and Actual Accounts Procedures Chart				
Common Terminology	**Fund Balance**		**Available Fund Balance**	
Budgetary Account Title	Budgetary Fund Balance		Budgetary Fund Balance Unassigned	
Common Terminology	Fund Balance		Fund Balance Unassigned	
Definition	Equity Portion		Equity portion available to finance requirements	
Control	Available Fund Balance		Maintain Positive Balance	
Adjustments	Adjust to reflect difference between estimated and actual, audit adjustments, etc. Decreases require reductions to/increase may permit addition to certain sources and requirements accounts			
External Financing Sources				
Common Terminology	**Revenues**	**Other Financing Sources**	**Transfers-In**	**Fund Balance Classifications**
Budgetary Account Title	Estimated Revenues	Estimated Other Financing Sources	Estimated Transfers-In	See Financing Requirements and Fund Balance Classification Requirements
Actual Account Title	Revenues	Other Financing Sources	Transfers-In	These are balance sheet accounts that reduce the available fund balance
Definition	Increases in net current assets, excluding expenditure refunds, other financing sources and residential equity transfers-in	Proceeds of long-term debt, operating transfers-in, and fixed asset dispositions	The internal counterpart to nonexchange transactions; includes interfund transfers and reimbursements	Planned increases are budgetary requirements; planned decreases are available financing
Control	Comparison of actual vs. estimate by funding source			
Entire	Budgetary accounts — On budget adoption; adjustments when recognized. Actual accounts — Follow modified accrual basis			
Adjustments	Anticipated or actual — Reductions require decreasing appropriate sources accounts and an equal reduction in certain requirement accounts; increases may justify appropriate sources and requirements augmentation ($^4/_5$ vote)			
Financing Uses				
Common Terminology	Expenditures	Other Financing Uses	Transfers-Out	
Budgetary Account Title	Appropriations *(estimated expenditure)*	Appropriations *(estimated other financing uses)*	Appropriations *(estimated Transfers-Out)*	
Actual Account Title	Expenditure	Other Financing Uses	Transfers-Out	
Definition	Decreases in net current assets from S&EB, S&S other charges, F.A.	Transfers-Out	The internal counterpart to nonexchange transactions; includes interfund transfers and reimbursements	
Control	BY the object level in each budget unit			
Entries	Budgetary accounts — On budget adoption; adjustments when recognized Actual Accounts — Follow modified accrual basis			
Adjustments	Within a fund, and with exception noted for certain fund balance classifications: 1) Transfers may be made with other financing requirements 2) Actual or anticipated reductions in available financing require decreases in financing requirements 3) Useable unanticipated available financing permits increases in financing requirements. Certain fund balance classifications are legally or contractually restricted and may be used only for their specified purposes, except for legally declared emergencies (*stabilization arrangements*) or where the specific assignment of fund balance is no longer required. All transactions require board approval, $^4/_5$ vote for contingency appropriation decreases, unanticipated available finance uses, and emergencies			

Budgetary and Actual Accounts Procedures Chart				
Financing Requirements				
Common terminology	Transfers	Appropriations for Contingencies	Fund Balance Classifications	Fund Balance Classifications
Budgetary Account Title	Appropriations *(estimated transfers)*	Appropriations *(appropriation for contingencies)*	Budgetary Nonspendable Fund Balance — _____	Budgetary Assigned Fund Balance — _____
Actual Account Title	Transfers	None *(Budgetary Account)*	Fund Balance	Unassigned Fund Balance or Assigned — _____
Definition	The internal counterpart to exchange and exchange-like transactions; includes interfund loans and services provided and used	Budgetary provisions for unforeseen requirements	Part of fund balance not available for requirements or legally or contractually restricted	Part of Fund Balance earmarked for tentative future plans
Control	*N/A*		By total fund balance components	By individual account
Entries	*N/A*		Budgetary and actual accounts — On budget adoption; adjustments when recognized	

Financing Requirements represents the dollar cost of implementing the operating plan. To differentiate between budgetary and real accounts, use *Estimated Requirements* and *Actual Financial Requirements*.

8.27 Unanticipated Revenues

Subject to legal restrictions, revenues not anticipated in the budget may be used to increase estimated revenues and increase appropriations, restricted, committed, and assigned fund balance.

Example

$1,500 has been received from services provided under contract which have not been specifically set forth in the budget. This was recorded as revenue when received. The supervisors have voted to increase the Sheriff services and supplies appropriation.

To increase the appropriation for the Sheriff from expendable unanticipated revenue sources:

Account	Subsidiary	Budgetary Ledger Debit	Budgetary Ledger Credit
Unanticipated Revenues		1,500	
Appropriations			1,500
Law Enforcement Services	1,500		
Sheriff — Transportation and Travel	1,500		

8.28 Other Appropriation Transfers

Subject to legal restrictions, appropriations may be transferred from one budget unit to another in the same fund.

To transfer appropriations within the same fund

The following transfers are approved:

Decrease Board of Supervisors		Increase Assessor	
Professional and Specialized Services	$ 4,000	Office Expense	$ 4,500
Special Departmental Expense	1,000	Minor Equipment	500
	$ 5,000		$ 5,000

(Subsidiary ledger entries, only if required)

Appropriations:	
Supervisors	
Professional and Specialized Services	$ 4,000
Special Departmental Expense	1,000
Assessor	
Office Expense	4,500
Minor Equipment	500

If the transfer is between funds, the increased revenue in the recipient fund is unanticipated revenue and the restrictions governing such revenues apply.

To transfer appropriations between funds

Approval is given for the transfer of $50,000 from the General Fund, Public Works services and supplies, to the road fund services and supplies.

Account	Debit	Credit
General Fund		
Appropriations	50,000	
Estimated Other Financing Uses		50,000
Transfers-Out	50,000	
Cash		50,000

Account	Debit	Credit
Road Fund		
Cash	50,000	
Transfers-In		50,000
Estimated Other Financing Sources	50,000	
Appropriations		50,000
Transfers-in		50,000
Services and Supplies Appropriations	50,000	

8.29 Year-End Revenue Accrual

Even though the reporting must be on the accrual or modified accrual basis, the daily accounting may be on a cash basis. Under such circumstances, accrual basis for statement purpose is achieved by adjusting the accounts at the close of each year for earned but uncollected revenues. *Accounts Receivable* is charged, with offsetting credits posted to *Revenues* and to the *Allowance for Uncollectible Accounts*, if applicable.

At the beginning of the following year, one of two options may be exercised:

- The accruing entry is reversed and the “Accounts Receivable” and “Revenues” accounts are reduced. The Collections are then credited to the “Revenues” account.
- The accruing entry is not reversed, but collections of accrued amounts are credited to the “Accounts Receivable” account. At the end of the year, any differences between amounts accrued and collected, plus any balance in the “Allowance for Uncollectible Accounts”, are closed to the “Revenues” account.

The following illustrates a year-end accrual of revenues and the alternative methods of accounting in the next year.

At June 30, revenues are accrued in the *General Fund* (see *Uncollectible Accounts*). All items are considered fully collectible except planning and engineering services, for which a 2% uncollectible allowance is provided.

Uncollectible Accounts

Account	Subsidiary	Debit	Credit
Accounts Receivable		12,900	
Allowance for Uncollectible Accounts			15
Revenues			12,885
State Aid for Disaster	10,000		
Auditing and Accounting Fees	150		
Law Enforcement Services	2,000		
Planning and Engineering Services	735		

Method 1 — Revising Procedure

a) Revenue accruals are reversed:

Account	Debit	Credit
Revenues	12,885	
Allowance for Uncollectible Accounts	15	
Accounts Receivable		12,900

b) $100 was disallowed on the claim upon which the state subvention accrual was based. Otherwise, all amounts accrued were collected in full during the following year:

Account	Debit	Credit
Cash	12,800	
Revenues		12,800

Method 2 — Standard Procedure

a) Collections of $12,800 are credited to accounts receivable:

Account	Debit	Credit
Cash	12,800	
Accounts Receivable		12,800

b) At June 30, the $100 debit balance in accounts receivable and the $15 credit balance in allowance for uncollectible accounts are closed to revenues:

Account	Debit	Credit
Revenues	85	
Allowance for Uncollectible Accounts Expense	15	
Accounts Receivable		100

Under both methods, the final result is the same. The $85 debit balance in the *Revenues* account represents the error in total revenues of the preceding year (*the overstatement of beginning available surplus attributable to revenue*).

For the optional accrual of taxes, see Chapter 18, Property Taxes.

8.30 Year-End Expenditure Accrual

As with revenues, expenditures/expenses must be reported on the accrual or modified accrual basis. When accrual is accomplished only at year-end, the same alternatives are available as with Revenues.

- The accruing entry is reversed. Accounts Payable is reduced and the appropriate expenditures accounts are also reduced. Payments are then charged to this account.
- The accruing entry is not reversed, but payments of accrued amounts are charged to Accounts Payable. At the end of the year, any differences between amounts accrued and paid are closed to the proper expenditures.

A year-end accrual of expenditures and the alternative methods of subsequent accounting are shown below.

At June 30, expenditures are accrued in the General Fund as detailed in the following entry:

Account	Sub	Debit	Credit
Expenditures		730	
Accounts Payable			730
Auditor — Office Expense	150		
Board of Supervisors — Professional and Specialized Services	300		
Assessor — Special Departmental Expense	280		

Method 1 — Reversing Procedure

a) Expenditure accruals are reversed:

Account	Subsidiary	Debit	Credit
Accounts Payable		730	
Expenditures			730
Auditor — Services and Supplies Expenditures	150		
Board of Supervisors — Expenditures	300		
Assessor —Expenditures	280		

b) During the year, payments against the liabilities accrued were $750:

Account	Subsidiary	Debit	Credit
Expenditures		750	
Cash			750
Auditor — Services and Supplies Expenditures	150		
Board of Supervisors — Expenditures	295		
Assessor — Expenditures	305		

Method 2 — Non-Reversing Procedure

a) Payments of $750 are charged to *Accounts Payable*:

Account	Debit	Credit
Accounts Payable	750	
Cash		750

b) At June 30, the $20 debit balance in *Accounts Payable* is closed to the proper expenditure accounts:

Account	Subsidiary	Debit	Credit
Expenditures		20	
Accounts Payable			20
Board of Supervisors — Services and Supplies Expenditures	5		
Assessor	15		

8.31 Other Cash Accounts and Funds

Imprest - a term applied to a system of replenishment on the basis of disbursement. The disbursement becomes an automatic claim against the beneficiary, so that the claims created plus unexpended resources are always equal to the original assets.

Funds may have as one of their assets, imprest cash accounts. When established, they consist of cash on hand or in a special bank account. Disbursements from the account are not recorded as expenditures until the account is replenished. This is done as necessary, and always at the end of a fiscal period.

Example

a) An imprest account of $100 is established for a General Fund department:

Account	Debit	Credit
Imprest Cash	100	
Cash		100
Unassigned Fund Balance	100	
Nonspendable Fund Balance — Imprest Cash		100

b) Supplies are purchased, as evidenced by the following vouchers:

Voucher #1	Office Supplies	$ 25
Voucher #2	Professional and Specialized Services	10
Voucher #3	Special Department Expense	40
Total		$ 75
(No entries are made)		

c) A warrant is drawn on the road fund to replenish the account:

Account	Sub	Debit	Credit
Expenditures		75	
Cash			75
Office Supplies	25		
Professional and Special Services	10		
Special Departmental Expense	40		

Change accounts are also imprest accounts, but require no replenishment. The amount of each account remains constant, and that amount is simply withheld at the close of each day from the cash register or drawer for use the following day. Differences between ending cash on hand and recorded receipts plus the change account represent overages or shortages, which are treated in the same manner as expenditures shown above.

Clearing funds may be used to facilitate certain operations. *Expenditures* are recorded in operating funds and cash transferred to the *clearing fund*, which then disburses to the appropriate party at the proper time. This method is convenient if several operating funds are involved in an expenditure that can be remitted on a single warrant. Common examples are the *Payroll Clearing Fund,* the *Categorical Aid Clearing Fund,* and the *Sales Tax Clearing Fund*.

Counties may use any of the above accounts and funds that are found useful. The use of accounts is preferable unless special circumstances or legal restrictions dictate otherwise.

8.32 Warrants Payable

A *Warrants Payable* account may be used. If so, warrants drawn are credited to this account rather than to cash. Warrants paid by the treasurer are charged to *Warrants Payable* and credited to *Cash*. Under this arrangement, the balance of *Warrants Payable* is the amount of outstanding warrants and the auditor's cash is equal to the treasurer's, with the exception of any possible deposits in transit.

Example

a) Warrants are drawn:

Account	Debit	Credit
Expenditures	100	
Warrants Payable		100

b) Warrants are Paid by the Treasurer:

Account	Debit	Credit
Warrants Payable	50	
Cash		50

8.33 Activity Allocations

It is required that combined statutory offices which engage in more than one of the expenditure activities (see Chapter 5*, General Ledger and Budgetary Accounts*) and all other budget units which engage in more than one activity allocate their appropriations and final total expenditures among the activities performed. Possible methods of arriving at reasonable estimates include:

- Using cost accounting to calculate the allocation
- Allocating all expenses for a test period and using the resulting proportion as long as operating conditions are substantially unchanged. This method is suitable if seasonal and cyclical fluctuations are not significant
- Dividing salary and wage costs among the activities performed; dividing total appropriations in the same proportion as salaries and wages
- Using the results of the Cost Allocation Plan

8.34 Encumbrances

Encumbrances are a reservation of specific appropriations. It is recommended that all purchase orders, contracts, and written commitments be encumbered. (See Chapter 16*, Budgetary* for detailed explanations)

8.35 Work Authorizations

Work authorizations perform the same function for intra-governmental purchases as purchase orders placed with outside suppliers. When used, it is recommended that, like purchase orders, they be encumbered. However, at year-end all work authorization encumbrances should be examined to verify their appropriateness. Failure to do this could result in establishing next year's appropriations at too high a level.

8.36 Compensated Absences

Compensated absences are absences for which employees are paid, such as vacation, sick leave, and sabbatical leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the employer and the employee should be accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the employer and the employee should be accounted for in the period in which those services are rendered or take place.

Vacation leave and other compensated absences with similar characteristics should be accrued as a liability as the benefits are earned by the employees if both of these conditions are met:

a. The employees' rights to receive compensation are attributable to services already rendered.

b. It is probable that the employer will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

A liability for sick leave and other compensated absences with similar characteristics should be accrued using one of the following termination approaches.

a. A liability should be accrued as the benefits are earned by the employees if it is probable that the employer will compensate the employees for the benefits through cash payments conditioned on the employees' termination or retirement. Sick leave balances should not be accrued for employees who receive only additional service time for pension benefit purposes or who take the leave due to illness.

b. Alternatively, a governmental entity should estimate its accrued sick leave liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments, as well as by other employees who are expected to become eligible in the future to receive such payments. Sick leave balances should not be accrued for employees who receive only additional service time for pension benefit purposes or who take the leave due to illness.

A liability for sabbatical leave should be accrued during the period the employees earn the right to the leave if it is probable that, for past service, the employer will compensate the employees for the benefits through paid time off or by some other means.

The compensated absence liability should be calculated based on the pay or salary rates in effect at the balance sheet date. However, if the employer pays employees for their compensated absences at other than their pay or salary rates (for example: at a lower amount as established by contract, regulation, or policy) the other rate as of the balance sheet date should be used to calculate the liability. An additional amount should be accrued as a liability for salary-related payments (i.e., the employer's share of Social Security and Medicare taxes, pension plans, etc.) associated with the payment of compensated absences, using the rates in effect at the balance sheet date.

Compensated absences in proprietary and fiduciary funds should be reported as a fund liability. Compensated absences in governmental funds should be recognized as expenditures each period using the modified accrual basis of accounting. Because the balance sheets of these funds report current liabilities, only the portion of the liability that will be liquidated with available current financial resources should be reported in the fund. When the liquidated amount is known, the remainder of the liability should be accounted for in the debt accounting records.

Example

The following is the status for compensated balances as of June 30, 20X1:

	General	Enterprise
Current Value of Compensated Absences	100,000	10,000
Short-term portion	5,000[1]	4,000
Long-term portion	95,000	6,000
Amount currently in debt accounting records	80,000	
Amount currently in long-term liability		3,000

[1] The full amount for fiscal year 20X1-20X2 compensated leave balances is included in the budget. The $5,000 represents the estimated terminal payments resulting from these accrued balances.

Account	Debit	Credit
General Fund		
Expenditure — Salaries and Employee Benefits	5,000	
Short-term Liabilities — Salaries and Benefits Payable		5,000
Debt Accounting Records Amount to be Provided	15,000	
Employee Salaries and Benefits Payable		15,000

Account	Debit	Credit
Proprietary Fund		
Expenses — Salaries and Employee Benefits	7,000	
Short-Term Liabilities — Salaries and Benefits Payable		4,000
Long-Term Liabilities — Salaries and Benefits Payable		3,000

8.37 Budgeting and Fund Balances

The basic premise for county budgeting is that the total requirements must equal the available means of financing. This is true even when the available means of financing is excessive. In such circumstances, the property tax or service charges must be reduced.

This condition applies not only to the adopted budget, but also to the actual operating results. The exception is that the actual available financing may exceed the actual requirements. This results in an available fund balance for the next fiscal year.

Another way of expressing it is to say that negative ending fund balances are not permitted during the budget process. Adjustments must be made to avoid such a condition.

The one assurance any manager has is that his/her estimates will rarely exactly match the actual results. The process accommodates this condition by providing for changes in the estimated available financing and estimated financing requirements. A failure to realize the estimated available financing requires a corresponding reduction in estimated financing requirements (excluding restricted, committed, or assigned fund balance). On the other hand, unanticipated available financing, if legally authorized, may permit an increase in estimated financing requirements.

Compliance is shown in the required reports comparing actual total expenditures and income with the approved budget. However, these are not the only components. The beginning figures for fund balances are subject to change.

Examples

a) Budget adoption. For budget purposes, the fund balance accounts were estimated to be:

Account	Balance
Nonpendable Fund Balance — Inventory	50,000
Assigned Fund Balance — Jail Construction	100,000
Assigned/Unassigned Fund Balance	200,000

The adopted budget included the following estimates:

Account	Estimates
Revenues	700,000
Other Financing Sources	200,000
Transfers-In	100,000
Decrease in Nonspendable Fund Balance — Inventory	20,000
Appropriations	1,000,000
Other Financing Uses	150,000
Transfers-Out	40,000
Jail Construction Increase	30,000

To record the adopted budget:

Account	Debit	Credit
Budgetary Unassigned Fund Balance	200,000	
Estimated Revenues	700,000	
Estimated Other Financing Sources	200,000	
Estimated Transfers-In	100,000	
Budgetary Nonspendable Fund Balance — Inventory	20,000	
Appropriations		1,000,000
Estimated Other Financing Uses		150,000
Estimated Transfers-Out		40,000
Budgetary Assigned Fund Balance — Jail Construction		30,000
(To record the budget adoption)		

Adjustments to nonspendable, restricted, committed, and assigned fund balance:

Account	Debit	Credit
Assigned/Unassigned Fund Balance	10,000	
Nonspendable Fund Balance — Inventory	20,000	
Assigned Fund Balance — Jail Construction		30,000
(To record changes to nonspendable, restricted, committed, and assigned fund balance approved in the adopted budget)		

b) The fund balance decreases. On November 16, 20XX, the audited financial statement shows the available fund balance to be $50,000 instead of the estimated $200,000. The board approves a corresponding reduction in appropriations.

To reflect the decreased fund balance:

NOTE: The audit adjustment should be made to the actual accounts.

Account	Debit	Credit
Appropriations	150,000	
Budgetary Unassigned Fund Balance		150,000
(To adjust the budget to reflect the decrease in the fund balance)		

c) The fund balance increases. On November 15, 20XX, the audited financial statement shows the fund balance to be $275,000 instead of the estimated $200,000.

With board approval, this additional available financing may be used to increase the current year's budgeted requirements.

To reflect the increased fund balance:

Account	Debit	Credit
Budgetary Unassigned Fund Balance	75,000	
Appropriations		75,000
(To reflect the board-approved increase in appropriations because of an increase in the fund balance)		

d) The nonspendable fund balance requirement increases. On March 30, 20XX, it is determined that the inventory at year-end will be $100,000 instead of the estimated $30,000. The board approves a transfer from the appropriation for contingencies to cover this increase. (Other fund balance accounts may be available for appropriation.)

To provide for the increased nonspendable requirement:

Account	Debit	Credit
Appropriation for Contingencies	70,000	
Budgetary Nonspendable Fund Balance — Inventory		70,000
Nonspendable Fund Balance — Inventory	70,000	
Appropriation for Contingencies		70,000
(To record anticipated changes to nonspendable fund balance requirements)		

8.38 Contingent Liabilities, Claims, and Judgements

The Statement of Financial Accounting Standards (SFAS) No. 5*: Accounting for Contingencies*, requires that a liability be recorded when it is probable that a loss contingency will occur and when the amount of such loss can be reasonably estimated. NCGA Statement No. 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, requires that the full amount of such liability be recorded in a proprietary-type fund. For a governmental-type fund, the current portion is recorded in the fund and the long-term portion is recorded in the debt accounting records. The current portion is defined to be that amount which is expected to be liquidated with expendable available financial resources.

8.39 Restricted Purpose Revenue

Certain sources of revenues by law are required to be expended only for specified purposes. Depending upon the circumstances, these restricted-purpose revenues may be accounted for in the following ways:

Special Revenue Funds — Special revenue funds are to be used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The foundation for the fund should be from a revenue source that is either restricted or committed. The revenue source should be expected to continue to represent a substantial portion of the inflows reported in the fund. At any point the government does not expect that a substantial portion of the inflows will be from restricted or committed resources, the government should stop using a special revenue fund and report the remaining resources in the general fund. If, however, all inflows have ceased, the special revenue fund can continue to be reported until the restricted or committed resources have been used for their specific purposes.

General Fund Nonspendable, Restricted, Committed, and Assigned Fund Balance — Under this approach, the restricted revenue is accounted for entirely in the general fund. Revenue is recognized upon receipt, and any accumulated excess of revenue over qualified expenditures is earmarked in a fund balance classification.

Choice of the foregoing devices requires the application of judgment to the existing circumstances. However, the following basic caveats should always be observed:

1. The recognition of material amounts of revenue should not be delayed beyond the period in which they would otherwise be recognized.
2. The established accounting system should provide a sufficient audit trail to properly track the expenditure of special-purpose revenue.

8.40 Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs

GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*, sets standards of accounting and financial reporting for the cost of Municipal Solid Waste Landfill (MSWLF) closure and postclosure care. The county's financial statements should reflect the impact of all closure and postclosure care costs during the life of a MSWLF rather than after its closing. Costs that result in disbursements near or after the date that the MSWLF stops accepting solid waste and during the postclosure period, should be included in the estimated total current cost of MSWLF closure and postclosure care, regardless of their capital or operating nature. The estimated total current cost should include:

- The cost of equipment expected to be installed and facilities expected to be constructed near or after the date that the MSWLF stops accepting solid waste and during the postclosure period.
- The cost of final cover (capping) expected to be applied near or after the date that the MSWLF stops accepting solid waste.
- The cost of monitoring and maintaining the expected usable MSWLF area during the postclosure period.

The estimated total current cost is the amount that would be paid if all equipment, facilities, and services included in the estimate were acquired during the current period. These costs should be adjusted annually for the effects of inflation and/or changes in technology, expected usable landfill area, or regulations.

Allocation of Costs

The estimated total current cost should be allocated over the life of the MSWLF using the following formula:

$$\frac{\text{Estimated Total Cumulative Current Cost x Capacity Used}}{\text{Total Estimated Capacity}} - \text{Amount Previously Recognized} = \text{Annual Allocation}$$

It should be noted that costs are allocated based on usage rather than the passage of time.

Assets Placed in Trusts

Some counties may be required by the California Integrated Waste Management Board to provide financial assurances for closure and postclosure care by placing assets in a trust. These amounts should be reported as an asset on the balance sheet and identified as *amounts held by trustee*.

Proprietary Funds

Counties reporting MSWLF using proprietary funds should recognize the amount computed through the formula as an expense and as a liability for each period that the MSWLF accepts solid waste.

Example

Assume that the calculation of the formula resulted in an annual allocation of $50,000 in the first year (20X1) of operation. In the final year (20XX) of operation, the county purchases $200,000 of equipment for landfill closure. Also, assume that the California Integrated Waste Management Board requires $40,000 to be placed in a trust account with a trustee or a separate trust fund. The following journal entries should be recorded:

Account	Debit	Credit
20X1 — Proprietary Fund		
Expenditure: Service and Supplies — MSWLF Closure and Postclosure Care Costs	50,000	
Liability: MSWLF Closure and Postclosure Care Cost		50,000
(To recognize the annual allocation of a portion of the estimated total current cost of landfill closure and postclosure care)		

Account	Debit	Credit
20X1 — Proprietary Fund		
Amounts Held by Trustee	40,000	
Cash		40,000
(To record cash transferred to the trustee or trust fund for financial assurance of closure and postclosure care costs.)		

When the landfill nears closure, purchases for closure and postclosure care costs will be incurred. Equipment and facilities included in the estimated total current cost should not be reported as capital assets. Instead, equipment and facilities should be reported as a reduction of the accrued liability when they are acquired:

Account	Debit	Credit
20X1 — Proprietary Fund		
Cash	200,000	
Amounts Held by Trustee		200,000
(To record the return of cash by the trustee for payment of closure and postclosure care costs)		

Account	Debit	Credit
20X1 — Proprietary Fund		
Liability: SWLF closure and Postclosure Care Cost	200,000	
Cash		200,000
(To record purchases of equipment for MSWLF closure)		

All other capital assets which are not part of the estimated total current cost should be fully depreciated by the date that the MSWLF stops accepting solid waste.

Governmental Funds

Counties reporting MSWLF using governmental funds should recognize the amount computed through the formula as expenditures and fund liabilities using the modified accrual basis of accounting. The remainder of the liability should be reported in the debt accounting records. Counties may use a variety of methods to recognize this liability. One approach is to recognize expenditures and fund liabilities only if they will be liquidated with expendable available financial resources (i.e., the county is currently funding the liability with available assets). On the other hand, if the county expects to fund the liability with amounts to be provided in future periods rather than from resources currently available, the liability should be accounted for in the debt accounting records.

Example

Assuming the same facts as the example under the proprietary fund, the appropriate journal entries are as follows:

Account	Debit	Credit
20X1 — Governmental Fund		
Expenditure: Service and Supplies — MSWLF closure and Postclosure Care Costs	40,000	
Liability: SWLF Closure and Postclosure Care Costs		40,000
(To recognize the annual allocation of a portion of the estimated total current cost of landfill closure and post closure care)		

Account	Debit	Credit
20X1 — Governmental Fund		
Amount Held by Trustee	40,000	
Cash		40,000
(To record cash transferred to the trustee or trust fund for financial assurance of closure care costs)		

Account	Debit	Credit
20X1 — Debt Accounting Records		
Amount to be Provided for Payment for Landfill closure and Postclosure Care Costs	10,000	
Liability: MSWLF Closure and Postclosure Care Costs		10,000
(To recognize the difference between the annual allocation of landfill closure and postclosure care costs and the amounts transferred to the trustee as general long-term debt.)		

When the landfill nears closure, purchases for closure and postclosure care costs will be incurred:

Account	Debit	Credit
20X1 — Governmental Fund		
Cash	200,000	
Amounts Held by Trustee		200,000
(To record the return of cash by the trustee for payment of closure and postclosure care costs)		

Account	Debit	Credit
20X1 — Governmental Fund		
Liability: MSWLF Closure and Postclosure Care Cost	200,000	
Cash		200,000
(To records equipment purchases of landfill closure and postclosure care costs)		

Account	Debit	Credit
20X1 — Capital Assets Accounting System		
Equipment	200,000	
Investment in Capital Assets		200,000
(To record purchases of capital assets)		

8.41 On Behalf Payments for Fringe Benefits and Salaries

GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, establishes the standards for accounting and reporting for on-behalf payments for fringe benefits and salaries. On-behalf payments for fringe benefits and salaries are direct payments made by one entity (the paying entity or paying government) to a third-party recipient for the employees of another, legally separate entity (the employer entity or employer government). On-behalf payments include pension contributions, employee health and life insurance premiums, and salary supplements or stipends. On-behalf payments also include payments made by governmental entities on behalf of nongovernmental entities, and vice versa. They also may be made for volunteers, such as governmental pension contributions for firefighters who work within a city fire department.

In accordance with GASB Statement No. 24, an employer government should recognize revenue and expenditures or expenses for on-behalf payments for fringe benefits and salaries. The employer government should recognize revenue equal to the amounts that third-party recipients of the payments received and that are receivable at year-end for the current fiscal year. Employer governments should obtain information about the amount of on-behalf payments for fringe benefits and salaries from the paying entity or third-party recipient. These amounts should also be disclosed in the notes to the financial statements.

8.42 Long-Term Loans to Other Entities

When authorized by law, counties may provide long-term loans from the County General Fund or other governmental funds to other entities outside the county government. For GAAP financial statement reporting, the balance of a long-term loan to another entity should be recorded as a *Loans Receivable*. The *Loans Receivable* shall be offset with an equal amount of *Nonspendable Fund Balance - Loans Receivable*, to indicate that the asset is not available to finance current obligations.

In the financial statements, the interest earnings received should be recorded on the Operating Statement as “Interest Revenue”. The balance sheet approach, except for “Interest Revenue”, records only the balance sheet entries. The principal advanced for new loans issued or repayments received for existing loans should be reflected as an increase or decrease to the “Loans Receivable” account. The “Nonspendable Fund Balance — Loans Receivable” account is adjusted as an increase or decrease of the assigned or unassigned fund balance (depending on fund type).

An alternative operating statement approach includes budgetary and accounting operating account entries during the year, with year-end adjustments required to prepare the GAAP financial statements. The budgetary entries provide visibility in the budget process.

The operating account entries include, in addition to the “Interest Revenue, Other Financing Uses — Loans Advanced” account when new loans are issued and the “Loan Principal Revenue” account for repayments received on existing loans.

The year-end adjustments close the loan advances and/or loan principal revenue as increases or decreases to the “Loans Receivable” account and corresponding adjustments are recorded, as needed, to the “Nonspendable Fund Balance — For Loans Receivable” account.

Examples of the budget and accounting entries are provided below.

Budgetary				
Budget Entries	**Balance Sheet Approach**		**Operating Statement Approach**	
New Loans	Dr.	Budgetary Fund Balance *(or a revenue or an appropriation)*	Dr.	Budgetary Fund Balance *(or a revenue or an appropriation*
	Cr.	Nonspendable Fund Balance — Loans Receivable	Cr.	Appropriation: Other Financing Uses — Loan Advances
Loan Principal Repayments	Dr.	Nonspendable Fund Balance — Loans Receivable	Dr.	Estimate Revenue — Principal
	Cr.	Budgetary Fund Balance *(or a revenue or an appropriation)*	Cr.	Budget Fund Balance *(or an appropriation)*

Accounting				
Accounting Entries	**Balance Sheet Approach**		**Operating Statement Approach**	
Loan Proceeds Disbursed	Dr.	Loans Receivable	Dr.	Other Financing Uses — Loan Advances
	Cr.	Cash	Cr.	Cash
	Dr.	Assigned/Unassigned Fund Balance	None	
	Cr.	Nonspendable Fund Balance — Loans Receivable		
Loan Principal Repayments	Dr.	Cash	Dr.	Loans Receivable
	Cr.	Loans Receivable	Cr.	Loan Principal Revenue
	Dr.	Nonspendable Fund Balance — Loans Receivable	None	
	Cr.	Assigned/Unassigned Fund Balance		
Year-End Adjustment	None		Dr.	Loans Receivable
			Dr.	Loan Principal Revenue
			Dr.	Assigned/Unassigned Fund Balance
			Cr.	Other Financing Uses — Loan Advances
			Cr.	Nonspendable Fund Balance — Loans Receivable

8.43 Revenue Recognition for Non-Exchange Transactions

Effective fiscal year 2000-2001, GASB Statements No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and GASB Statements No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues—an amendment of GASB Statement No. 33*, define non-exchange transactions and address the issue of revenue recognition for non-exchange transactions (GASB Statements No. 33 and No. 36 set the parameters for determining when governments recognize non-exchange transactions in the financial statements). For practical purposes, accountants should be cognizant of the definition and types of non-exchange transactions, and should review the relevant recognition criteria for these transactions during year-end transaction processing.

The following charts outlines the different types of non-exchange transactions, as defined by GASB Statements No. 33 and No. 36, and the related revenue recognition criteria. In applying the criteria and determining the type of non-exchange transaction under consideration, the practitioner is encouraged to review GASB Statements No. 33 and No. 36 for more specific guidance when it is needed.

Also note that GASB Statements No. 33 and No. 36 require that providers recognize liabilities (*or a decrease in assets*) and expenses from government-mandated or voluntary non-exchange transactions, and recipients recognize receivables (*or a decrease in liabilities*) and revenues (net of uncollectible amounts), when all applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met should be reported as advances by the provider and as deferred revenues by recipients.

Governmental fund revenues should be recognized in the period when they become both measurable and available. The application of these accrual criteria requires judgment, consideration of the materiality of the item in question, and due regard for the practicality of accrual, as well as consistency in application.

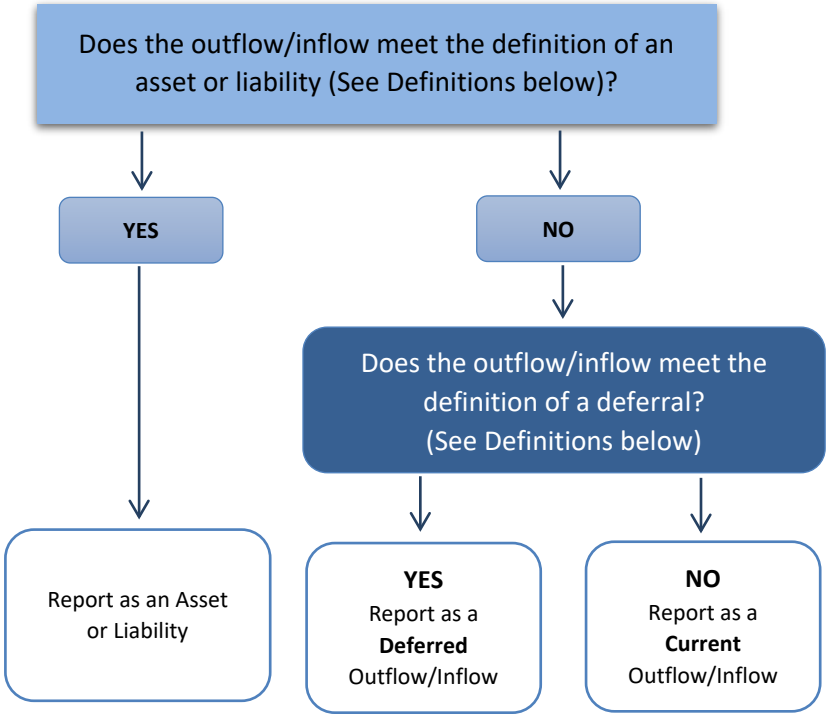
The county auditor-controller's select and consistently apply an availability period that reflects the underlying nature of their transactions. Normal availability periods range from 60 to 365 days.

Classes and Timing of Recognition of Non-Exchange Transactions	
Class	**Recognition**
Derived Tax Revenues Examples of: sales taxes, personal and corporate income taxes, motor fuel taxes, and similar taxes on earnings or consumption	**Assets** Period when underling exchange has occurred or when resources are received, whichever is first **Revenues** Period when underlying exchange has occurred. (Report advance receipts as deferred revenues) When modified accrual accounting is used, resources also should be *available* *See Paragraphs 16 and 30a of GASB Statement No. 33*
Imposed Non-Exchange Revenues Examples of: property taxes, most fines, and forfeitures	**Assets** Period when an enforceable legal claim has arisen or when resources are received, whichever is first **Revenues** Period when resources are required to be used or first period that is permitted. (for example, for property taxes, the period for which they are levied) When modified accrual accounting is used, resources also should be available (For property taxes, apply NCGA Interpretation 3 as amended) *See paragraphs 17, 18, 30B, and 30c of GASB Statement No. 33*
Government-Mandated Non-Exchange Transactions Examples of: federal government mandates on state and local governments **Voluntary Non-Exchange Transactions** Examples of: certain grants and entitlements. Most donations	**Assets and Liabilities** Period when all eligibility requirements have been met of *(for asset recognition)* when resources are received, whichever is first **Revenues and Expenses or Expenditures** Period when all eligibility requirements have been met. [Report advance receipts of payments for use in the following period as deferred revenues or advances, respectively. However, when a provider precludes the sale, disbursement, or consumption of resources for a specified number of years, until a specified event has occurred, or permanently [for example, permanent and term endowments], report revenues and expenses or expenditures when the resources are received or paid, respectively, and report resulting net assets, equity, or fund balance as restricted) When modified accrual accounting is used for revenue recognition, resources should be *available* *See paragraphs 19-thruough 25 and 30d of GASB Statement No. 33*

8.44 Outflow/Inflow Flowchart

As discussed in Section 1.14, *Deferred Outflows/Inflows of Resources,* deferred outflows/inflows of resources transaction types represent certain defined transactions related to future periods that do not qualify for treatment as either assets or liabilities.

The tools in Section 8.44, *Outflow/Inflow Flowchart* and Section 8.45, *Transaction Types That May Be Classified as Outflows/Inflows,* have been included for making a determination in circumstances when a transaction could be a deferred outflow or deferred inflow of resources. Additionally, several examples of deferred outflows and deferred inflows of resources have been added to assist with making such determinations.



Outflow/Inflow Flowchart Instructions

- Use the flowchart at left to determine if a transaction is an asset/liability, current outflow/inflow, or a deferred outflow/inflow.
- Refer to the list below for transaction types that may be classified as an asset/liability, current outflow/inflow, or a deferred outflow/inflow.
- Refer to sections 5.04, *Deferred Outflows of Resources* and 5.07, *Deferred Inflows of Resources* for defined deferred outflows/inflows of resources.

Definitions

- **Assets** are resources with present service capacity that the government presently controls.
- **Liabilities** are present obligations to sacrifice resources that the government has little or no discretion to avoid.
- A **deferred outflow of resources** is a consumption of net assets by the government that is applicable to a future reporting period.
- A **deferred inflow of resources** is an acquisition of net assets by the government that is applicable to a future reporting period.
- An **outflow of resources** is a consumption of net assets by the government that is applicable to the current reporting period.
- An **inflow of resources** is an acquisition of net assets by the government that is applicable to the current reporting period.

Recognition of deferred outflows of resources and deferred inflows of resources should be limited to those instances identified by the GASB in authoritative pronouncements, which are established after applicable due process procedures.

8.45 Transaction Types That May Be Classified as Outflows/Inflows

NOTE**:** Items listed below should be filtered through the flowchart in section 8.44, *Outflow/Inflow Flowchart* to determine if the item is an asset/liability, current outflow/inflow, or deferred outflow/inflow.

The list on the following page is not all-inclusive.

Term	Definition
Charges for Services	Charges for current services exclusive of revenues of proprietary funds.
Contributions and Donations From Private Sources	Financial resources provided by private contributors.
Discount on Bonds Issued	The excess of the face value of bonds over the amount received from their sale (excluding accrued interest and issuance costs).
Escheats	Uncompensated acquisition of private property abandoned or otherwise alienated by it owners.
Extraordinary Items	Transactions or other events that are both unusual in nature and infrequent in occurrence.
Fines	Includes monies derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations, and for the neglect of official duty (e.g. court, library).
Forfeits	Includes monies derived from confiscating deposits held as performance guarantees.
Franchise Taxes	Imposed on the privilege of using public property for private purposes.
Insurance Other Than Employee Benefits	Expenditures for all types of insurance coverage, including property, liability, and fidelity.
Intergovernmental Expenditures	Includes expenditures made by one level or unit of government to another government in support of government activities administered by the recipient unit. Excluded from this classification are matching employer contributions by a government to a pension or retirement system administered by another government.
Insurance Other Than Employee Benefits	Expenditures for all types of insurance coverage, including property, liability and fidelity.
Intergovernmental Expenditures	Includes expenditures made by one level or unit of government to another government in support of government activities administered by the recipient unit. Excluded from this classification are matching employer contributions by a government to a pension or retirement system administered by another government.
Intergovernmental Payable	Amounts owed by the government reporting entity to another government.
Intergovernmental Receivable	Amounts due the reporting government from another government. The amounts may represent intergovernmental grants, entitlements, or shared revenues. May also represent taxes collected for the reporting government by an intermediary collecting government, loans, and charges for goods or services rendered by the reporting government to another government.
Intergovernmental Revenues	Revenues from other governments in the form of operating grants, entitlements, shared revenues, or payments in lieu of taxes.
Issuance Cost (specify debt)	Charged with payments to bond underwriters, legal fees, and other costs associated with bond issuance.
Official/Administrative Fees	Services in support of the government's various policy-making and managerial activities. Includes management consulting activities directed toward general governance or business and financial management of the government, election, and tax assessing and collecting services.
Other Financing Uses	Includes financial outflows classified separately from expenditures.
Penalties and Interest on Delinquent Taxes	Amounts assessed as penalties for the payment of taxes after their due date and the interest charge on delinquent taxes from their due date to the date of actual payment. Separate accounts should be used for penalties and interest on each type of tax (e.g. General property tax, general and selective sales and use taxes).
Printing and Binding Fees	Expenditures for job printing and binding—usually according to specifications of the government — including designing and printing forms and posters, as well as government publications.
Proceeds of General Capital Asset Dispositions	Financial inflows provided from the disposition of general capital assets (e.g. Sales of general capital assets, Compensation for loss of general capital assets).
Property Taxes (General)	Ad Valorem taxes levied on an assessed valuation of real and/or personal property.
Property Taxes (On Other Than Assessed Valuation)	Direct taxes assessed and levied on a valuation other than the general assessed valuation usually applied in the case of privately owned real property or calculated at a specified rate per unit.
Purchased Property Services	Services purchased to operate, repair, maintain, and rent property owned or used by the government. These services are performed by persons other than government employees.

Term	Definition
Regulated Operations	Rate actions of a regulator can result in a deferred inflow of resources being imposed on a regulated business-type activity. For example, a regulator can establish current rates intended to recover costs that are expected to be incurred in the future with the understanding that if those costs are not incurred, future rates will be reduced by corresponding amounts. The regulated business-type activity should not recognize the amounts charged pursuant to such rates as revenue. Those amounts should be reported as a deferred inflow of resources and recognized as revenue when the associated costs are incurred. A regulator can require that a gain or other reduction of net allowable costs be given to customers over future periods. If a gain or other reduction of net allowable costs is to be allocated over future periods for rate-making purposes, the regulated business-type activity should not recognize that gain or other reduction of net allowable costs in the current period. It should be reported as a deferred inflow of resources for future reductions of charges to customers that are expected to result.
Rentals	Costs for renting or leasing land, buildings, equipment, and vehicles.
Rents and Royalties	Financial resources derived from the use by others of the government's tangible and intangible assets.
Sales and Use Tax (General)	Imposed on the sale or consumption of goods and/or services, generally with few or limited exemptions.
Sales and Use Tax (Selective)	Imposed on the sale or consumption of selected goods or services (e.g., motor fuel, alcoholic beverages, or tobacco products).
Severance Taxes	Imposed on the privilege of removing designated natural resources from land or water. They are based on the value and/or amount of resources removed or sold.
Special Assessments	Amounts levied against certain properties to defray all or part of the cost of a specific capital improvement or service deemed to benefit those properties primarily.
Special Assessment Financing	Resources provided by the issuance of special assessment debt for which the government is obligated.
Special Items	Significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.
Travel	Expenditures for transportation, meals, hotel, and other expenses associated with staff travel for the government. Payments for per diem in lieu of reimbursements for subsistence (room and board) are also charged here.

NOTE: Items listed below are rarely deferrals; however, they should be filtered through the flowchart in section 8.44, *Outflow/Inflow* Flowchart to determine if the item is an asset/liability, current outflow/inflow, or deferred outflow/inflow.

The list below is not all-inclusive.

Term	Definition
Advance to Other Funds (specify fund)	Amounts that are owed to a particular fund by another fund in the government reporting entity and that are not due within one year.
Advance from Other Funds (specify fund)	Amounts that are owed by a particular fund to another fund in the government reporting entity and that are not due within one year.
Due to Other Fund (specify fund)	Amounts owed for goods and services rendered by a particular fund to another fund in the government reporting entity or for inter-fund loans that are due within one year.
Due From Other Fund (specify fund)	Amounts owed for goods and services rendered to a particular fund by another fund in the government reporting entity or for inter-fund loans that are due within one year.
Due To Component Unit	Amounts owed by a primary government to a discretely presented component unit as a result of goods or services provided or loans made by the discretely presented component unit.
Due From Component Unit	Amounts owed by a discretely presented component unit to a primary government as a result of goods or services provided or loans made to the discretely presented component unit.

Deferred Outflow/Inflow Examples

E 8.01 — Property Taxes

Consider a government with a fiscal year that begins on July 1. This government levies its property tax for the coming fiscal year and sends out tax bills on the preceding June 1. The government then starts to receive payments on property tax bills during the month of June, amounting to $100, before the next fiscal year has begun (Note: $100 is not a realistic number — it is used for illustrative purposes only).

The receipt of the property tax payments for the next fiscal year must be accounted for in the current fiscal year. The government has received cash, which is recognized as an asset. If the payment was for the current year's property taxes, then the government would also recognize property tax revenue, which would increase net position:

(a) Assets	+	Deferred Outflows	-	Liabilities	-	Deferred Inflows	=	Net Position
$100 Cash							=	$100 Increase

However, the payment is for the next fiscal year's property taxes. Instead of recognizing property tax revenue, the government should recognize a deferred inflow of resources. Rather than increasing net position, a deferred inflow offsets the asset and the net position remains unchanged:

(b) Assets	+	Deferred Outflows	-	Liabilities	-	Deferred Inflows	=	Net Position
$100 Cash					-	$100 property taxes received in advance	=	No change

When the next fiscal year begins on July 1, the payments already received and recorded temporarily as deferred inflows would then be recognized as revenue:

(c) Assets	+	Deferred Outflows	-	Liabilities	-	Deferred Inflows	=	Net Position
					+	$100 property taxes received in advance	=	$100 Increase

The deferred inflow is reduced, and the revenue is recognized.

If the property tax payments received in advance are treated as revenue in the current fiscal year, when they were collected, the inflows related to the current fiscal year would be overstated. The government would appear to have achieved or exceeded inter-period equity, either of which may not be true, resulting in a false reporting of financials.

E 8.02 — Grants

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

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

(d) Assets	+	Deferred Outflows	-	Liabilities	-	Deferred Inflows	=	Net Position
$500 Cash					-	$500 grants received in advance	=	No change

If a cash grant is received and all of the eligibility requirements have been met except for a time requirement—.g., the grant may not be used until next fiscal year—then the grant should be recognized as a deferred inflow:

(e) Assets	+	Deferred Outflows	-	Liabilities	-	Deferred Inflows	=	Net Position
$500 Cash					-	$500 grants with Time requirements	=	No change

In both examples outlined in this section, there is no effect on net position. In example (d), the recipient government entity has not yet done what it must do in order to be eligible for the grant; if it never meets the eligibility requirements, then the grant has to be returned. In example (e), however, the government must wait for the next fiscal year; the inflow is related to a future period and, therefore, should be reported as a deferral.

Accounting and Financial Reporting for Service Concession Arrangements

8.46 Service Concession Arrangement (SCA)

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, was established to improve financial reporting by addressing issues related to SCAs, which are a type of public-private or public-public partnership. The term "public-private partnership" is used for a variety of service arrangements, management arrangements, and SCAs. The terms of an SCA may include payments from the operator to the government for the right to build, operate, and collect user fees on infrastructure or other public assets and provide for revenue sharing between the government and the operator during the time period of the arrangement.

SCAs are arrangements between a "transferor" (a government) and an "operator" (a governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration, and (2) the operator collects and is compensated by fees from third parties.

Criteria

A service concession arrangement (SCA) exists when all of the following criteria are met:

1) The transferor conveys to the operator the right and related obligation to provide public services through the use and operation of a capital asset (referred to in GASB 60 as a "facility") in exchange for significant consideration, such as an up-front payment, installment payments, a new facility, or improvements to an existing facility. These public services relate to the primary function of the facility (e.g., operating a city zoo) rather than ancillary (i.e., providing necessary support to the primary activities or operation of an organization, institution, industry, or system) services operated in conjunction with the facility (e.g., operating the souvenir stand at a city zoo).

2) The operator collects and is compensated by fees from third parties.

3) The transferor determines—or has the ability to modify or approve—what services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services.

4) The transferor is entitled to significant residual interest in the service utility of the facility at the end of the arrangement (including retained ownership of the facility).

Types of SCAs include, but are not limited to:

1) Arrangements in which the transferor (county) owns a building or facility (e.g., a new tollway, a new dormitory, etc.), while the operator provides the associated services, collects the associated fees, and conveys the facility to the government at the end of the arrangement.

   Example:

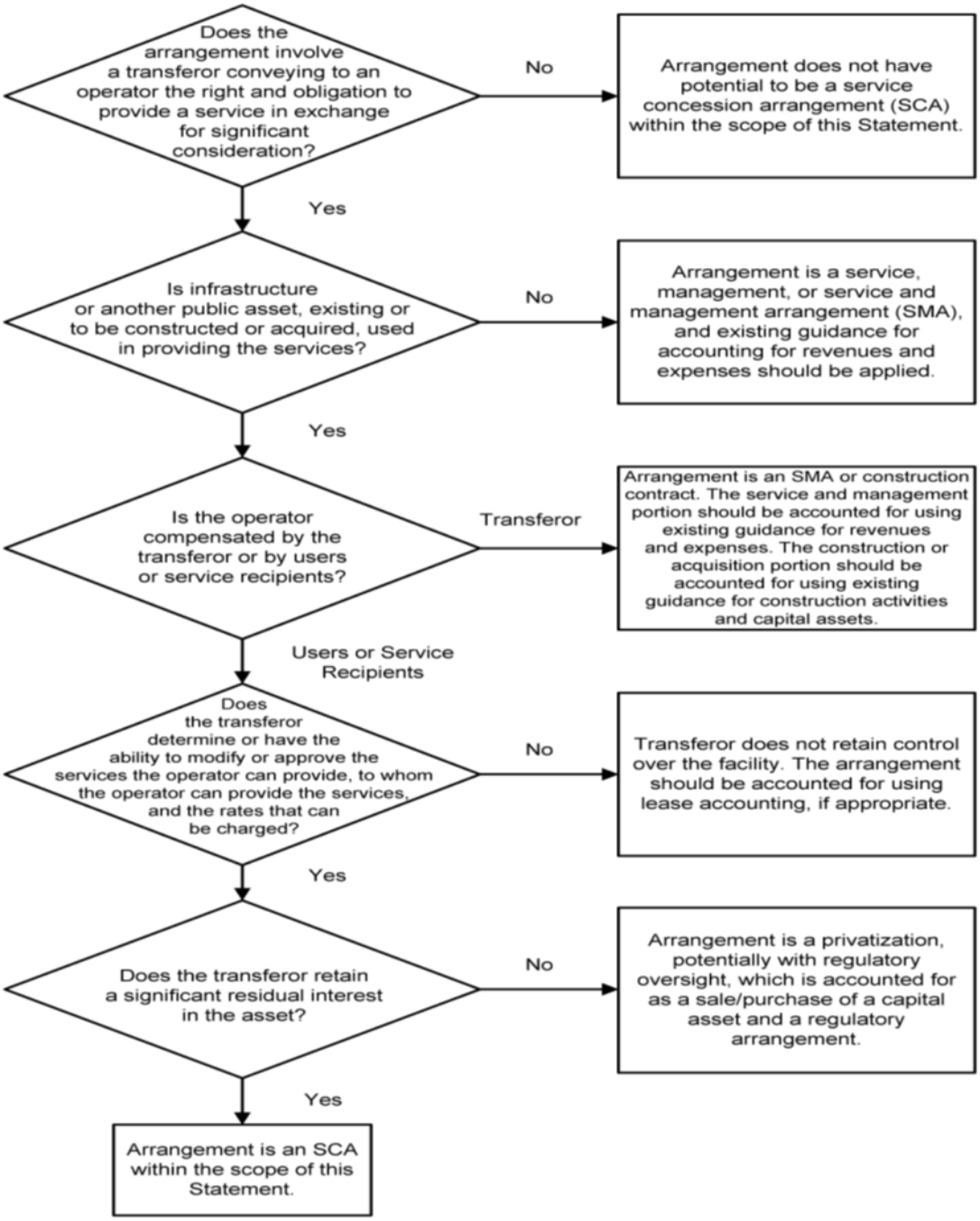
   - The operator agrees to manage the operation of the tollway on a road owned by the county in exchange for the right to keep tolls collected, for a period of five years. At the end of the arrangement, the tollways operation reverts back to the county.

2) Arrangements in which the operator (county) will provide significant consideration in exchange for the right to access an existing facility (e.g., parking garage, golf course, etc.) and collect fees from third parties for its usage.

   Example:

   - The operator pays the transferor installment payments of $800,000 in exchange for the right to operate a golf course owned by the transferor. The operator will maintain the facility and keep all fees collected for a period of ten years.

Flowchart for Determining the Applicable Accounting and Financial Reporting Guidance for Public-Private or Public-Public Partnership Arrangements



Accounting and Financial Reporting

The provisions of GASB Statement No. 60 should be applied in financial statements for state and local governments that are prepared using the economic resources measurement focus (full accrual).

GASB Statement No. 60 amends National Council on Governmental Accounting (NCGA) Statement No. 5, *Accounting and Financial Reporting Principles for Lease Agreements of State and Local Governments*, paragraph 11, to exclude arrangements meeting the definition of an SCA from the scope of that Statement.

8.47 Service Concession Arrangement—Transferor (Government)

Existing Facility

If the facility associated with an SCA is an existing facility, the transferor should continue to report the facility as a capital asset.

New or Improved Facility

If the facility associated with an SCA is a new facility purchased or constructed by the operator, or an existing facility that has been improved by the operator, the transferor should report:

- the new facility or the improvement as a capital asset at fair value when it is placed in operation;
- any contractual obligations as liabilities; and
- a corresponding deferred inflow of resources equal to the difference between the new facility or improvement and the contractual obligations.

Depreciation

After initial measurement, the capital asset is subject to existing requirements for depreciation, impairment, and disclosures. However, the capital asset should not be depreciated if the arrangement requires the operator to return the facility to the transferor in its original or an enhanced condition. The corresponding deferred inflow of resources should be reduced, and revenue should be recognized in a systematic and rational manner over the term of the arrangement, beginning when the facility is placed into operation. If a liability is recorded to reflect a contractual obligation to sacrifice financial resources in accordance with the provisions of GASB Statement 60, Paragraph 10, the liability should be reduced as the transferor's obligations are satisfied.

As obligations are satisfied, a deferred inflow of resources should be reported, and the related revenue should be recognized in a systematic and rational manner over the remaining term of the arrangement. Improvements made to the facility by the operator during the term of the SCA should be capitalized as they are made and are also subject to requirements for depreciation, impairment, and disclosures.

Liabilities

A transferor should recognize a liability for certain obligations to sacrifice financial resources under the terms of the arrangement (e.g., required improvements, maintenance, insurance, police services, etc.). Liabilities associated with the SCA should be recorded at their present value if a contractual obligation is significant <u>and meets either</u> of the following criteria:

- The contractual obligation directly relates to the facility (e.g., obligations for capital improvements, insurance, or maintenance on the facility). This obligation could relate to ownership of the facility or could arise from the transferors' responsibility to ensure that the facility remains fit for the particular purpose of the arrangement; or
- The contractual obligation relates to a commitment made by the transferor to maintain minimum or specific level of service in connection with the operation of the facility (e.g., providing a specific level of police and emergency services for the facility or providing a minimum level of maintenance to areas surrounding the facility).

Up-front or Installment Payment Revenue

If an SCA requires up-front or installment payments from the operator, the transferor should report:

- the up-front payment or present value of installment payments as an asset
- any contractual obligations as liabilities, and
- A corresponding deferred inflow of resources equal to the difference between the up-front payment or present value of the installment payments and the contractual obligations (e. g. Assets – Liabilities = Deferred Inflow of Resources).

Revenue should be recognized as the deferred inflow of resources is reduced. This revenue should be recognized in a systematic and rational manner over the terms of the arrangement. A liability should be recognized if the transferor has contractual obligations that meet the criteria as shown in the "Liabilities" section above.

Revenue Sharing Arrangements

Some SCAs include provisions for revenue sharing. The transferor should recognize only its portion of the shared revenue when earned according to the terms of the arrangement. If revenue sharing arrangements contain amounts to be paid to the transferor regardless of revenues earned (e.g., annual fixed installments in fixed amounts), then the present value of those amounts should be reported by the transferor and governmental operator as if they were installment payments at the inception of the arrangement.

8.48 Service Concession Arrangement — Operator (Governmental Entity)

An operator may be either a "governmental" entity (governmental operator) or "nongovernmental" entity. References to operators include both governmental and nongovernmental entities. References to governmental operators include only governmental entities. This section provides guidance for governments that are operators in an SCA.

A governmental operator should report an intangible asset for the right to access the facility and collect third-party fees from its operation at cost (e.g., the amount of an up-front payment, cost of construction, or cost of improvements to the facility) and amortize it over the term of the arrangement in a systematic and rational manner. The cost of the improvement to the facility made by the governmental operator during the term of the SCA should increase the governmental operator's intangible asset if the improvements increase the capacity or efficiency of the facility. Intangible assets are not subject to the provisions of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* and therefore, should be reported outside of the capital asset classification.

Some agreements require a facility to be returned in a specified condition. If an SCA requires a facility to be returned in a specific condition, and if the operator has information that indicates the facility is not in the specified condition, and the cost to restore the facility to that condition is reasonably estimable, then a liability—and generally, an expense—to restore the facility should be reported. Governmental operators are not required to perform additional procedures to identify potential condition deficiencies beyond those already performed as part of their normal operations or those that may be required by the agreement.

Existing Facility

For existing facilities, a governmental operator's cost may be the amount of an up-front payment or the present value of installment payments.

New or Improved Facility

For new or improved facilities, a governmental operator's cost may be its cost of improving an existing facility or constructing or acquiring a new facility.

Revenue Sharing Arrangements

Some SCAs include provisions for revenue sharing. A governmental operator that shares revenue with a transferor should report all revenue earned and expenses incurred—including the amount of revenues shared with the transferor—that are associated with the operation of the facility. If revenue sharing arrangements contain amounts to be paid to the transferor regardless of revenues earned (e.g., annual installments in fixed amounts), then the present value of those amounts should be reported by the transferor and governmental operator as if they were installment payments at the inception of the arrangement.

Disclosures (Transferor and Governmental Operator)

The following information should be disclosed in the notes to financial statements of Transferors and Governmental Operators for SCAs:

- a general description of the arrangement in effect during the reporting period, management's objectives for entering into it and, if applicable, the status of the project during the construction period;
- the nature and amounts of assets, liabilities, and deferred inflows of resources related to an SCA that are recognized in the financial statements; and
- the nature and extent of rights retained by the transferor or granted to the governmental operator under the arrangement.

Some arrangements may include provisions for guarantees and commitments. For example, a transferor may become responsible for paying the debt of the operator in the event of default, or the arrangement may include a minimum revenue guarantee to the operator. For each period in which a guarantee or commitment exists, disclosures should be made about guarantees and commitments, including identification, duration, and significant contract terms of the guarantee or commitment.

Governments should include the information discussed in the two (2) preceding paragraphs in the notes to the financial statements. Disclosure information for multiple SCAs may be provided individually or in the aggregate for those that involve similar facilities and risk.

SCA Financial Accounting and Reporting Examples

Exhibit I Determine Proper Financial Reporting by the Transferor (Government)

To determine the proper reporting of an up-front or installment payment, answer the questions below:

Reporting for Up-front or Installment Payment from Operator	If Yes, then:
Does the transferor receive up-front payment?	Report up-front payment as an asset
Does the transferor receive installment payments?	Report present value of installment payment as an asset
An SCA may provide the transferor with the ability to leverage existing infrastructure and other public assets to generate additional available resources in the form of up-front or installment payments from an operator for the right to operate such assets.	

E 8.03 — Up-front payment

The county owns a throughway, a toll road that connects numerous cities in a region. The county engages a private entity to manage the operation of the toll road for three years. The private entity pays the county a $1,000,000 flat fee for the rights to operate the road and retains the collected tolls as their compensation for a term of five years.

Ownership of the throughway resides with the county and management responsibility for the road reverts back to the county at the end of the fifth year unless a contract is renewed. The private entity establishes toll rates for the throughway, subject to the county's approval.

The county is the government (transferor), and the private entity is the operator. The infrastructure is the Throughway. Drivers paying tolls (user fees) represent the third parties.

Given this information, the county (transferor) will make the following entry:

1. The toll road (throughway) itself will remain on the books of the county as a capital asset.
2. The $1,000,000 fee paid by the private entity will be recognized as a *deferred inflow of resources* on the statement of financial position and recognized as revenue on a rational basis over the life of the agreement:

Account	Debit	Credit
Cash	1,000,000	
Deferred inflows of resources		1,000,000
(To recognize a deferred inflow of resources from up-front payment		

3. The private entity will recognize the tolls collected from the throughway users (drivers) as their own revenue.

Apply the questions below to each SCA to determine the proper reporting for a capital asset based on the form of the SCA associated facility:

Reporting for Capital Asset	If Yes, then
Is the SCA associated facility an existing facility?	Continue to report as a capital asset
Is the SCA associated facility newly purchased or constructed by the operator?	Report the new facility as a capital asset at fair value when placed in operation. The facility is subject to capitalization and depreciation expense should be reported.
Is the SCA associated facility an existing facility improved by the operator?	Report the improvement as a capital asset at fair value when placed in operation. The facility is subject to capitalization and depreciation expense should be reported.
Does the transferor require the operator to return the facility at the end of the arrangement in the same condition?	The transferor should not report a depreciation expense
Note: An SCA facility is recorded in a similar manner as any other capital asset.	

A transferor should recognize a liability for certain obligations to sacrifice financial resources under the terms of the arrangement. Apply the questions below to each SCA to determine proper reporting for related obligations:

Reporting for Contractual Obligations	If Yes, then
Does the transferor have a contractual obligation that directly relates to the facility?	Liabilities associated with the SCA should be recorded at present value
Does the contractual obligation relate to a commitment made by the transferor to maintain a minimum or specific level in connection with the operation of the facility?	Liabilities associated with the SCA should be recorded at the present value

E 8.04 — Contractual obligations

In addition to Exhibit (1), the government remains obligated to maintain the throughway throughout the term of five years. The present value of the cost of providing maintenance for the current year is estimated to be $200,000.

Given these assumptions, the transferor will make the following entry:

Account	Debit	Credit
Expense	200,000	
Liability — Maintenance		200,000
(To recognize liability from contractual obligations)		

The present value of consideration(s) received that is intended to cover the duration of the agreement applicable to future periods should be recorded as a deferred inflow of resources. To determine proper reporting of a deferred inflow of resources, answer the question below:

Reporting for Deferred Inflows of Resources	If Yes, then:
Did the transferor receive an up-front or installment payment (A1 or A2) and have contractual obligations (C1 or C2)?	The difference between the up-front payment or installment and the contractual obligation should be recorded as a corresponding deferred inflow of resources.

E 8.05 — Deferred Inflows of Resources

Assume that the transferor enters into an agreement where it conveys its rights and obligations to operate one of their capital assets to a private entity in return for an up-front payment of $1,000,000 for the term of five years. The transferor remains contractually obligated to maintain the facility. The present value of the cost of providing this maintenance is estimated to be $200,000.

Given these assumptions, the transferor will make the following entries:

Accounting for up-front payment and liability	Debit	Credit
Cash	1,000,000	
Deferred Inflow of Resources		1,000,000
Deferred Outflow of Resources	200,000	
Liability — Maintenance		200,000
(To recognize deferred inflows of resources)		

Note: Revenues and obligations should be recognized in a systematic and rational manner over the term of the arrangement.

Some SCAs include provisions for revenue sharing. A transferor that shares revenues with an operator (governmental or nongovernmental) should recognize only its portion of the shared revenue when earned in accordance with the terms of the arrangement.

Revenue Sharing Agreements	If Yes, then
Does the transferor share revenue with an operator?	The transferor should recognize only its portion of the shared revenue when earned

Note: Transferors and governmental operators are required to disclose SCA related information, such as a general description of the arrangement, associated assets, liabilities, deferred inflows, the rights granted and retained guarantees, and commitments in the notes to the financial statements.

E 8.06 — Revenue Sharing

Assume that the transferor is entitled to 25% of all revenues collected by the operator per the agreement. The operator has collected $900,000 in revenues for the current fiscal year.

Given these assumptions, the transferor will make the following entry for the current period:

Journal Entry by Transferor	Debit	Credit
Cash	225,000	
Revenue-shared revenues		225,000
(To recognize revenue from SCA)		

The governmental operator will make the following entry for the current period:

Journal Entry by Governmental Operator	Debit	Credit
Cash	900,000	
Revenues — fees and charges		900,000
(To recognize revenue from SCA)		

Journal Entry by Governmental Operator	Debit	Credit
Expense — shared revenue	225,000	
Payable to Transferor		225,000
(To recognize revenue sharing pursuant to SCA)		

Note: Revenues and obligations should be recognized in a systematic and rational manner over the term of the arrangement.

Exhibit II Determine Proper Financial Reporting by the Governmental Operator

Reporting for Up-front or Installment Payment paid by the Operator	If Yes, then
Did the operator pay up-front or in installments for the right to access the facility and collect third-party fees from the operation of the facility?	The operator should report payments as intangible asset for the right to access the facility
Did the operator pay for the cost of construction or improvement of the facility?	Report the cost as an intangible asset. *Note:* If the cost of improvement increased the capacity or efficiency of the facility, then record the cost as an intangible asset.

E 8.07 — Installment Payment

The State owns a State Park Golf Course (a golf course located inside a state park). The State has engaged the county in which the state park golf course is located to operate and maintain the golf course, and collect the related fees for 10 years. The county has agreed to pay the State installment payments over the course of the arrangement; the present value of these installment payments is estimated to be $800,000.

The ownership of the golf course resides with the State and management responsibility for the golf course reverts back to the State at the end of the tenth year, unless the contract is renewed. The county establishes the fee rates for the golf course, subject to the State's approval. The State has no contractual obligations to sacrifice financial resources that meet the criteria to be recognized as a liability for an SCA.

The State is the government (transferor), and the county is the government (operator). The infrastructure is the golf course. Individuals paying fees represent the third parties.

Given this assumption, the governmental operator will make the following entry:

Account	Debit	Credit
Intangible Asset	800,000	
Cash		800,000
(To recognize intangible asset for amount paid for access to golf course for current period)		

Note: The intangible asset should be amortized over the term of the SCA in a systematic and rational manner.

Facility Restoration Cost	If Yes, then
Some agreements require a facility to be returned in a specified condition. If the information is prominent to the governmental operator and the cost to restore the facility is reasonable and can be estimated, then the cost must be reported.	
Is the (governmental) operator required to return the facility in a specified condition?	Record the cost as a liability and a related expense to restore the facility

E 8.08 — Restoration Cost

Assume that a governmental operator is required to return the facility in a specified condition after the term of the SCA. The cost of restoration is reasonably estimated to be $70,000.

Given this assumption, the governmental operator will make the following entry:

Account	Debit	Credit
Restoration Expense	70,000	
Liability — Restoration		70,000
(To record restoration liability)		

Revenue Sharing Agreements	If Yes, then
Some SCAs include provisions for revenue sharing. A governmental operator that shares revenues with a transferor should report all revenue earned and expenses incurred, including the amount of revenues shared with the transferor, that are associated with the operation of the facility.	
Does the governmental operator share revenue with a transferor?	A) Governmental operator should report all revenues and expenses incurred, including the amount of revenues shared with the transferor. B) The transferor should recognize only its portion of the shared revenue when earned.

Note: Transferors and governmental operators are required to disclose SCA-related information such as a general description of the arrangement; associated assets, liabilities, deferred inflows; the rights granted and retained guarantees; and commitments in the notes to the financial statements.

E 8.09 — Revenue Sharing

Assume that a governmental operator claims $1,000,000 in revenue, but is entitled by the agreement to keep only 90% of what it collects.

Given this assumption, the governmental operator and the transferor (Government) will make the following entries:

Journal Entry by Governmental Operator	Debit	Credit
Cash	1,000,000	
Revenues — fees and charges		1,000,000
(To recognize revenue from SCA)		

Journal Entry by Governmental Operator	Debit	Credit
Cash	100,000	
Revenue — shared revenues		100,000
(To recognize revenue sharing pursuant to SCA)		

Journal Entry by Transferor (Government)	Debit	Credit
Cash	100,000	
Revenue — shared revenues		100,000
(To recognize revenue from SCA)		

SCA Notes to the Financial Statements Examples

E 8.10 — Throughway *(Transferor)*

The County has determined that the following arrangement met the criteria of an SCA (where the County is the transferor) and, therefore, included this SCA in the County's financial statements. A summary of the important details, applicable capital assets, and present value of installment payments for this SCA can be found below:

On March 6, 20X1, the county entered into an agreement with a private entity under which the private entity will operate and collect tolls from a throughway through the year 20X6. The private entity will pay the county twenty-five (25%) percent of the revenues earned from the operation of the throughway. The private entity is required to operate the throughway in accordance with the lease contract. The throughway is a capital asset owned by the county and is currently being reported with a carrying amount at year-end of $12,500,000. The county received an up-front payment of $1,000,000 that is required to be reported as a deferred inflow of resources on the financial statements. The county also has no contractual obligations to sacrifice financial resources that meet the criteria to be recognized as a liability.

NOTE: Annual revenue amount in the example below is for illustrative purposes only and has been estimated at $2,500,000. Dollar amounts in the calculations have been rounded up.

County of Freeways

Notes to Financial Statements
June 30, 20X1
A summary of the important details for each SCA over the term of their arrangements are as follows:

	Date SCA Entered Into	Term of SCA	Expiration of SCA	Revenue Sharing	Minimum Rent Payment *(per month)*
Throughway	03/06/20X1	5 years	03/06/2Y06	25.0% of revenue earned from the operation of the throughway	$ 208,334
					$ 208,334

Capital assets balance for each SCA for the year ended June 30, 20X1 and over the term of the agreement are as follows:

	Structures & Structure Improvements
Throughway	$ 2,500,000
	$ 2,500,000

The deferred inflows of resources activity for the SCA for the year ended June 30, 20X1 are as follows:

	Balance July 1, 20X1	Additions/ Restatements	Amortization[1]	Balance June 30, 20X2
SCA Deferred Inflows				
Throughway	$	$ 1,000,000	$	$ 1,000,000
Total Deferred Inflows	$	$ 1,000,000	$	$ 1,000,000

[1]Amortization calculated using straight-line method for the term of the agreement for each SCA.

E 8.11 — Golf Course *(Operator)*

The County has determined that the following arrangement met the criteria of an SCA (where the County is the operator) and, therefore, included this SCA in the County's financial statements. A summary of the important details, applicable capital assets, and/or present value of installment payments for this SCA can be found below:

The County entered into an agreement with the state, under which the county will operate, maintain, and collect fees from a golf course for a period of ten (10) years. The county will pay the state ten (10%) percent of the revenues earned from the operation of the golf course. The county is required to operate and maintain the golf course in accordance with the lease contract. The county reports the golf course as an intangible asset with a carrying amount at year-end. The county paid in installment payments over the course of the arrangement; the present value of these installment payments is estimated to be $8,000,000.

NOTE: Annual revenue amount in the example below is for illustrative purposes only and has been estimated at $10,000,000. Dollar amounts in the calculations have been rounded up.

County of Freeways					
Notes to Financial Statements June 30, 20X1 A summary of the important details for each SCA over the term of their arrangements are as follows:					
	Date SCA Entered Into	Term of SCA	Expiration of SCA	Revenue Sharing	Minimum Rent Payment *(per month)*
Golf Course	03/06/20X1	10 years	03/06/2Y11	90.0% of revenue earned from the operation of the golf course	$ 833,334
					$ 833,334

Capital assets balance for each SCA for the year ended June 30, 20X1 and over the term of the agreement are as follows:

	Structures & Structure Improvements	Land	Total
Golf Course	$ 833,334	-	$ 833,334
	$ 833,334	-	$ 833,334

The deferred outflows of resources activity for the SCA for the year ended June 30, 20X1 are as follows:

	Balance July 1, 20X1	Additions/ Restatements	Deletions/ Amortization	Balance June 30, 20X2
SCA Deferred Outflows				
Golf Course[1]	$	$ 800,000	$	$ 800,000
Total Deferred Outflows	$	$ 7,200,000	$	$ 7,200,000

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CHAPTER 9 GENERAL FUND AND SPECIAL REVENUE FUNDS

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CHAPTER 9 GENERAL FUND AND SPECIAL REVENUE FUNDS

9.01 Nature and Purpose

The *General Fund* and *Special Revenue Funds* are used to account for most of the current operating financial requirements of a county, certain capital outlays, and certain debt service amounts. The *General Fund* is usually the largest and most important of a county's funds, and most programs are generally financed wholly or partially from it.

The *General Fund* should be used to account for and report all financial resources not accounted for and reported in another fund. This fund typically has a greater number and variety of revenue sources than any other fund, and its resources normally finance a wider range of activities. It is established at a county's inception and may be expected to exist throughout the county's life. The resources of the *General Fund* are generally expended and replenished on an annual basis. The *General Fund* is always considered a major fund.

Special Revenue Funds are used to account for and report the proceeds of specific revenue resources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. These funds may include general funds of governmental units or agencies included in the county reporting entity as a result of the county's oversight responsibility.

Restricted or committed proceeds should be expected to comprise a substantial portion of the inflows reported in the fund. Transfers already recognized as revenue in another fund do not qualify as revenue in a special revenue fund. A special revenue fund may be used for stabilization arrangements when the special revenue fund criteria is met.

Accounting requirements for the *General Fund* and the *Special Revenue Funds* are identical.

9.02 Use

The use of special revenue funds is not required unless legally mandated. Furthermore, the general fund may be used to account for relatively minor amounts of legally restricted funds set aside for current operating purposes or the acquisition of comparatively short-lived capital assets. Also, a single special revenue fund may be used for relatively small amounts of moneys that are legally restricted for different purposes.

If Legally Restricted:

- resources may be accounted for in the *General Fund*; or
- resources for different purposes may be accounted for in one or more *Special Revenue Funds*.

Appropriate fund balance classification account(s) should be used to indicate:

- the excess of legally restricted assets over related liabilities; and
- the nature of the expenditure purpose to which they are restricted.

The primary factors in determining which fund structure is appropriate are:

- the length of time the mandate is expected to exist;
- the total dollar value involved; and
- the ability to show compliance with the legal requirements.

The general fund may also be used to finance capital outlays for long-lived improvements, as long as the resources in such cases are derived exclusively from unassigned revenues. Resources externally restricted to the purchase or construction of major capital facilities should be accounted for in capital projects funds.

General obligation debt service expenditures financed by direct appropriations of unassigned resources may be accounted for in the *General Fund*. However, if resources are being accumulated for principal and interest payments maturing in future years, they should be accounted for in *Debt Service Funds*.

9.03 Relationship to Budget

Estimated current *General Fund* and *Special Revenue Fund* financing requirements and the proposed financing available to finance them, are set forth in the annual operating budgets. When the annual operating budget is adopted, it provides legal authorization for *General Fund* and *Special Revenue Fund* spending.

Budgetary accounts are formally integrated into *General Fund* and *Special Revenue Fund* general ledgers. Comparisons of approved budgeted amounts with actual results of operations on the budgetary basis actually used to control *General Fund* and *Special Revenue Fund* operations are included in governmental financial reports, or as required supplementary information.

It is recommended that a balanced set of budgetary accounts be used. This permits the testing of the integrated general ledger trial balances with three distinct and separate trial balances. At all times during the year:

1) Total general ledger budgetary account debits and credits must be equal.
2) Total general ledger actual account debits and credits must be equal.
3) Total integrated general ledger debits and credits (including both budgetary and actual account balances) must be equal.

The equality of these relationships should be tested periodically.

9.04 General and Special Revenue Fund Accounting

As with all governmental fund types, the focus of *General Fund* and *Special Revenue Fund* accounting is on sources and uses of available spendable resources, rather than on costs of services. They are therefore, accounted for on a spending measurement focus using the modified accrual basis of accounting.

9.05 Recording the Adopted Budget

The adopted budget must be balanced, i.e., the available financing should equal the total requirements. Requirements should be reduced to meet financing deficiencies. Reduce property taxes or service charges if there is an excess of available financing.

<u>Example</u>

On June 30, the *General Fund* has a fund balance of $60,000. The adopted budget has estimated revenues of $1,000,000 and appropriations of $1,060,000.

The entry would be:

Account	Debit	Credit
Estimated Revenues	1,000,000	
Budgetary Unassigned Fund Balance	60,000	
Appropriations		1,060,000
(To record the 20X1-X2 budget adopted by the board 7-25-XX)		

If the legally adopted budget is not amended, the budgetary account balances will remain unchanged until the end of the accounting period. If the budget is amended, appropriate revisions are posted to the affected budgetary accounts.

9.06 Accounting for External Financing Sources

External financing sources are classified by fund and source and are recorded in the period when they become measurable and available as net current assets. Allowances for estimated un-collectibles should be established as appropriate, based on historical collection experience and other relevant circumstances.

Certain special revenue fund revenues, such as grants, are accounted for on a modified accrual basis. Entries recording such revenues and related cash collections are:

Account	Debit	Credit
Due From State Government	128,000	
Due From Federal Government	58,500	
Revenue		186,500
(To record intergovernmental grants, entitlements, and shared revenue receivables)		

Account	Debit	Credit
Cash	192,000	
Due From State Government		123,500
Due From Federal Government		58,500
Accounts Receivable		10,000
(To record collections of various receivables)		

The first entry is based upon the assumption that the collectability of the recorded intergovernmental receivables is virtually assured. If, on the other hand, relevant circumstances cast significant doubt on such collectability, an appropriate allowance for the estimated uncollectible portion would be required.

Fines and forfeitures, golf and swimming fees, inspection charges, parking meter receipts, and similar revenues are ordinarily not measurable until received in cash.

Such revenues are therefore generally recognized when cash is received, as follows:

Account	Debit	Credit
Cash	229,529	
Revenue		229,529
(To record collection of revenue not previously accrued)		

Collections of short-term receivables do not constitute revenues or other financing sources.

The entry to record, for example, the *General Fund* receipt of a $2,000 partial payment on its $4,000 short-term interfund receivable from the *Parks Fund* is:

Account	Debit	Credit
Cash	2,000	
Due From Parks Fund		2,000
(To record receipt of partial payment on short-term loan receivable from Parks Fund)		

In governmental accounting, the terms due to and due from are used to indicate short-term amounts receivable and payable. The terms advance to and advance from on the other hand, indicate noncurrent portions of long-term loans. This nonspendable fund balance indicates that amounts reported in advance to accounts should not be considered available spendable resources, since they do not represent net current assets.

It should be noted that on the governmental fund balance sheet, *due from other funds* equals *due to other funds;* similarly, *advances to other funds* equals *advances from other funds.*

Example*:*

The following entries record collection of the two current $5,000 semiannual payments on the advance from the *General Fund* to the *Central Garage Fund*. It also reclassifies the two payments due within the next year, and adjusts the reported nonspendable fund balance to agree with the year-end balance of the advance to account.

Account	Debit	Credit
Cash	10,000	
Due From Central Garage Fund		10,000
(To record collection of two current semiannual installment payments on a long-term loan to Central Garage Fund)		

Account	Debit	Credit
Due From Central Garage Fund	10,000	
Advance To Central Garage Fund		10,000
(To reclassify the two semiannual payments due within the next fiscal year on long-term loan to Central Garage Fund)		

Account	Debit	Credit
Nonspendable Fund Balance - Advance To Central Garage Fund	10,000	
Unassigned Fund Balance		10,000
(To adjust nonspendable fund balance to year-end balance of Advance to Central Garage Fund account)		

9.07 Accounting for Financing Uses

General Fund and Special Revenue Fund financing uses should be classified by fund, function and activity, budget unit, and character. In the case of expenditures these types of financing uses should be classified by the object class. These financing uses are all recognized in the accounting period in which the fund liability is incurred.

The exceptions are:

- unmatured principal and interest on general long-term debt should be recognized only when due; and
- compensated absences, which should be recognized as payments that come due each period, upon the occurrence of relevant events, such as employee resignations and retirements.

CHAPTER 9A ROAD FUND ACCOUNTING

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CHAPTER 9A ROAD FUND ACCOUNTING

Introduction

9A.01 Public Ways and Facilities

Public ways and facilities are a major function of county government. The construction and maintenance of county roads and bridges is one of the major activities within this function that requires special accounting treatment.

9A.02 Legal Basis

Divisions 2 and 3 of the *Streets and Highways Code* prescribe the duties and powers of counties in the construction and maintenance of county roads.

9A.03 County Road System

Streets and Highways Code section 25*)* defines a county highway as any highway which is:

- Laid out or constructed as such by the county.
- Laid out or constructed by others and dedicated or abandoned to or acquired by the county.
- Made a county highway in any action for the partition of the real property.
- Made a county highway pursuant to law.

Although the code defines county highways, in order to distinguish among them, reference is usually made to state highways, county roads, and city streets. The total of the highways referred to in Streets and Highways Code section 25 is called the county road system.

9A.04 Organization

To perform this road function, all counties have a *Road Fund* which may also be a customer of a department of public works. Accounting methods subsequently described are applicable to a road department, whereas a department of public works is an *Internal Service Fund* and is accounted for on a proprietary fund basis (*See Chapter 13, Proprietary Funds*).

Financial Accounting

9A.05 Fund Type

Special Revenue Funds are used to account for and report the proceeds of specific revenue resources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. A *Special Revenue Fund* is established to account for the available financing and financing requirements associated with the *Road Fund*. The *Road Fund* uses the same balance sheet accounts presented in *Chapter 9, General Fund and Special Revenue Funds*.

9A.06 Budgetary Control

Budgetary controls are exercised over *Salaries and Employee Benefits, Services and Supplies, Other Charges, Capital Assets, Other Financing Uses,* and *Residual Equity Transfers*. The projects adopted by the board as represented by cost centers are subject to budgetary control unless the board adopts other administrative controls (SHC Code, §2007).

9A.07 Revenues and Other Financing Sources

Road Fund revenues and other financing sources are accounted for in accordance with *Chapter 6: External Financing Sources (Revenues, Other Financing Sources, and Transfers).* Additional accounts may be established as necessary for reporting requirements. For example, Streets and Highways Code section 2150 requires that *Highway Users Tax* revenue be kept in a separate account for snow removal, heavy rainfall, storm damage, etc. An alternative would be to establish and maintain a subsidiary revenue ledger for the desired level of detail.

Motor Vehicle Fuel Taxes are usually the major revenue source for the county road program. Other *Road Fund* revenues include traffic fines and forfeitures, federal forest reserve receipt apportionments, and federal flood control receipt apportionments. The cost of certain projects is shared by the state and federal governments. Counties may supplement these sources by operating transfers from the *General Fund* and by district assessments for expenditure in the area of benefit.

Interest earned on investments of *Road Fund* money must be deposited in the *Road Fund* and used for road purposes, per Streets and Highways Code section 1622.

If remittances of *Highway Users Tax* are reduced by amounts for Federal Aid Secondary (FAS) deposits, the *Highway Users Tax* must be recorded at its gross amount and a *Deposits with Others* account should be debited until the expenditure is incurred.

9A.08 Expenditures and Other Financing Uses

Accounts for expenditures and other financing uses accounts are maintained in accordance with *Chapter 7, Financing Uses (Expenditures/Expenses, Other Financing Uses, Transfers, Contingency, Appropriations).*

9A.09 Transactions of Original Entry

Cost Accounting

The information presented in this section is an example of a model used to capture data required for completing the Annual Road Report.

9A.10 Cost Accounts

Cost accounts are established to account for the costs associated with an activity, project, or job. Generally, expenditures recorded in object accounts would be allocated to a cost account. They include both the direct and indirect costs that represent the costs of the road program.

9A.11 Cost Centers

Work type cost centers should be maintained for the following expenditure categories:

- Administration
- Construction
- Maintenance
- Aid to Other Governmental Agencies
- Acquisition of Equipment
- Plant Acquisition
- Reimbursable Work

9A.12 Clearing Accounts

Clearing accounts are those in which expenditures are paid and subsequently allocated or distributed to cost centers. Such accounts are maintained for:

- Labor
- Equipment Maintenance
- General Road Overhead
- Shop Overhead

9A.13 Projects

In support of the work type cost centers, job cost or project accounts are maintained in support of the construction, aid to other governmental agencies, plant acquisition, and reimbursable work cost centers. Job/Project costs are segregated into the following categories:

- Contracts
- Other Direct Charges, including Materials from Inventory
- Labor
- Equipment Usage
- General Road Overhead

9A.14 Labor — Clearing Account

The "Labor — Clearing" account is used to distribute all salaries and employee benefits paid by using a subobject account and is credited when labor is distributed by job/project and work type.

<u>Example</u>

a) The monthly payroll is $25,000. The county share of retirement is $1,750. The county also pays $175 toward employees' health insurance premiums:

Account	Debit	Credit
Expenditures	26,925	
Cash		26,925
Salaries and Employee Benefits	26,925	
*Labor - Clearing		26,925

b) The distribution to cost centers is obtained from daily time cards and other sources:

Account	Debit	Credit
*Administration	2,155	
*Construction	10,760	
*Maintenance	8,610	
*Aid to Other Governmental Agencies	2,180	
*Reimbursable Work	3,220	
*Labor — Clearing		26,925

NOTE: An asterisk "*" preceding an account title designates a cost account.

If labor rates were equal to actual costs, the clearing account would be zero after each posting cycle. In practice there will be a variance. Variances should be analyzed periodically to determine the cause and reset rates if necessary. Variances between standard rates and actual charges could be accounted for as an adjustment to the general work overhead account or distributed upon another acceptable basis, such as labor hours.

9A.15 Labor Rates

Procedures for distributing labor to cost accounts should provide for uniformity of charges should:

- produce current cost information;
- be standardized;
- facilitate ease in accounting operations; and
- be adaptable to manual or automated methods.

For these reasons, the use of a weighted average labor rate is recommended in the distribution of labor costs to the respective cost accounts. In applying this method, a charge is composed of the direct labor per hour, or other appropriate unit, plus a pro rata share of labor-related costs such as the county's share of employees' retirement, "old age, survivor, and disability insurance" (O.A.S.D.I.), group insurance premiums, vacation, sick leave and other employee benefits. A variance between accumulative allocations to cost accounts and the actual expenditures for payroll and the labor-related items for which the rate is weighted will be reflected in the difference between the debits and credits in the labor-clearing accounts.

These variances should be cleared at the end of the fiscal year on a pro rata basis to the appropriate cost centers or as a component of general road overhead. Care should be taken in establishing rates at the start of a fiscal year in order to minimize variance adjustments during or at the close of the period.

The actual computation of rates will depend on:

1) gross salary;
2) county share of fringe benefits;
3) employee absence experience; and
4) time reporting basis (hourly, weekly, monthly, etc.).

For employees whose labor costs are chargeable to only one cost center, such as administration, only a monthly rate is needed. For others, an hourly rate is required to distribute costs adequately and accurately.

Example: Computation of weighted average hourly labor rate

General

A labor rate should be computed for each pay range and each step within those pay ranges. The rate should include a weight for the pro rata share of all labor-related indirect costs for which expenditures are charged to the road function object accounts.

Assumptions		
Salary Pay Step/Range		$1,476 per month
Salary Ordinance Provisions	Vacation Allowance:	15 Working Days Per Year
	Sick Leave:	12 Working Days Per Year
	Work Week:	40 Hours
	Holidays:	10 (This Fiscal Year)
County Retirement Contribution		6.70
County Group Insurance Contribution		$20.50 per Month per Employee
Average Number of Vacation Days Taken		15
Average Number of Sick Leave Days Taken		6
Average Premium for Worker's Compensation Insurance for Field Employees		$2.83 per $100

Computation			
Total Annual Employee Cost:			
Payroll	$1,476 x 12		$17,712.00
Retirement	$17,712 x .067		1,186.70
Group Insurance	$20.50 x 12		246.00
Workman's Compensation	($17,712 x $2.83)/$100		501.25
Total Annual Employee Cost			$19,645.95
Net Productive Working Days:			
Total Work Week Days in Year	365 - 104		261
Less Non-Productive Days:			
Average Vacation		15	
Average Sick Leave		6	
Holidays		10	31
Net Productive Work Days			230
Net Productive Working Hours:			
Net Productive Working Days			230
Hours per Day			X 8
Net Productive Working Hours			1,840
Weighted Average Hourly Labor Rate:	$19,645.95/1,840		$10.68

9A.16 Equipment — Clearing Account

As with labor, this account is used to distribute the actual cost of equipment repair and operation. The postings are similar to those for labor.

Total debits to the "Equipment — Clearing Account" should equal debits to the subsidiary equipment account. A corresponding record should be kept in regard to each piece or class of equipment for which a rate is used and all charges to that equipment are accumulated. Applied credits may also be posted to each record. Additionally, if certain units of equipment are grouped together for purposes of rate computation, then credits on all pieces in the group may be posted to a single record.

9A.17 Equipment Rental Rates

Equipment rental rates should be fixed to cover as closely as possible the cost of making the equipment available for each unit of service. This includes not only the direct operating costs, such as fuel, oil, tires, and other operating supplies, but also maintenance and repairs, insurance, and overhead costs. Depreciation is included when equipment usage is purchased from outside the *Road Fund*, such as an *Internal Service Fund* for *Public Works*. Optionally, depreciation may be based on replacement cost when a fund balance classification is established for a Capital Asset replacement in accordance with Chapter 13*, Proprietary Funds*. It is recommended that those indirect, but related equipment costs, such as upkeep of equipment yards, shops and/or garages, also be considered.

Rates should be established by selected homogeneous classes or types of equipment. This means that all pieces of equipment of relatively the same type, capacity, or other pertinent characteristics should bear the same rate. In some situations, particularly in large fleets, groupings may be advisable for equipment of the same make and/or same relative type of usage.

Equipment rental rates are based on the estimated costs of operating the equipment over a certain period, usually the fiscal year. The total estimated costs for the year are then reduced to a rate per unit of service, based on the estimated number of units of service that will be performed during the year. A sound basis for arriving at estimates of operating costs and operating data is the cost or experience data of the equipment accumulated in prior years. There may be somewhat wide variations in operational costs and in units of service among individual pieces. Therefore, the selection of a rental rate by selected classes or types is recommended as a leveling device and, incidentally, to ease the accounting processes.

Since the first rates established must be based on estimates, they should be subjected to close scrutiny and should be adjusted periodically in light of actual experience data and possible revised estimates. Rental rates should always be reviewed at least at the end of the year, again in light of the actual operational cost and usage data.

For this reason, among others, it is necessary that an accounting system for equipment operating costs and operating usage be maintained. A minimum charge may be set in order to encourage the productive use of equipment, such as a standby rate.

Rental rates are normally stated in dollar amounts per hour or per mile. The unit of measure of service for which the rates are computed should be given careful consideration. Many factors, such as type of usage, loading times, etc. will have an effect. Rental rates for heavy trucks, tractors, loaders, etc., where mileage is not indicative of use are stated in rates per hour, whereas rental rates for passenger cars and light trucks may be set in terms of mileage [this basis is consistent with the Federal Emergency Management Agency (FEMA) requirements].

Example

County X has a fleet of six motor graders for which a rate is desired. The experience data summary for the prior year is as follows:

Computation — Rental Rate

Computation — Rental Rate							
Equipment Number	Operating Supplies	Repair Labor	Repair Parts	Insurance	General Road Overhead	Total Costs	Hours Used
101	$ 1,030	$ 298	$ 1,080	$ 60	$ 338	$ 2,806	1,082
102	1,302	198	986	78	224	2,788	1,120
103	834	478	1,876	42	542	3,772	838
104	1,206	168	422	88	192	2,076	1,464
105	1,076	324	1,298	66	368	3,132	1,210
106	1,110	386	1,452	66	438	3,452	1,189
Totals	$ 6,558	$ 1,852	$ 7,114	$ 400	$ 2,102	$ 18,026	6,903

Itemized Costs		Total Costs:
Total Costs per Table		$18,026
Estimated 5% Increase in Cost of Labor and Parts	($1,852 + $7,114) x .05	448
Total Estimated Cost of Operation During Ensuing Year		$18,474
Estimated Hours of Use During Ensuing Year		7,400
Rental Rate for Motor Grader	$18,474/7,400	$2.50 per Hour

NOTE: No depreciation is considered within the example as it is not a component part of the operating expenditures of a *Special Revenue Fund*. In practice, most counties operate from a Department of Public Works *Internal Service Fund* where depreciation would be a component expense and the *Road Fund* would be a customer.

9A.18 Inventory

At the time materials are purchased, it may not be known which project or cost center will use them. They are stockpiled and withdrawn for use as needed. On the other hand, they may have been purchased for a particular project and delivered directly to the job site.

The ending balance of the *Services and Supplies* object account should reflect the materials actually used during the year. This may be accomplished in two ways:

1) Consumption Inventory Method — Charging purchases initially to the asset account, "Inventory". When materials are withdrawn for use, this account is credited and the "Services and Supplies" object account is charged.
2) Purchases Method — Charging purchases initially to the expenditure object account, "Services and Supplies". At the end of the year this account is adjusted to actual usage with an offsetting entry to the asset account.

Under the Purchases Method, an inventory clearing account must be used to receive balancing postings until the materials are withdrawn from stock for use. The clearing account reflects the net change in inventory during the current period. (See Chapter 9A.19*, Materials Included in Inventory* for sample postings of each method.)

Job-site deliveries may be routed either through the inventory accounts ("Asset Account" for the Consumption Inventory Method or "Inventory Clearing Account" for the Purchases Method) or posted only to the "Services and Supplies" account and "Cost Centers" account.

Materials should be centrally stored in one or a few locations, and be under the physical control of a storekeeper. Receiving tickets should be written for all incoming materials and requisitions required for all withdrawals. This information is entered on an individual inventory card for each type of material subject to control, and the balances are periodically verified by a physical count.

9A.19 Materials Included in Inventory

It is not necessary to subject all purchases of materials and supplies to formal inventory accounting controls. Minor items such as nuts, bolts, nails, welding rods, small hand tools, etc., may be kept under physical, but not accounting control. This means that such purchases are charged to the *Services and Supplies* account and the usage is recorded through an overhead rate, rather than as an inventory withdrawal. Inventory accounting itself is a cost and must be balanced against expected benefits. The extent of this accounting is influenced by:

- Misappropriation of materials
- Facilities
- Manpower
- Controls
- Materiality

It is recommended that accounting controls be established over the following materials (if stocked):

- Aggregate
- Asphalt, asphalt products
- Automotive supplies
- Pipe, drainage products
- Lumber
- Paint
- Steel
- Gasoline, diesel, grease and oil

Example

a) The beginning inventory is $20,000. During the year, materials in the amount of $120,000 are purchased:

Consumption Inventory Method				Purchases Method			
Account	**Sub**	**Debit**	**Credit**	**Account**	**Sub**	**Debit**	**Credit**
Inventory		120,000		Expenditures		120,000	
Cash			120,000	Cash			120,000
				Services & Supplies	120,000		
				*Inventory Clearing	120,000		
***An asterisk preceding an account title designates a cost account**							

b) $80,000 in materials are purchased for direct delivery to job sites:

Consumption Inventory Method				Purchases Method			
Account	**Sub**	**Debit**	**Credit**	**Account**	**Sub**	**Debit**	**Credit**
Expenditures		80,000		Expenditures		80,000	
Cash			80,000	Cash			80,000
Services & Supplies	80,000			Services & Supplies	80,000		
*Cost Centers (*various*)	80,000			*Cost Centers (*various*)	80,000		
***An asterisk preceding an account title designates a cost account**							

c) $110,000 in materials are withdrawn from inventory for use on projects and maintenance work:

Consumption Inventory Method				Purchases Method			
Account	**Sub**	**Debit**	**Credit**	**Account**	**Sub**	**Debit**	**Credit**
Expenditures		110,000		*Cost Centers (*various*)	110,000		
Inventory			110,000	*Inventory Clearing	110,000		
Services & Supplies	110,000						
*Cost Centers (*various*)	110,000						
***An asterisk preceding an account title designates a cost account**							

d) A physical inventory at the close of the year shows the book inventory to be overstated by $500:

Consumption Inventory Method				Purchases Method			
Account	**Sub**	**Debit**	**Credit**	**Account**	**Sub**	**Debit**	**Credit**
Expenditures		500		General Overhead Clearing	500		
Inventory			500	*Inventory Clearing	500		
Services & Supplies	500						
General Overhead Clearing	500						
***An asterisk preceding an account title designates a cost account**							

e) Year-end adjusting entry:

Consumption Inventory Method				Purchases Method			
Account	**Sub**	**Debit**	**Credit**	**Account**	**Sub**	**Debit**	**Credit**
N/A				Inventory		9,500	
				Reserved for Inventory			9,500
				Services & Supplies	9,500		
				*Inventory Clearing	9,500		
***An asterisk preceding an account title designates a cost account**							

9A.20 Pricing

For consistent results, a uniform method of pricing requisitions must be adopted. The three most common methods are:

Date of Purchase	Number	Total Cost	Unit Cost
June 3	25	$550.00	$22.00
August 17	10	210.00	21.00
September 16	50	1,087.50	21.75
	85	$1,847.50	

1. First In-First Out: This method assumes that withdrawals are from the oldest stock on hand. If 30 tires are requisitioned, they would be valued at $655.00 (25 @ $22.00 and 5 @ $21.00)

2. Last In-First Out: This method assumes that withdrawals are from the most recently purchased stock. The 30 tires withdrawn would be valued at $652.50 (30 @ $21.75)

3. Average Cost*:* This method requires the computation of an average unit cost after each purchase. The average cost per tire is $21.735 ($1,847.50/85). The 30 tires withdrawn would be valued at $652.05 (30 @ $21.735)

The choice made among the above or other methods is not of great significance in governmental accounting. The important point is that the method selected be followed consistently.

9A.21 General Road Overhead

This overhead account consists of costs which generally apply to all road activity, but which cannot be charged directly to specific cost centers. The following types of costs are included:

- Cost of overall supervision of field operations (those levels of employees between administrative and the working crew foremen, such as road superintendent, general foreman, etc.);
- Costs of moving equipment that cannot be allocated (moving costs should be allocated to specific cost centers wherever possible) ;
- Cost of expendable small tools (shovels, picks, axes, etc.);
- Cost of non-permanent reusable barricades, warning signs, and other devices ;
- Road operations liability insurance premiums;
- Labor, storage, supplies, materials, handling charges, and other costs attributable to the inventory operation which are not chargeable to shop overhead. (*Counties requiring a more precise cost of materials could use an inventory overhead clearing account.*); and
- Clearing account variances.

Such costs are usually charged to the *General Road Overhead Clearing* account.

Overhead is best allocated to cost centers as a percentage of the labor allocated to those cost centers. If the overhead rate is set at 10% of applied labor, which for the accounting period amounted to $6,750, then $675 in general road overhead would be applied.

Account	Debit	Credit
*Cost centers (*various*)	675	
*General Road Overhead - Clearing		675
***An asterisk preceding an account title designates a cost account**		

At the end of the year the clearing account will have a debit or credit balance, representing the under- or over-application of overhead. Size and causes of the variances indicate whether the application rate should be changed for the following year.

9A.22 Shop Cost

Shops are operated where certain repairs and maintenance are performed on road equipment. Labor, equipment usage, materials and overhead are applied to equipment maintenance, the expense of which will be charged to cost centers through equipment usage rates. These costs are accumulated through the regular cost media: time cards, requisitions and overhead rates.

For the example below, assume the following in regard to the cost source documents:

- $300 in labor applied to pickup truck repair;
- $150 in automotive supplies requisitioned for the above repairs; and
- shop overhead rate is 15% of applied labor.

The entries in the accounts are:

Account	Debit	Credit
Expenditures	150	
Inventory		150
Services and Supplies	150	
*Equipment — Clearing		150
*Equipment — Clearing	345	
*Shop overhead — Clearing		45
*Labor — Clearing		300
(The $495 is charged in the subsidiary equipment ledger to the pickup trucks repaired)		
NOTE: An asterisk (*) preceding an account title designates a cost account		

9A.23 Shop Overhead

Shop overhead is limited to those shop expenses that cannot be charged to the repair job or for which such a charge is impractical.

Examples of such charges are:

- occupancy expense, such as rent, utilities, and cleaning expense;
- supervision and wage expense of supporting personnel, not chargeable to specific repair jobs;
- repairs and maintenance of shop structures and grounds, cost of alterations, and minor additions;
- premiums on fire, theft and liability insurance, if shop portion is segregated;
- shop supplies, such as expendable tools, oxygen, welding rod, nails, bolts, etc.; or
- repairs to shop equipment not subject to a usage rate.

Certain equipment may be used partly in the shop and partly for other road purposes. Such equipment should carry a usage rate to ensure that costs are correctly allocated.

Shop overhead is accounted for as general road overhead, except that its immediate destination is equipment maintenance, rather than cost centers. It is subsequently reflected in the cost centers through equipment rental rates as a component of the rate development, as shown in *Chapter 9A.17, Equipment Rental Rates.*

Shop overhead is best distributed to repair jobs as a percentage of applied labor.

<u>Example</u>

If the overhead rate is 15% of labor, which for repairing a grader amounted to $100, $15 in shop overhead would be applied as shown below:

Account	Debit	Credit
Expenditures	50	
Inventory		50
Services and Supplies	50	
*Equipment — Clearing		50
*Equipment — Clearing	115	
*Shop overhead — Clearing		15
*Labor — Clearing		100
(In the subsidiary equipment ledger, the grader is charged with $165)		
NOTE: An asterisk (*) preceding an account title designates a cost account		

9A.24 Year-End Disposition of Variance

At the end of the year each clearing account will have a debit or credit balance, representing the difference between actual and applied costs. These balances should be cleared to cost centers, as follows:

- If a variance is 10% (5% for labor clearing accounts) or more of total debits to the clearing account, it is allocated to each project within each cost center in proportion to the total prior allocations from that clearing account.
- If the variance is less than 10% (5% for labor clearing accounts), it need only be allocated to each cost center as part of the general road overhead.

Allocations of variances should be made to reimbursable work projects, even if the county does not intend to collect or refund the amount of variance applicable to the project.

9A.25 Administration

This cost center receives charges for the cost of administration and management of the road activity. Examples of these types of expenses include:

- salaries and expenses of road commissioners;
- salaries and expenses of deputies or assistants;
- salaries of clerical employees;
- office expense;
- convention and travel expense;
- supervisor's travel allowance; and
- general and undistributed engineering.

In some counties, supervisory personnel may divide time between administrative and road operations. In other counties, administrative personnel may have other duties, such as that of county surveyor or engineer. In these situations, a monthly distribution of time must be made.

General and undistributed engineering is all work of the engineering staff of the road department. Or it is the work of outside engineering services that cannot be allocated to a specific cost center because the work is not specific, or because division by cost center is impractical, such as:

- safety engineering;
- traffic engineering;
- planning studies and investigations;
- appraisals; or
- unallocable engineering.

Unallocable engineering refers to the situation where two or more minor, and perhaps adjacent, projects were without any time segregation. Whenever practicable, such costs should be allocated to the project.

All costs of preliminary engineering for reconnaissance, preliminary and location survey, traffic and speed studies, materials and soils investigations and tests, and preparation of plans relative to a specific project should be charged to that project. Costs of construction engineering, advertising for bids, setting of progress, final reports, and estimates relative to a specific project should be charged to that project.

As a practical matter, administration usually allocated to job/projection costs on the basis of direct expenditures (excluding general undistributed engineering) when an *Internal Service Fund* such as Public Works is estimated and the *Road Fund* is a customer.

9A.26 Construction

A single construction account controls all construction projects. Project costs are further segregated by category of expenditure.

Betterments that are minor in nature, including right-of-way acquisitions, may be grouped and regarded as a single project, unless it is necessary to subgroup them according to different restricted sources of financing.

9A.27 Rights-of-Way

Rights-of-way are land acquired for use as a road, either as an easement or by grant deed conveying title in fee. Rights-of-way costs include (See Chapter 15.16, *Intangible Costs*):

- Payments for the land or interests therein.
- Costs of removing, demolishing, moving, resetting or altering obstruction buildings, structures or other improvements.
- Payment for damages to property arising by reason of the project.
- Court costs in condemnation proceedings.
- Cost of title searches and reports.
- Salaries, transportation expenses of rights-of-way agents in connection with acquisition of rights-of-way boundaries whenever the right of way is conveyed to the county, and the sole consideration for the conveyance is an agreement by the county to construct such fences.
- All other expenses incurred for the purpose of acquiring rights-of-way free and clear of all physical obstructions and legal encumbrances.

Costs for rights-of-way are charged to the *Other Charges* object account and to the *Construction Cost Center*, if they do not meet the county's Capitalization threshold.

9A.28 Maintenance

A single maintenance account controls all maintenance work. Subsidiary maintenance, job, or project accounts need to be kept to accumulate for:

- snow removal;
- heavy rainfall and storm damage; and
- other (additional records are kept as deemed necessary).

9A.29 Aid to Other Governmental Agencies

This cost center is charged with:

- Cash grants to another governmental agency to be expended on the streets or highways of that agency.
- Amounts expended for work performed on the streets or highways of another agency.

An example within this category would be costs incurred on city streets taken over as an extension of a county road through cities pursuant to Streets and Highways Code section 1700 et al.

Costs of work on city streets which have been deeded to the county under the provisions of Streets and Highways Code section 1723, are not charged to this cost center, but to *Construction* or *Maintenance* accounts.

9A.30 Acquisition of Equipment

Definitions of equipment are set forth in Chapter 15, *Capital Assets*. Equipment is charged to this cost center, as are costs of labor, materials, and overhead applied to the manufacture of equipment. In the latter case, job orders should be used to accumulate costs.

9A.31 Plant Acquisition

Definitions of land, structures, and improvements are also found in *Chapter 15: Capital Assets*. Since centralized budgeting and accounting for all county real property acquisition is recommended, structures and improvements acquired by purchase or construction contract may be charged directly to the *County Plant Acquisition Budget Unit*. Cost of structures and improvements constructed by force are accumulated in the *Road Budget Unit* account and, upon completion, billed and charged to the *General Fund Unit* account.

Road Budget Unit

Revenue……$5,000

Plant Acquisition Budget Unit

Structures and Improvements……..$5,000

9A.32 Reimbursable Work

This cost center is charged with the cost of performing work for, rendering services to, or furnishing materials to others on a reimbursable basis. Normally these services are performed on other than the county road system and are not considered to further road purposes. The following are included:

- Services for private parties and business firms, such as snow removal, oiling driveways, etc.
- Work performed or materials furnished for other county departments and other governmental agencies, such as leveling and oiling grounds, maintenance and repair of non-road department equipment, furnishing gas and oil, building inspection services, and street work for cities when not authorized by the board of supervisors as a contribution (SHC Code, §1680 et al.).

Equipment depreciation must be included in billings for reimbursable work, in order to comply with the anti-diversion principle.

Billings to outside parties should include charges for certain costs, such as administrative overhead, which may not have been distributed to the *Reimbursable Work Cost Center*.

Example

a) The cost of paving the Hospital District Parking Lot is performed with road fund resources and charged to the *Reimbursable Work Cost Center*:

Account	Debit	Credit
Expenditures	700	
Inventory		700
Services and Supplies	700	
*Reimbursable Work		700
*Reimbursable Work	3,530	
*Labor — Clearing		2,300
*Equipment — Clearing		1,000
General Road Overhead — Clearing		230
NOTE: An asterisk (*) preceding an account title designates a cost account		

b) The Hospital District pays in full the cost of paving the parking lot:

Account	Sub	Debit	Credit
Road Fund Cash		4,230	
Road Fund Revenues			4,230
Charges for Services	4,230		

9A.33 Encumbrances

An encumbrance system may be used at either the object or project level depending upon the budgetary control exerted locally. Encumbrance accounting is presented in Chapters 8, *Specific Accounting Procedures* and *Chapter 16, Budgetary.*

9A.34 Internal Service Funds

Internal service funds are the subject of Chapter 13, *Proprietary Funds*. If financing is available, it is advantageous to assign equipment ownership, maintenance, and rental to an internal service fund. Accounting in the road department is simplified and depreciation may be included in the rental rates. (Depreciation rates based on replacement costs and moneys set aside for asset replacement are allowable as presented with Chapter 13, *Proprietary Funds.*)

Definitions

9A.35 General Definitions

The following definitions are those which are associated with the *County Road Fund*. The two general classifications of road working activities are:

Construction - The building or rebuilding of a road or its component parts to a degree that improved traffic service is provided and geometric or structural improvements are effected.

Maintenance - The preservation and upkeep of a road's constructed condition, and the operation of a road facility and its integral services to provide safe, convenient and economical highway transportation.

In addition to these general classifications of road activities, definitions for bridging are required because of their traditional separation from roads.

Bridge - A single-span structure of more than 20 feet, measured under the copings along the center line of the road, and multiple-span structures where the individual spans are in excess of 10 feet, measured from center to center of supports along the center line of the road. (The width of a bridge is the distance between the inside faces of curbs, or railings where no curbs exist, measured perpendicularly to the center line of the road.)

Ferries are classified as bridges.

Culverts - Single-span structures of less than 20 feet center to center of supports, all pipe culverts, and all closed waterway structures not defined as bridges. Culverts are to be recognized as an integral part of the road not as a bridge.

Because of their unusual nature and infrequent occurrence, disaster operations should be separately identified in the road accounts. The most frequent of this type of item, “storm damage”, is defined as follows:

Storm Damage - Extensive repair or replacement due to damage resulting from storm or flood.

The two general classifications, construction and maintenance, are further elaborated by the following discussion and examples of types of work to be included in each.

9A.36 Construction: Categories and Examples

Construction work includes three categories:

1) New Location - A construction which substantially deviates from the existing alignment and provides for an entirely new roadbed for the greater part of its length.
2) General Reconstruction - A construction involving realignment or the use of standards well above those of the existing element, whereby the type or the geometric and structural features are significantly changed.
3) Betterments - Minor construction which enhances traffic operation or increases the value or life of the facility or its components.

9A.37 Maintenance: Categories and Examples

9A.37 Maintenance: Categories and Examples Types of Work Included in Road Construction:
The removal of old roadbeds and structures and detour expense when connected with a construction project
Changes of alignment, profile, and cross-sections
Addition of a frontage road
Original surfacing of shoulders with material higher in quality than the adjacent roadside
The installation of an original set of traffic signs and markers on routes
Drainage and earth work protective structures within or adjacent to the right-of-way area
A complete reconstruction of or an addition to a culvert
Widening of a bridge
Installations or extensions of curb, gutter or under drain
Extensions and new installations of walls
Reconstruction of an intersection and its approaches to a substantially higher type, involving a change in its character and layout, including changes from a plain intersection to a major channelized intersection, or to a grade separation and ramps
Placing sufficient new material on soil surface or gravel road to substantially improve the quality of the original surface
Improvement of a surface to a higher type
Resurfacing of concrete or brick pavement with bituminous material
Bituminous material of 1” or more placed on bituminous. Remix of existing bituminous surfacing with added materials to provide a total thickness of 1” or more
Stabilization of road base by the addition of cement, lime, or asphaltic material
Replacement of existing pavement with one of a higher standard
Widening of existing roadbed or pavement, with or without resurfacing
Addition of auxiliary lanes such as speed change, storage, or climbing lanes
Resurfacing, stabilizing, or widening of shoulders (including side road approaches)
Substantial addition to landscape treatment, such as top soil, sod, shrubs, trees, etc.
Extension of old culverts and replacement of headwalls
Replacement of culvert with a facility of greater capacity
Replacement of walls to a higher standard
Replacement of all major signs or traffic control devices on a route with a substantially improved set of signs
Installation of a new sign or replacement of an old sign with one of superior design, such as increased size, illumination, or overhead installation
Installation or improvement of traffic signal controls at intersections and protective devices at railroad grade crossings
Installation or expansion of lighting system
Replacement of structures and utilities that have been related
Extension or new installation of guard rail
Installation of a new facility for roadside rest areas or a complete replacement with major modifications

NOTE: Where an improvement as a whole is classed as construction, incidental operations of the normal maintenance type should be considered as part of the construction.

Maintenance work includes two general categories: physical maintenance, and the operation of traffic services, the latter being (as defined Chapter 9A.35, *General Definitions*) the operations of safety facilities.

Examples of Maintenance Work
Scarifying, reshaping, and restoring material losses
Applying dust palliatives
Patching, repairing, surface treating, and joint filling on bituminous or concrete surfaces
Mud jacking concrete pavements
Repairing traveled ways and shoulders
Adding bituminous material of less than 1" to bituminous, including dealing costs
Remixing existing bituminous surfacing with added materials to provide a total thickness of less than 1"
Patching operations, including base restoration
Resealing road shoulders and side road approaches
Reseeding and re-sodding shoulders and approaches
Reshaping of drainage channels and side slopes
Restoring erosion controls
Cleaning culverts
Removing slides and restoring facility damages by slides (additional new facilities shall be constructed)
Mowing, tree trimming and watering
Replacing top soil, sod, shrubs etc. on roadside
Repairing curbs, gutters, rip rap, under drains, and culverts
Cleaning, painting and repairing bridges and structures
Repairing of drawbridges and ferries
All snow control operations, such as erection of snow fences and the actual removal of snow from the traveled way
Repainting pavements, striping's and markings
Repainting and repairing signs, guard rails, traffic signals, lighting standards, etc.;
Maintaining roadside rest areas
Adding small numbers of conventional traffic control devices, including signs
Servicing highway lighting and traffic control devices
Furnishing power for highway lighting and traffic control devices
Operating costs of draw bridges and ferries

Examples

9A.38 Background

The "County of X" operates as follows:

Organization - The Road Department is a separate county department with a full-time road commissioner.

Plant - There is an administration building with adjoining facilities for storage of materials and for repair of equipment.

Budgeted Positions - There are 55 Road Department employees:

Administrative:	
Road Commission	1
Clerical	3
Engineers	2
Shop	2
Construction and Maintenance	47
Total	55

The engineering, shop, construction, and maintenance employees have weighted-average hourly labor rates and prepare daily job-cost time cards.

Equipment - The department owns and operates its own equipment. Composite rental rates are used for each group, with the exception of the miscellaneous group, each unit of which has its individual rates:

Group	No. of Units	Description
1	5	Passenger Cars
2	12	Pickup Trucks
3	12	Trucks
4	3	Motor Graders
5	3	Rollers (Self-Propelled)
6	5	Tractors, Loaders (Small)
7	2	Tractors, Loaders (Large)
8	1	Cranes, Including Boom Tractors
9	25	Miscellaneous

Usage rates are not used for shop equipment. Any repairs and maintenance are charged to the *Shop Overhead - Clearing* account and are distributed as a percentage of direct shop labor.

Stores — Control and detail inventory records are kept for the following classes of materials:

10	Aggregate
20	Asphalt
30	Automotive Supplies
40	Pipe, Drainage Products
50	Lumber
60	Paint
70	Steel
80	Gas, Oil, Diesel

All other materials and supplies are charged to one of the overhead accounts and are issued on "memo" requisitions.

General Ledger Accounts - The general ledger accounts and their post-closing balances at June 30, 20X1, are as follows:

General Ledger			
Assets			
101	Cash		$ 50,000
107	Accounts Receivable		7,000
110	Deposits with Others		15,000
123	Inventory of Materials and Supplies		30,000
	Total		$ 102,000
Liabilities and Fund Equity			
203	Accounts Payable	$ 23,800	
220	Deposits from Others	1,500	$ 25,300
241	Non-Spendable Fund Balance — Inventories	$ 30,000	
*243	Committed Fund Balance — Encumbrances	18,00	
244	Assigned Fund Balance	28,700	76,700
	Total		$ $102,000

*The actual *Reserved for Encumbrances* account has been reclassified to *Committed Fund Balance* in this post-closing illustration to comply with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.*

Operating Accounts	
301	Revenues and Other Financing Sources
305	Expenditures and Other Financing Uses

Budgetary Accounts	
401	Estimated Revenues and Estimated Other Financing Sources
403	Unanticipated Revenues and Other Financing Sources
404	Unrealized Estimated Revenues and Estimated Other Financing Sources
405	Appropriations and Estimated Other Financing Uses
406	Budgetary Nonspendable Fund Balance
407	Budgetary Restricted Fund Balance
408	Budgetary Committed Fund Balance
409	Budgetary Assigned Fund Balance
411	Encumbrances
412	Budgetary Find Balance — Reserved for Encumbrances

Subsidiary Revenue Accounts	
20	Vehicle Code Fines
30	Interest
41	State Highway Users Tax:
	.1 Administration & Engineering (*SHC Code, §2104a*)
	.2 Snow Removal (*SHC Code, §2104b*)
	.3 Heavy Rainfall and Storm Damage (*SHC Code, §2104c*)
	.4 Rights-of-Way and Construction (*SHC Code, §2106*)
	.5 Any Road Purpose (*All Other*)
96	Road and Street Services
106	Other
121	Sale of Capital Assets
If these codes are prefixed by a 4, they refer to estimated revenues—If prefixed by a 5, they refer to actual revenues	

Subsidiary ledger Expenditure Accounts			
Objects		***Cost Centers***	
1	Salaries and Employee Benefits	31	Administration
2	Services and Supplies	32	Construction
3	Other Charges	34	Aid to Other Governmental Agencies
4	Capital Assets	35	Acquisition of Equipment
5	Other Financing Uses	36	Plant Acquisition
Clearing Accounts		37	Reimbursable Work
21	Labor — Clearing	50	Operating Transfers:
22	Equipment — Clearing		1. Plant
24	Shop Overhead — Clearing		2. Interfund Reimbursable Work

Codes prefixed by a 6, refer to appropriations; by a 7, to encumbrances (applicable to objects only); and by an 8, to expenditures.

A three-digit number identifies each project. The block within which a number falls identifies the cost center. Projects are numbered in sequence within each block. A fourth digit is used to designate the type of expenditure.

Work Type Code (First Three Digits)			
101-179	Road Construction	*350-399	Other Maintenance
181-199	Rights of Way	401-499	Aid to Other Governmental Agencies
201-299	Bridge Construction	501-599	Acquisition of Equipment
*300-324	Snow Removal	601-699	Plant Acquisition
*325-349	Heavy Rainfall & Storm Damage	701-799	Reimbursable Work

Source of Cost (Fourth Digit)			
Direct Charges		***Applied Charges***	
1	Contracts	3	Labor
2	Other	4	Equipment
		5	General Road Overhead

* In this example, maintenance is segregated only by snow removal, heavy rainfall and storm damage, and all other maintenance. If additional detail were desired, project numbers could be assigned within the indicated blocks.

9A.39 Budget

The 20X1 budget is adopted as follows:

Budget Summary					
Budgetary Assigned Fund Balance	$	28,000	Appropriations	$	800,000
Estimated Revenues		648,000			
Other Financing Sources		123,700			
Total	$	800,000			
				$	800,000

Detail of Estimated Revenues			
Fines, Forfeits, and Penalties			
420	Vehicle Code Fines	$	11,000
Revenue Form Other Governmental Agencies			
441	State Highway Users Tax		611,800
Charges For Current Service			
495	Road and Street Services		7,000
Other Revenues			
121	Sale of Capital Assets		8,500
	Other		10,000
Total		$	648,300

Detail of Requirements	
Function:	Public Ways and Facilities
Activity:	Public Ways
Budget Unit:	Road Construction and Maintenance

Road Department			
Objects			
601	Salaries and Employee Benefits	$	300,000
602	Services and Supplies		335,000
603	Other Charges		100,000
604	Capital Assets		45,000
605	Appropriation for Contingencies		20,000
Total		$	800,000

Proposed Work Program			
Administration			$40,000
Construction			
Roads			
101	$ 25,000		
102	21,500		
103	40,000		
104	18,500		
105	17,000		
106	28,500		
107	37,000		
108	9,500		
109	3,000		
110	3,500		
111	2,500		
112	16,000		
113	3,000		
114	3,500		
115	5,000		
116	6,500		
117	7,000		
118	7,500		
119	9,000		
120	5,000		
121	5,500		
122	8,500		
123	4,000		
124	4,500		
125	6,500		
126	4,000	$ 301,500	
Rights of Way			
181	$ 28,500		
182	8,000		
183	6,000		
184	4,500		
185	7,000	54,000	
Bridges			
201	$ 3,500		
202	9,500		
203	5,500		
204	10,000		
205	27, 500		
206	4,000		
207	5,000		
208	14,500	79,500	435,000
Maintenance			
HR—SD		7,500	7,500
Other		212,500	212,500
Aid to Other Governmental Agencies		10,000	
Equipment Acquisition		35,000	
Plant Acquisition		10,000	
Reimbursable Work		30,000	85,000
Total Work Program			780,000
Appropriation for Contingencies			20,000
Total Requirements			$ 800,000

9A.40 Books and Records

The tables on the following pages are sample transactions entries.

Roads County of X General Journal (J)					
	Accounts	Subsidiary Ledger		General Ledger	
Folio #	Title	Debit	Credit	Debit	Credit
		July 1			
409	Budgetary Assigned Fund Balance	28,000		28,000	
401	Estimated Revenues and Other Financial sources	772,000		772,000	
600	Appropriations		800,000		800,000
	(To record Appropriation Budget for Road Fund)				
		July 2			
301	Revenues			7,000	
107	Accounts Receivable				7,000
96	Road and Street Services	5,000			
121	Sale of Capital Assets	2,000			
	(To reverse revenue accruals at June 30)				
		July 3			
203	Accounts Payable			23,800	
	Inventory				21,700
	Expenditures				2,100
	Aggregate		14,740		
	Asphalt		3,600		
	Auto Supplies		960		
	Pipe		630		
	Lumber		420		
	Paint		190		
	Steel		640		
	Gas, Oil, Diesel		520		
	Services and Supplies		2,100		
	*Equipment Clearing		1,000		
	*General Road Overhead — Clearing		200		
	*Shop Overhead — Clearing		200		
	*Administration		700		
	(To reverse inventory and expenditure accruals at June 30)				
	*An asterisk preceding an account title designates a cost account				
		July 4			
Budgetary Fund Balance — Reserved for Encumbrances				18,000	
Budgetary Assigned Fund Balance					18,000
Budgetary Committed Fund Balance		18,000			
Encumbrances		18,000			
Appropriations			18,000		
Budgetary Fund Balance — Reserved for Encumbrances			18,000		
Services and Supplies		13,500	13,500		
Equipment		4,500	4,500		
	(To re-appropriate and encumber items encumbered at June 30)				
		July 5			
Expenditures				26,000	
Cash					26,000
Salaries and Employee Benefits		26,000			
*Labor — Clearing		26,000			
	(To record payroll and transfer cash to Payroll Revolving Fund)				
		July 6			
Expenditures				2,100	
Cash					2,100
Salaries and Employee Benefits		2,100			
*Labor — Clearing		2,100			

Roads County of X General Journal (J)					
	Accounts	Subsidiary Ledger		General Ledger	
Folio #	Title	Debit	Credit	Debit	Credit
	(To record county share of retirement and transfer cash to trust fund)				
	August 7				
	Expenditures (continued)			11,000	
	Deposits With Others				11,000
	Services and Supplies		11,000		
	*Construction		11,000		
	[To record expenditure by State of Federal Aid Secondary (FAS) deposit]				
	August 8				
	Budgetary Fund Balance — Reserved for Encumbrances			11,000	
	Encumbrances				11,000
	Services and Supplies		11,000		
	(To record…)				
	***An Asterisk preceding an account title designates a cost account**				
	August 9				
	Expenditures			25,500	
	Cash				25,500
	Salaries and Employee Benefits	25,500			
	*Labor - Clearing	25,500			
	(To record payroll and transfer cash to Payroll Revolving Fund)				
	August 10				
	Expenditures			2,050	
	Cash				2,050
	Salaries and Employee Benefits	2,050			
	*Labor - Clearing	2,050			
	(To record county share of retirement and transfer cash to trust fund)				
	August 11				
	Cash			25,000	
	Revenue and Other Financing Sources				25,000
	Operating Transfers-In		25,000		
	(To charge $25,000 of expenditures to General Fund)				
	***An Asterisk preceding an account title designates a cost account**				

Because of space limitations, the detail of encumbrances and appropriations is not posted to the subsidiary records. This comment applies to journal entries 1 and 4.

9A.41 Subsidiary Ledgers

Following are sample subsidiary ledgers:

ROADS County of X Daily Labor and Applied Overhead Summary (L)					
	Code	Total	Labor	Gen. Road Overhead (5% of Labor)	Shop Overhead (15% of Labor)
			July		
Equipment Repair	102		$ 65.00		$ 9.75
	202		160.00		24.00
	305		275.00		41.25
	308		120.00		18.00
	312		95.00		14.25
		$ 822.25	$ 715.00		$ 107.25
Administration		$ 3,070.00	$ 3,070.00		
Construction:					
Road	101		$ 2,450.00	$ 122.50	
	102		2,140.00	107.00	
	104		960.00	48.00	
	105		1,610.00	80.50	
	106		3,690.00	184.50	
	107		920.00	46.00	
Bridge	201		1,200.00	60.00	
	202		2,350.00	117.50	
	203		130.00	6.50	
		$ 16,222.50	$ 15,450.00	$ 772.50	
Maintenance	350	$ 6,373.50	$ 6,070.00	$ 303.50	
Equipment Acquisition	501	$ 293.25	$ 255.00		$ 38.25
Totals		$ 26,781.50	$ 25,560.00	$ 1,076.00	$ 145.50

ROADS County of X Material Requisition Summary (M)			
	Code	July	August
Administration		$ 150.00	$ 180.00
Construction:			
Road	101	$ 570.00	$ 210.00
	102		125.00
	103		355.00
	104	90.00	
	105	340.00	55.00
	106	190.00	75.00
	107		25.00
	108		35.00
	109	160.00	200.00
	110	70.00	40.00
	111		85.00
Bridge	201	85.00	80.00
	202	240.00	210.00
	203		30.00
	204	10.00	
		$ 1,755.00	$ 1,525.00
Maintenance	350	$ 725.00	$ 840.00
Reimbursable Work	701		$ 45.00
Totals		$ 2,630.00	$ 2,590.00
Summary by Equipment Group	100	$ 395.00	$ 425.00
	200	320.00	325.00
	300	375.00	440.00
	400	380.00	310.00
	500	280.00	290.00
	600	305.00	300.00
	700	330.00	265.00
	800	130.00	90.00
	900	115.00	145.00
		$ 2,630.00	$ 2,590.00

ROADS County of X Material Requisition Summary (M) Summary by Cost Center			
	Code	July	August
Equipment Repair	102	$ 32.00	
	104		$ 22.00
	105		87.00
	202	94.00	
	203		15.00
	206		26.00
	207		51.50
	305	110.00	
	308	65.00	
	312	36.80	
	315		69.50
		$ 337.80	$ 271.00
Equipment Maintenance — Gas, Oil, Diesel		$ 534.20	$ 554.00
Construction:			
Bridge	201	$ 3,430.00	$ 420.00
	202	2,020.00	600.00
	203		230.00
	204	68.00	
Road	101	1,770.00	510.00
	102		1,400.00
	103		4,093.00
	104	1,927.00	
	105	926.00	
	106	2,442.00	405.00
	107		480.00
	108		750.00
	109	1,165.00	2,150.00
	110	1,040.00	1,870.00
		$ 14,788.00	$ 12,908.00
Maintenance	350	$ 2,730.00	$ 3,060.00
Equipment Acquisition	501	$ 134.00	$ 19.00
	502		163.00
		$ 134.00	$ 182.00
Reimbursable Work	706		$ 385.00
Totals		$ 18,524.00	$ 17,360.00

ROADS Material Requisition Summary (M) Summary by Gas, Diesel, Oil Usage by Equipment			
	Equipment #	July	August
Passenger Cars	101	$ 17.00	$ 22.30
Group 1	102	13.20	26.80
	103	1.10	6.15
	104	7.00	1.50
	105	18.00	16.75
		$ 56.30	$ 73.50
Pickups	201	$ 1.80	$ 4.90
Group 2	202	8.05	9.30
	203	1.40	2.10
	204	4.80	1.00
	205	2.40	6.00
	206	7.20	2.55
	207	2.60	1.10
	208	1.90	1.40
	209	5.90	1.60
	210	2.40	7.55
	211	1.75	2.75
	212	2.20	4.30
		$ 42.40	$ 44.55
Trucks	301	$ 7.60	$ 5.95
Group 3	302	2.90	11.05
	303	10.50	6.55
	304	7.40	8.65
	305	2.25	4.65
	306	8.30	2.60
	307	5.60	13.15
	308	4.20	2.75
	309	3.05	6.25
	310	6.30	7.20
	311	4.40	10.10
	312	6.10	6.75
		$ 68.60	$ 85.65
Motor and Graders	401	$ 29.90	$ 18.40
Group 4	402	35.10	37.30
	403	31.60	32.10
		$ 96.60	$ 87.80
Rollers	501	$ 24.00	$ 41.80
Group 5	502	38.50	19.90
	503	5.20	9.80
		$ 67.70	$ 71.50
Tractor and Loaders, Small	601	$ 11.00	$ 8.55
Group 6	602	22.50	16.75
	603	9.10	15.85
	604	10.80	22.05
	605	19.70	11.10
		$ 73.10	$ 74.30
Tractor and Loaders, Large	701	$ 34.25	$ 30.05
Group 7	702	61.05	57.90
		$ 95.30	$ 87.95
Cranes	801	$ 34.20	$ 28.85
Group 8			
TOTAL		$ 534.20	$ 554.10

ROADS Material Requisition Summary (M) Summary by Class of Material		
104-10	$ 9,138.00	$ 7,960.00
104-20	6,815.00	5,305.00
104-30	402.00	395.00
104-40	392.00	1,421.00
104-50	460.00	397.00
104-60	172.00	186.00
104-70	610.80	1,142.00
104-80	534.20	554.10
	$ 18,524.00	$ 17,360.10

ROADS
County of X
Subsidiary Cost Center Ledger
(July Only)

ADMINISTRATION

			Services & Supplies					
Date	Ref.	Salaries & Employee Benefits	Direct	Equipment	Other	Other Charges	Fixed Assets	Total
7-31	L	3,070.00						
31	E			150.00				
31	W		761.00					
31	J-3		(700.00)					
		3,070.00	61.00	150.00				3,281.00

Number in parenthesis next to cost centers indicates financing source

ROADS
County of X
Subsidiary Cost Center Ledger

CONSTRUCTION

			Direct		Applied			
Project	Date	Ref.	Contracts	Other	Labor	Equipment	Overhead	Total
101	7-31	L			2,450.00		122.50	
	31	E				570.00		
	31	M		1,770.00				
				1,770.00	2,450.00	570.00	122.50	4,912.50
104	7-31	L			960.00		48.00	
	31	E				90.00		
	31	M		1,927.00				
				1,927.00	960.00	90.00	48.00	3,025.00
106	7-31	L			3,690.00		184.50	
	31	E				340.00		
	31	M		2,442.00				
				2,442.00	3,690.00	340.00	184.50	6,656.50

ROADS
County of X
Subsidiary Cost Center Ledger

(July Only)

Group	Equipment Number	Date	Ref.	Debit	Credit	Variance
1	101	7-31	M	17.00		
	101	31	W	58.00		
	101	31	J-3		55.00	
	102	31	L	78.00		
	102	31	M	32.00		
	102	31	M	13.20		
	103	31	M	1.10		
	104	31	M	7.00		
	105	31	M	18.00		
			E		395.00	(255.70)
2	201	7-31	M	1.80		
	202	31	L	192.00		
	202	31	M	94.00		
	202	31	M	8.05		
	203	31	M	1.40		
	204	31	M	4.80		
	205	31	M	2.40		
	206	31	M	7.20		
	207	31	M	2.60		
	208	31	M	1.90		
	209	31	M	5.90		
	210	31	M	2.40		
	211	31	J-3	1.75		
	211	31	M		47.00	
	212	31	W	2.20		
			E	47.00		
					320.00	8.40
3	301	7-31	M	7.60		
	302	31	M	2.90		
	303	31	M	19.50		
	304	31	M	7.40		
	305	31	L	330.00		
	305	31	M	110.00		
	305	31	M	2.55		
	306	31	M	8.30		
	307	31	M	5.60		
	307	31	M	95.00		
	307	31	J-3		105.00	
	308	31	L	144.00		
	308	31	M	65.00		
	308	31	M	4.20		
	309	31	M	3.05		
	310	31	M	6.00		
	310	31	M	140.00		
	310	31	J-3		164.00	
	311	31	M	4.40		
	312	31	L	114.00		
	312	31	M	36.80		
	312	31		6.10		
		31			375.00	468.40
4	401	7-31	M	29.90		

ROADS
County of X
Subsidiary Cost Center Ledger

(July Only)

Group	Equipment Number	Date	Ref.	Debit	Credit	Variance
	401	31	M	127.00		
	401	31	J-3		119.00	
	402	31	M	35.10		
	403	31	M	31.60		
		31	E		380.00	(305.30)
5	501	7-31	M	24.00		
	502	31	M	38.50		
	502	31	W	218.00		
	502	31	J-3		234.00	
	503	31	M	5.20		
		31			280.00	(228.30)
6	601	7-31	M	11.00		
	602	31	M	22.50		
	603	31	M	9.10		
	604	31	M	10.80		
	605	31	M	19.70		
	605	31	M	307.00		
	605	31	J-3		279.00	
		31	E		305.00	(203.90)
7	701	7-31	M	34.25		
	701	31	M	61.05		
		31	E		33.00	62.30
8	801	7-31	M	34.25		
	801	31	M	61.05		
		31	E		191.05	(95.75)
9	901	7-31	E		115.00	(115.00)
Net Variance						(885.95)

At the end of the year, the net variance is cleared to the cost centers in proportion to total prior allocations.

ROADS
County of X
Subsidiary Inventory Ledger
ACCOUNT 104

#	Subaccount Title	Balance 7-1-XX	Transactions July Ref.	July Debit	July Credit	August Ref.	August Debit	August Credit	Balance 8-31-XX
10	Aggregate	14,268.00	W	14,748.00		W	8,210.00		
			J-3		14,740.00	M		7,960.00	
			M		9,138.00				
			D		35.00				5,353.00
20	Asphalt	9,799.00	W	3,601.00		W	460.00		
			J-3		3,600.00	M		395.00	
			M		6,815.00				3,050.00
30	Auto Supplies	1,339.00	W	968.00		W	6,980.00		
			J-3		960.00	M		5,305.00	
			M		402.00				2,620.00
40	Pipe	1,148.00	W	624.00		W	1,471.00		
			J-3		630.00	M		1,421.00	
			M		392.00				800.00
50	Lumber	743.00	W	420.00		W	504.00		
			J-3		420.00	M		397.00	
			M	460.00					390.00
60	Paint	159.00	W	186.00		W	252.00		
			J-3		190.00	M		186.00	
			M		1,172.00				49.00
70	Steel	1,676.80	W	628.00		W	738.00		
			J-3		640.00	M		1,142.00	
			M		610.80				650.00
80	Gas, Oil, Diesel	867.20	W	522.00		W	597.00		
			J-3		522.00	M		554.00	
			M		534.20				378.00
	Totals	30,000.00		21,697.00	40,259.00		19,212.00	17,360.00	13,290.00

ROADS
County of X
Road Department Expenditure Reconciliation
(Object Accounts and Cost Accounts)

Note: The sample worksheets illustrate how the objects, expenditures, and cost account charges should be reconciled. It is suggested that this reconciliation be done on a monthly basis.

#	Title	OBJECT ACCOUNTS July Ref.	July Debit	July Credit	August Ref.	August Debit	August Credit	Balance 8/31/XX Debit
811	Salaries and Employee Benefits	J-5	$26,000.00		J-9	$25,500.00		
		J-6	2,100.00		J-10	2,050.00		$55,650.00
812	Services and Supplies	M	18,524.00		J-7	11,000.00		
		W	2,195.00		M	17,360.00		
		J-3		2,100.00	W	4,398.00		51,377.00
813	Other Charges				W	12,000.00		12,000.00
814	Capital Assets				W	4,500.00		4,500.00
	Total							$123,527.00

LEGEND	
J	Journal
M	Material
W	Warrant
L	Labor
E	Equipment
ROH	Road Overhead
SOH	Shop Overhead

ROADS
County of X
Road Department Expenditure Reconciliation
(Object Accounts and Cost Accounts)

		COST ACCOUNTS						Balance
		July			August			8/31/XX
#	Title	Ref.	Debit	Credit	Ref.	Debit	Credit	Debit
821	Labor Clearing	J-5	$26,000.00		J-9	$25,500.00		
		J-6	2,100.00		J-10	2,050.00		
		L		25,560.00	L		26,270.00	$3,820.00
822	Equipment Clearing	SOH	107.25		SOH	97.50		
		L	715.00		L	650.00		
		M	337.80		M	271.00		
		M	534.20		M	554.00		
		W	1,001.00		W	1,413.00		
		J-3		1,000.00	E		2,590	
		E		2,630.00				(539.25)
823	General Road Overhead Clearing	W	210.00		W	1,754.000		
		J-3		200.00	ROH		1,108.75	
		ROH		1,076.00				(420.75)
825	Shop Overhead Clearing	W	223.00		L	251.00		
		J-3		200.00	L		150.00	
		SOH		145.00				(21.50)
831	Administration	L	3,070.00		L	3,095.00		
		W	761.00		W	380.00		
		E	150.00		E	180.00		
		J-3		700.00				6,936.00
832	Construction	ROH	772.50		J-7	11,000.00		
		L	15,450.00		L	14,931.00		
		E	1,755.00		E	1,525.00		
		M	14,783.00		M	12,908.00		
					W	2,600.00		75,729.50
833	Maintenance	L	6,373.50		L	7,875.00		
		E	725.00		E	840.00		
		M	2,730.00		M	3,060.00		21,603.50
834	Aid to Other Governmental Agencies				W	10,000.00		10,000.00
835	Acquisition of Equipment	SOH	38.25		SOH	52.52		
		L	255.00		L	350.00		
		M	135.00		M	182.00		
					W	4,500.00		5,511.75
837	Reimbursement				L	477.75		
					E	45.00		
					M	385.00		907.75
Total								$123,527.00

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CHAPTER 10 CAPITAL PROJECTS FUNDS

10.01 Nature and Purpose

Governments often find it useful to report major capital acquisitions and construction separately from their ongoing operating activities. When this is the case, capital projects funds are used.

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Capital projects funds use the same flow of current financial resources measurement focus and the modified accrual basis of accounting that is used by other governmental fund types.

10.02 Fund Requirements

Governmental units should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established, however, because unnecessary funds can result in inflexibility, undue complexity, and inefficient financial administration. Most funds are established by governing bodies (such as state legislatures, city councils, or school boards) to show restrictions on the planned use of resources or to measure, in the short term, the revenues and expenditures arising from certain activities.

It is generally recommended that a capital projects fund be used for the government's major capital acquisition and construction activities. A capital projects fund may be required if the major capital acquisition or construction activities are financed through borrowings or contributions. Capital outlays financed from general obligation bond proceeds should be accounted for through a capital projects fund.

10.03 Relationship to Budget

Planning for capital projects funds begins in the government's long-term capital budget. Estimated current capital outlays and the proposed revenues and other financing sources required to finance them are also set forth in the annual operating budget(s). The annual operating budget, when adopted, provides legal authorization, on an annual basis, for the capital outlay expenditures set forth in the capital budget. Legal authorization for capital projects fund spending may also be provided indirectly by governing board approval of intergovernmental grant agreements or of debt instruments.

Formal budgetary integration is generally necessary for any capital projects fund that is used to account for more than one project. Governments sometimes employ formal budgetary integration, along with encumbrance accounting, to protect against capital projects cost overruns and to ensure that sufficient resources are available on a timely basis to meet expenditure requirements during the course of the year. Encumbered amounts for specific purposes should be classified appropriately as restricted, committed or assigned fund balance, dependent upon the funding source spending limitations.

10.04 Transactions and Illustrative Journal Entries

CASE DESCRIPTION:

The county established long-range plans to construct a new county jail and for several years has provided for the accumulation of funds in a capital projects fund for this purpose. However, due to new state requirements concerning jail facilities and the availability of state grants to assist in financing these facilities, the county has decided to accelerate the plans for construction. The issuance of $1,250,000 of general obligation bonds has been approved at a general election.

Estimated construction costs and funding sources are as follows:

Account	Amount	% of Total
Capital Projects Fund — Jail (Assigned)	$ 250,000	5
Bond Proceeds (Restricted)	1,250,000	25
State Grant (Restricted)	1,000,000	20
General Fund (Committed)	2,500,000	50
Total Project Cost	$ 5,000,000	100

General Fund contributions to this project could be committed in total during the first year. For the purposes of this example, it is assumed that the current-year budget contains appropriations for the funds, as follows:

Fund	Appropriation
General Fund	**$2,125,000**

The balance of the *General Fund* contribution ($375,000) will be appropriated in the budget for the next fiscal year. In accordance with the government policy spending priorities, all restricted resources are spent first. For this example, these funds are spent on a pro rata basis.

Residual balances, if any, remaining in the *Capital Projects Fund* at the completion of the project will be returned to the contributing funds, as follows:

Contributing funds	Share
Bond Proceeds (to be distributed to the appropriate debt service fund)	**31.25%**
General Fund	68.75%
	100.00%

A pro rata return of residual balances or some other disposition could be spelled out by agreement, debt agreement, or local custom.

First Fiscal Year (July 1, 20X1 to June 30, 20X2):

July 1, 20X1

It is assumed that the county budget adopted for the fiscal year 20X1-X2 provided for this project:

Account	Debit	Credit
Capital Projects Fund - Jail		
Estimated Other Financing Sources	3,375,000	
Budgetary Restricted Fund Balance		1,250,000
Budgetary Committed Fund Balance		2,125,000
Estimated Revenues (50% of state grant)	500,000	
Budgetary Assigned Fund Balance	250,000	
Budgetary Restricted Fund Balance	1,250,000	
Budgetary Committed Fund Balance	2,125,000	
Appropriations		4,125,000
(To record adopted operating budget)		

Account	Debit	Credit
General Fund		
Estimated Revenues	2,125,000	
Estimated Other Financing Uses		2,125,000
(To record budget for contributions to Capital Projects Fund)		

Account	Debit	Credit
General Fund		
Other Financing Uses	2,125,000	
Due To Capital Project Fund - Jail		2,125,000
(To record liabilities for contributions due)		

Account	Debit	Credit
Capital Projects Fund - Jail		
Due from General Fund	2,125,000	
Other Financing Sources		2,125,000
(To record receivables for General Fund share of the project)		

December 15, 20X1

Account	Debit	Credit
Capital Projects Fund - Jail		
Cash	2,125,000	
Due from General Fund		2,125,000
(To record transfer of cash from General Fund)		

Account	Debit	Credit
General Fund		
Due to Capital Projects Fund - Jail	2,125,000	
Cash		2,125,000
(To record transfer of cash to the Capital Projects Fund - Jail)		

January 15, 20X2

A contract is signed with Malcolm Bros. Architects for plans, specifications and construction, and supervision. The contract is for $500,000:

Account	Debit	Credit
Capital Projects Fund - Jail		
Encumbrances	500,000	
Budgetary Fund Balance — Reserved for Encumbrances*		500,000
(To record…)		
*See Chapter 16, *Budgetary* for details of encumbrance accounting		

February 1, 20X2

Bond anticipation notes are sold at 10% pending a better market condition for the sale of bonds:

Account	Debit	Credit
Capital Projects Fund - Jail		
Cash	1,250,000	
Other Financing Sources		1,250,000
(To record sale of notes)		

Account	Debit	Credit
Capital Projects Fund - Jail		
Investments	1,250,000	
Cash		1,250,000
(To record proceeds of notes invested at 10%)		

Account	Debit	Credit
Capital Projects Fund - Jail		
Unanticipated Revenue	52,000	
Appropriations		52,000
(To record budget adjustment for interest income and expense)		

May 1, 20X2

A state grant is applied for and approved. The grant is payable in two installments, one at 50% completion of construction and one at 100% completion

Account	Debit	Credit
No Entry Required		

May 1, 20X2

Malcolm Bros. Architects submits the plans and specifications and bills the county for the first payment (50% of contract):

Account	Debit	Credit
Capital Projects Fund - Jail		
Budgetary Fund Balance — Reserved for Encumbrances	250,000	
Encumbrances		250,000
Expenditures	250,000	
Cash		250,000
Due From State	50,000	
Revenue		50,000
(To recognize state grant revenue earned at 20% of expenditures)		

June 15, 20X2

The first-phase construction contract is awarded to Smith Construction Co. for $3,600,000. Site clearance and landscaping, to be performed by the county, is estimated at $25,000:

Account	Debit	Credit
Capital Projects Fund - Jail		
Encumbrances	3,625,000	
Budgetary Fund Balance — Reserved for Encumbrances*		3,625,000
(To record…)		
*See Chapter 16, *Budgetary* for details of encumbrance accounting		

June 30, 20X2

A billing for $15,000 is received from the road department for site clearance. The billing is cleared by journal entry:

Account	Debit	Credit
Road Fund		
Cash	15,000	
Revenue		15,000
(To record…)		

Account	Debit	Credit
Capital Projects Fund — Jail		
Budgetary Fund Balance — Reserved for Encumbrances	15,000	
Encumbrances		15,000
Expenditures	15,000	
Cash		15,000
Due from State	3,000	
Revenue		3,000
(To recognize state grant revenue earned at 20% of expenditures)		

June 30, 20X2

Construction in Progress is recorded in the Capital Assets Accounting System:

Account	Debit	Credit
Capital Assets Accounting System		
Construction in Progress	265,000	
Invested in Capital Assets		265,000
(To record…)		

Account	Debit	Credit
Capital Projects Fund — Jail		
Accrued Interest Receivable	52,000	
Expenditures	52,000	
Accrued Interest Payable		52,000
Revenue		52,000
(To record accrued interest receivable and accrued interest payment on notes)		

Account	Debit	Credit
Capital Projects Fund — Jail		
Budgetary Fund Balance — Reserved for Encumbrances	3,860,000	
Encumbrances		3,860,000
(To close encumbrances outstanding at year-end)		

Account	Debit	Credit
Capital Projects Fund — Jail		
Assigned Fund Balance	3,860,000	
Fund Balance — Reserved for Encumbrances		3,860,000
*(To record **actual** fund balance encumbered for expenditure upon contractor performance)*		

Account	Debit	Credit
Capital Projects Fund — Jail		
Appropriations	4,177,000	
Budgetary Assigned Fund Balance		250,000
Estimated Other Financing Sources		3,375,000
Estimated Revenues		500,000
Unanticipated Revenues		52,000
(To reverse budgetary entries)		

Account	Debit	Credit
Capital Projects Fund — Jail		
Revenue	105,000	
Other Financing Sources	2,125,000	
Assigned Fund Balance		1,913,000
Expenditures		317,000
(To close actual operating accounts into assigned fund balance)		

Second Fiscal Year (July 1, 20X2 to June 30, 20X3):

July 1, 20X2

The county budget contains a provision to transfer from the *General Fund* $375,000, representing the second-year *General Fund* Contribution to the *Capital Projects Fund — Jail*. The budget and the cash transfer for the *Capital Projects Fund — Jail* are recorded:

Account	Sub	Debit	Credit
Capital Projects Fund — Jail			
Estimated Other Financing Sources		375,000	
Budgetary Assigned Fund Balance			375,000
Estimated Revenues		948,000	
Budgetary Assigned Fund Balance		72,000	
Appropriations			1,020,000
Revenue — State Grant	948,000		
Interest Income	72,000		
	1,020,000		
(To record budget for the Capital Projects Fund)			

Account	Debit	Credit
Capital Projects Fund — Jail		
Due From General Fund	375,000	
Other Financing Sources		375,000
(To record amount due from the General Fund)		

Account	Debit	Credit
Capital Projects Fund — Jail		
Fund Balance — Reserved for Encumbrances	3,860,000	
Assigned Fund Balance		3,860,000
Budgetary Assigned Fund Balance	250,000	
Budgetary Committed Fund balance	3,610,000	
Encumbrances	3,860,000	
Appropriations Prior Year		3,860,000
Budgetary Fund Balance — Reserved for Encumbrances		3,860,000
(Encumbrances outstanding at year-end are re-established, along with their encumbered appropriations)		

Account	Debit	Credit
Capital Projects Fund — Jail		
Cash	375,000	
Due from General Fund		375,000
(To record…)		

Account	Debit	Credit
General Fund		
Estimated Revenues	375,000	
Estimated Other Financing Uses		375,000
(To record budget for contributions to capital projects fund)		

Account	Debit	Credit
General Fund		
Other Financing Uses	375,000	
Due to Capital Projects Fund-Jail		375,000
(To record liability for contributions due)		

Account	Debit	Credit
General Fund		
Due to Capital Projects Fund-Jail	375,000	
Cash		375,000
(To record transfer of cash to the Capital Projects Fund — Jail)		

August 1, 20X2

A contract with Smith Construction for Phase 2 of the construction is signed. The estimated cost of Phase 2 is $875,000:

Account	Debit	Credit
General Fund		
Encumbrances	875,000	
Budgetary Fund Balance — Reserved for Encumbrances		875,000
(To record…)		

December 15, 20X2

Malcolm Bros. certifies 50% completion of construction and submits a billing for 25% of its contract.
Smith Construction Co. submits a billing for 50% of the construction contract costs. The contract requires a 10% retention pending final acceptance of the building.

A claim for 50% of the state grant is submitted:

Account	Debit	Credit
Capital Projects Fund — Jail		
Budgetary Fund Balance — Reserved for Encumbrances	2,362,500	
Encumbrances		2.362,500
Expenditures	2,362,500	
Cash		2,138,750
Retention		223,750
Due from State	472,500	
Revenue		472,500
(To recognize state grant earned at 20% of expenditures)		

January 15, 2Y03

The county receives 50% of the total state grant:

Account	Debit	Credit
Capital Projects Fund — Jail		
Cash	500,000	
Due from State		500,000
(To record…)		

February 1, 2Y03

Bonds are sold, investments are cashed in, and bond application notes are redeemed:

Account	Debit	Credit
Capital Projects Fund — Jail		
Cash	1,250,000	
Other Financing Sources		1,250,000
(To record proceeds of bond sale)		

Account	Debit	Credit
Capital Projects Fund — Jail		
Cash	1,375,00	
Revenue		73,000
Investments		1,250,00
Accrued Interest Receivable		52,000
(To record sale of investments, interest revenue, and collection of interest revenue)		

Account	Debit	Credit
Capital Projects Fund — Jail		
Expenditures	73,000	
Accrues Interest Payable	52,000	
Retirement Long-Term Debt	1,250,000	
Cash		1,375,000
(To record redemption of bond anticipation notes, interest expense, and payment of interest on notes)		

May 15, 20X3

The county receives notice for completion of construction from Malcom Bros. and a billing for the final 25% of its contract:

The county receives a billing from Smith Construction for the second payment, subject to 10% retention:

The county receives a billing from the road department for landscaping cost of $8,000:

Account	Debit	Credit
Capital Projects Fund — Jail		
Budgetary Fund Balance — Reserved for Encumbrances	2,370,5000	
Encumbrances		2,370,500
Expenditures	2,370,500	
Cash		2,146,750
Retention		223,750
Due from State	474,100	
Revenue		474,100
(To recognize state grant revenue earned at 20% of expenditures)		

Account	Debit	Credit
Road Fund		
Cash	8,000	
Revenue		8,000
(To record…)		

June 15, 20X3

The county receives the balance of the state grant as follows:

Account	Actual Cost
Malcolm Bros., Architects	$500,000
Road Dept., Site Clearance	15,000
Smith Const. Co., Construction	4,475,000
Road Dept., Landscaping	8,000
Total Cost	$4,998,000

Account	Actual Cost
State Grant Proceeds, 20% Of Cost	$999,600
Received January 15, 20X3	500,000
Due and Received this Payment	$499,600

Account	Debt	Credit
Capital Projects Fund-Jail		
Cash	499,600	
Due from State		499,600
(To record …)		

June 30, 20X3

The board of supervisors accepts the new jail facility and orders the paid retention to Smith Construction.

The *Capital Projects Fund — Jail* is closed and remaining balances, in accordance with the prior agreement, are transferred as follows:

Balance Transfers:		
1	**Debt Service Fund**	**31.25%**
2	General Fund	68.75%
		100.00%

Account	Debit	Credit
Capital Projects Fund — Jail		
Retention	447,500	
Cash		447,500
Transfers-Out	1,600	
Cash		1,600
(To record transfer of remaining balances)		

Account	Debit	Credit
Capital Projects Fund — Jail		
Appropriations	4,808,000	
Budgetary Assigned Fund Balance	447,000	
Revenue	1,019,600	
Budgetary Fund Balance - Reserved for Encumbrances	2,000	
Other Financing Sources	1,625,000	
Transfers-In		1,600
Assigned Fund Balance		1,697,000
Encumbrances		2,000
Expenditures		4,806,000
Estimated Revenues		1,020,000
Estimated Other Financing Sources		375,000

Account	Debit	Credit
Debt Service Fund		
Cash	500	
Transfers-In		500

Account	Debit	Credit
General Fund		
Cash	1,100	
Transfers-In		1,100

June 30, 20X3

The new jail facility is recorded in the Capital Assets Accounting System:

Account	Debit	Credit
Capital Assets Accounting System		
Structures and Improvements	4,998,000	
Construction in Progress		265,000
Invested in Capital Assets		4,733,000

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CHAPTER 11 DEBT

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CHAPTER 11 DEBT

11.01 Long-Term Debt

Long-term debt is the term used to describe obligations that are not expected to be liquidated with available resources. Types of obligations found in this category include:

- Liabilities evidenced by formal debt instruments—such as term bonds, serial bonds, revenue bonds and tax anticipation notes—excluding issuance costs;
- Installment purchase contracts;
- Judgments and claims;
- Unfunded pension obligations; and
- Accumulated vacation, sick pay, and other employee benefit amounts not yet due.

Long-term liabilities of proprietary and fiduciary funds are accounted for throughout those funds. Other long-term liabilities must be maintained in sufficient detail in the debt accounting records to provide sufficient information for financial reporting and disclosure requirements.

11.02 Accounting for Demand Bonds and Other Short-Term Debt

Demand bonds are 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. The demand provisions are exercised at the balance sheet date or within one year from the date of the balance sheet. To ensure the ability to redeem the bonds, issuers of demand bonds frequently enter into short-term standby liquidity agreements and long-term arm's-length financing "takeout" agreements (agreements with an unrelated third party, with each acting in his or her own self-interest). Details of demand bond arrangements are required in the note disclosures.

Demand bonds should be reported by state and local governmental entities as general long-term debt or excluded from current liabilities of proprietary funds if <u>all</u> of the following conditions are met. If all of these conditions are not met, they should be reported as fund liabilities or, in the case of proprietary funds, as current liabilities.

a. Before the financial statements are issued, the issuer has entered into takeout agreement to convert bonds "put" but not resold into some other form of long-term obligation.

b. The takeout agreement does not expire within one year from the date of the issuer's balance sheet.

c. The takeout agreement is not cancelable by the lender or the prospective lender during that year, and obligation incurred under the takeout agreement are not callable by the lender during that year.

d. The lender or the prospective lender or investor is expected to be financially capable of honoring the takeout agreement.

With regard to condition (c), if the takeout agreement is cancelable or callable because of violations that can be objectively determined by both parties and no violations have occurred prior to issuance of the financial statements, the demand bonds should be classified as long-term debt. If violations have occurred and a waiver has been obtained before issuance of the financial statements, the bonds should also be classified as long-term. Otherwise, the demand bonds should be classified as fund liabilities or, in the case of proprietary funds, as current liabilities. If the takeout agreement is cancelable or callable because of violations that cannot be objectively determined by both parties, then the agreement does not provide sufficient assurance of long-term financing capabilities and the bonds should be classified as fund liabilities, or in the case of proprietary funds, as current liabilities.

11.03 Deferred Inflows/Outflows of Resources

Some long-term debt and components of long-term debt have been reclassified as deferred inflows/outflows of resources. Types of obligations found in this category include:

Deferred inflows of resources:

- Offset to taxes receivable
- Advance of revenue from imposed nonexchange transaction (pre-paid property taxes)
- Resources received before time requirements are met (advance-type grants received)
- Deferred credit amounts from refunding debt
- Proceeds from the sale of future revenues
- Gain from sale-leaseback

Deferred outflows of resources

- Resources transmitted before time requirements are met (advance-type grants paid to another entity)
- Deferred debit amounts from refunding debt
- The purchase of future intra-entity revenues
- Loss from sale-leaseback

Deferred inflows/outflows of resources of proprietary and fiduciary funds are accounted for throughout those funds. Other inflows/outflows of resources must be maintained in sufficient detail in the debt accounting records to provide sufficient information for financial reporting and disclosure requirements.

11.04 Conduit Debt Obligations

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

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

For additional information, refer to GASB Interpretation No. 2, *Disclosure of Conduit Debt Obligations*

11.05 General Obligation Bonds

These are bonds payable from taxes or other general revenue and secured by the full faith and credit of the county.

11.06 Revenue Bonds

Revenue bonds are payable solely from a particular source of revenue or from other pledged revenues.

11.07 Special Assessment Bonds

Special assessment bonds are payable from special assessments levied against the properties benefited.

11.08 Certificates of Participation (COPs)

A COP is a form of long-term asset transfer obligation that is securitized by future lease payments by the county rather than the full faith and credit of the county. The lease payments arise by virtue of a sale-leaseback arrangement, which is an integral part of the financing.

11.09 Debt Issuance Costs

Debt issuance costs, except any portion related to prepaid insurance costs, should be recognized as an expense in the period incurred. Prepaid insurance costs should be reported as an asset and recognized as an expense in a systematic and rational manner over the duration of the related debt.

11.10 Bond Premium/Discount

The bond premium/discount is the excess/deficiency of the proceeds collected over/under the face value of the bonds issued, exclusive of any accrued interest collected.

11.11 Amount Available in Debt Service Funds

The amount available in debt service funds represents the fund balance recorded in debt service funds available for the payment of principal and interest of long-term debt. Although long-term liabilities are not reported in the financial statements at the fund level, assets set aside for future payment of the debt are reported at fund level in deferred inflows/outflows of resources.

11.12 Accounting for Debt Proceeds in Governmental Funds

Because governmental funds use the modified accrual basis of accounting, the proceeds of debt issuance are recorded in governmental funds as other financing sources, not as a liability. The face amount is recorded as long-term debt issued and the premium is recorded as premium on long-term debt. The debt issuance cost is reported as an expenditure. The bond premium/discount is amortized on the government-wide financial statements.

11.13 Accounting for Debt Repayments in Governmental Funds

Because no liability for long-term debt is recorded in governmental funds, repayment of the debt is not recorded as a reduction of the liability. Instead, such payments are recorded as financing uses. Payments due within one month after year-end may be accrued if financial resources, such as deposits or transfers, are provided to a debt service fund. Examples of accounting entries are presented in the exhibit at the end of this chapter.

11.14 Debt Service Funds

Debt service funds may be used to account for the repayment of debt. If the county is accumulating resources for the purpose of making debt service payments, it should report them in a debt service fund. Debt transactions associated with proprietary and fiduciary activities are not accounted for in debt service funds, but rather within their appropriate proprietary or fiduciary funds. If such payments are financed directly from unrestricted general governmental revenues, they may be accounted for in the General Fund.

11.15 Number of Debt Service Funds

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

11.16 Budgetary Relationship

Debt service funds require an annual operating budget for estimated revenues, estimated expenditures, other financing sources (uses), extraordinary, and special items. Debt service spending is authorized by the approval of the operating budget and/or governing board approval of bond documents. Such spending is controlled primarily through bond indenture provisions. Accordingly, budgetary accounts are often not formally integrated into the general ledger.

11.17 Debt Service Fund Accounting

The focus of debt service fund accounting is on sources and uses of available spendable resources rather than on costs of services. Such funds are, therefore, accounted for on a current financial resources measurement focus and use the modified accrual basis of accounting.

11.18 Leases

Leases are generally classified as capital leases or operating leases. Leases that have been determined to represent substantially all of the risks and benefits inherent to ownership of an asset are capital leases. This type of lease should be accounted for as the acquisition of an asset and the incurrence of an obligation by the county (lessee). Other leases should be accounted for as operating leases, i.e., the rental of property.

11.19 Capital Lease Criteria

If at its inception a lease meets one or more of the following criteria, it should be accounted for by the lessee as a capital lease:

- The lease transfers ownership of the property to the lessee by the end of the lease term;
- The lease contains an option to purchase the leased property at a bargain price;
- The lease term is equal to or greater than 75 percent of the estimated economic life of the leased property; or
- The present value of rental and other minimum lease payments at the beginning of the lease term equals or exceeds 90 percent of the fair value of the leased property.

The last two criteria are not applicable when the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property.

11.20 Capital Lease Accounting

The amount to be recorded by the lessee as an asset and an obligation (or for governmental funds as a financing source) under a capital lease is the lower of the present value of the rental and other minimum lease payments or the fair value of the leased property. Periodic lease expenditures are treated as payments of the lease obligation and as interest expense (*principal and interest*), so that a constant periodic rate of interest is recorded on the remaining balance of the obligation.

11.21 Operating Lease Accounting

If none of the criteria for capital leases is met, the lease is classified as an operating lease. Neither an asset nor an obligation is recorded for operating leases. Rental payments are recognized as expenditures on the books of the fund from which the payment is made.

11.22 Sale-Leaseback Transactions

Sale-leaseback transactions involve the sale of property by the owner and a lease of the property back to the seller. Any gain or loss arising from the sale[1] of property that is accompanied by a leaseback of all or part of the property for all or part of its remaining economic life should be recorded as a deferred inflow of resources or a deferred outflow or resources, respectively.

For a capital lease, the gain or loss should be recognized in a systematic and rational manner over the lease term in proportion to the recognition of the leased asset[2]. For an operating lease, the gain or loss should be recognized in a systematic and rational manner as well, but in proportion to the related gross rental charged to expense/expenditure over the lease term.

11.23 Authoritative Guidance

Authoritative guidance for lease accounting and reporting is found in GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

11.24 Refundings of Debt

[1] *Gain or loss on the sale* is used in this paragraph to refer to the gain or loss that would be recognized on the sale if there were no leaseback.

[2] If the leased asset is land only, the recognition should be on a straight-line basis over the lease term.

The accounting treatment of governmental funds as described in GASB Statement No. 7*, Advance Refundings Resulting in Defeasance of Debt*, should be followed when debt refunding results in defeasance of debt. A defeasance is a transaction that results in outstanding debt being removed from the balance sheet (i.e., extinguished) for financial reporting purposes.

Advance refundings that result in defeasance of debt reported in governmental funds are accounted for as follows:

- For advance refundings resulting in defeasance of debt accounted for in a governmental fund, the proceeds of the new debt should be reported as an "*other financing source — proceeds of refunding bonds*" in the funds receiving the proceeds. Payments to the escrow agent made from other resources of the entity should be reported as debt service expenditures.
- The debt accounting records should be adjusted for the increase/decrease in the amount of long-term debt.
- Appropriate allocations should be made when one large refunding issue is used to refund debt of various fund classifications.

For current refundings and advanced refundings resulting in defeasance of debt reported by governmental activities, business-type activities, and proprietary funds, the difference between the reacquisition price[1] and the net carrying amount[2] of the old debt should be reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

All governmental entities that defease debt through an advance refunding should provide a general description of the transaction in the notes to the financial statements. Disclosures should include the difference between the cash flows required to service the old debt, the cash flows required to service the new debt, and the economic gain or loss that arises as a result of the debt refunding.

The computations and disclosure requirements for advance refundings and defeasance of debt are extensive. While GASB Statement No. 7 describes the treatment of refunded debt in governmental funds, GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, deals with debt refunding in proprietary funds. If a refunding of proprietary fund debt is encountered, refer to GASB Statement No. 23 and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

[1] *Reacquisition price* is the amount required to repay previously issued debt in a refunding transaction. In a current refunding, this includes the principal of the old debt and any call premium. In an advance refunding, it is the amount placed in escrow that, together with interest earnings, is necessary to pay interest and principal on the old debt and any call premium. A premium or discount pertaining to the new debt is not considered part of the reacquisition price. It is a separate item related to and amortized over the life of the new debt.

[2] *Net carrying amount* is the amount due at maturity, adjusted for any unamortized premium or discount related to the old debt, as well as any deferred outflows of resources or deferred inflows of resources associated with a derivative instrument that is an effective hedge of the old debt.

Exhibits

E11.01 Debt Accounting

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

Account	Debit	Credit
No Formal Accounting Entry is Necessary		

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

Account	Debit	Credit
Governmental Fund		
Cash	2,027,500	
Debt Issuance Expenditures	22,500	
Long-Term Debt Issued		2,000,000
Premium on Bonds Issued		50,000

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

c) On December 15, the first installment of 2000-2001 secured taxes is apportioned.

Account	Debit	Credit
Debt Service Fund		
Cash	125,000	
Revenues		125,000

d) Since cash on hand is insufficient to meet April 1 obligations, $75,000 is temporarily borrowed from the General Fund on March 15, 2001.

Account	Debit	Credit
Debt Service Fund		
Cash	75,000	
Due to General Fund		75,000

Account	Debit	Credit
General Fund		
Due from Debt Service Fund	75,000	
Cash		75,000

e) On April 1, the first semi-annual interest installment of $100,000 and 5% of the bond's principal payment of $100,000 are due.

Account	Debit	Credit
Debt Service Fund		
Expenditures — Interest	100,000	
Expenditures — Bond Principal	100,000	
Matured Interest Payable		100,000
Matured Bonds Payable		100,000

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

f) On April 15, the second installment of 2000-2001 secured taxes is apportioned and the temporary loan from the General Fund is repaid:

Account	Debit	Credit
Debt Service Fund		
Cash	130,000	
Revenues		130,000
Due to General Fund	75,000	
Cash		75,000

Account	Debit	Credit
General Fund		
Cash	75,000	
Due from Debt Service Fund		75,000

g) On June 30, the books of the *Debt Service Fund* are closed:

Account	Debit	Credit
Debt Service Fund		
Revenues	255,000	
Expenditures		200,000
Fund Balance — Available		55,000

E11.02 Capital Lease Accounting

On July 1, 2000, the county entered into a 10-year non-cancelable agreement to lease a machine from Dunning Corporation. The agreement requires equal annual payments of $70,000 by December 31. The fair value of the machine is $500,000 and has an estimated economic life of 16 years. The county's incremental borrowing rate is 8%.

Solution:

	Capital Lease Criteria:		**Response**
A	Does the lease transfer ownership to the lessee by the end of the lease term?		No
B	Does the lease contain an option to purchase the leased property at a bargain price?		No
C	Is the lease term equal to or greater than 75% of the estimated economic life of the leased property (75% x16 years= 12 years)?		No
D	Does the present value of rental and other minimum lease payments equal or exceed 90% of the fair value of the leased property?		Yes
	Present value of the annuity of 10 payments of $70,000 at 8% ($70,000 x 6.71008)	$469,706	
	90% of the fair value of the leased property (500,000 x .9)	$450,000	

The lease qualifies as a capital lease under criterion "D".

a) To record the lease property at the inception of the lease and the related obligation:

Account	Debit	Credit
General Fund		
Expenditure — Capital Outlay	469,706	
Other Financing Sources — Capital Leases		469,706

Note: The asset account *Equipment* and the liability account *Capital Lease Obligation* are reported only in the government-wide financial statements, not at the fund level.

b) To record the annual cash payment on June 30, 2001:

Account	Debit	Credit
General Fund		
Retirement of Long-Term Debt	32,424	
Interest Expenditure ($469,706 x 8%)	37,576	
Cash		70,000

Note: The reduction in the debt balance is reported in the government-wide financial statements.

c) To record the annual cash payment on June 30, 2002:

Account	Debit	Credit
General Fund		
Retirement of Long-Term Debt	35,018	
Interest Expenditure ($469,706 - 32,424 x 8%)	34,982	
Cash		70,000

NOTE: The reduction in the debt balance is reported in the government-wide financial statements.

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CHAPTER 12 SPECIAL ASSESSMENTS

12.01 Nature and Purpose

Governmental Accounting Standards Board (GASB) Statement No. 6, *Accounting and Financial Reporting for Special Assessments*, establishes accounting and financial reporting standards for capital improvements and services financed by special assessments.

The special assessment fund type, as adopted by GASB Statement No. 1*, Authoritative Status of NCGA Pronouncements and AICPA Industry Audit Guide*, should not be used in the financial statements, nor in accounting for the construction of public improvements or the provision of services financed by special assessments.

Special assessment improvements are paid for completely, or in part, by property owners in a limited geographical area deemed to be specifically benefited. This distinguishes them from improvements that benefit the entire community and are paid for with general governmental resources or through the issuance of general obligation bonds retired from general governmental resources.

For special assessments relating to the construction of public improvements, property owners are generally given the option of paying their special assessments in a lump sum or in interest-bearing annual installments over several years. Special assessment bonds are commonly issued to finance initial construction costs. Such bonds are usually serial bonds. As annual special assessment installments are collected, bonds in corresponding amounts are retired. Interest revenues on installment receivables are used to pay interest costs on special assessment bonds.

12.02 Types of Funds

Transactions of a special assessment should be reported in the fund type that best reflects the nature of the transaction, usually the General Fund, a special revenue fund, a capital projects fund, a debt service fund, or an enterprise fund, giving consideration to the "Number of Funds" principle. This principle states that:

> Governmental units should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established, however, because unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.[1]

Service-type special assessment projects are for operating activities and do not result in the purchase or construction of capital assets.

Fund types used:

- General Fund
- Special Revenue Fund
- Enterprise Fund

[1] Governmental Accounting Standards Board Statement 34, Section 1100, "Summary Statement of Principles," ¶ .104.

Capital improvement assessment projects are capital in nature and usually enhance the utility, accessibility, or aesthetic value of the affected properties.

Fund types used:

- Capital Projects Fund
- Debt Service Fund
- Enterprise Fund
- Agency Fund

12.03 Accounting

Accounting for special assessments can be grouped into service-type and capital improvement-type special assessments. Service-type special assessment projects are for operating activities and do not result in the purchase or construction of capital assets. Examples of such projects include street lighting, street cleaning, and snow plowing. Capital improvement special assessment projects provide improvements or additions to a government's capital assets. Typical special assessment capital improvement projects are streets, sidewalks, parking facilities, and curbs and gutters.

A. Service Type Accounting

The transactions of a service-type special assessment should be reported in the fund type that best reflects the nature of the transactions and should be treated like user fees. This usually involves the use of the general fund, a special revenue fund, or an enterprise fund. In regard to basis of accounting, assessment revenues and expenditures should be recognized on the same basis of accounting as is normally used for that fund type.

B. Capital Improvement Accounting

If the government is obligated in some manner to assume the payment of related debt service in the event of default by the property owners, transactions related to capital improvements financed by special assessments should be reported in the same manner, and on the same basis of accounting, as any other improvement and financing transaction. This generally involves the following:

1) Transactions of the construction phase of the project should be accounted for in a capital projects fund or other appropriate fund;

2) The capital assets constructed or acquired, other than those related to an enterprise fund, should be accounted for in the Capital Assets Accounting System;

3) Transactions of the debt service phase should be accounted for in a debt service fund if one is required. At the time of the levy, special assessment receivables should be recognized and should be offset by deferred inflows of resources. Deferred inflows of resources should be reduced as the assessments become measurable and available. As a practical matter, interest earned on special assessment levies may be accrued when due, rather than when earned, to approximately offset the related interest expenditure, which is also recognized when due; and

4) Debt issued to finance capital projects should be accounted for as:
    a. general obligation debt that will be repaid, in part, from special assessments should be reported like any other general obligation debt; or

b. special assessment debt for which the government is obligated in some manner should be accounted for in the debt accounting records, except for the portion, if any, that is a direct obligation of an enterprise fund or that is a current liability expected to be repaid from operating revenues of a fund.
   - Special assessment debt that will be repaid from property owner assessments should be accounted for in the debt accounting records as Special Assessment Debt.
   - Special assessment debt that will be repaid from general resources of the government should be accounted for in the debt accounting records as Other General Obligation Debt.

Even when the government is not obligated to assume the payment of related debt service in the event of default by the property owners, debt service transactions should be reported in the appropriate fund rather than in a debt service fund. This reflects the resources used to acquire the improvements.

Generally, the previously stated provisions should be followed even when the capital improvements financed by special assessments provide capital assets to a governmental or enterprise fund; the cost of the improvements should be capitalized on the balance sheet and should be offset by *Invested in Capital Assets*. In addition, special assessments debt that (a) is a direct obligation of the enterprise fund, or (b) is not a direct obligation but is expected to be repaid from enterprise fund revenues, should be reported as a liability on the enterprise fund's balance sheet.

12.04 Government Liability

The extent of a government's liability for debt related to a special assessment capital improvement can vary significantly. For example: the government may be primarily liable for the debt, as in the case of a general obligation issue; it may have no liability whatsoever for special assessment debt; or it may be obligated in some manner to provide a secondary source of funds for repayment of special assessment debt in the event of default by the assessed property owners. A government is obligated in some manner for special assessment debt if (a) it is legally obligated to assume all or part of the debt in the event of default, or (b) it may take certain actions to assume secondary liability for all or part of the debt and it takes, or has given indications that it will take, those actions.

Conditions that indicate that a government is obligated in some manner include:

a. The government is obligated to honor deficiencies to the extent that lien foreclosure proceeds are insufficient;

b. The government is required to establish a restricted fund balance account, guarantee, or debt service fund with other resources;

c. The government is required to cover delinquencies with other resources until foreclosure proceeds are received;

d. The government must purchase all properties sold for delinquent assessments that were not sold at public auction;

e. The government is authorized to establish a restricted fund balance account, guarantee, or debt service fund, and it establishes a fund or account. If a fund or account is not established, the considerations in subparagraphs g and h may nevertheless provide evidence that the government is obligated in some manner;

f. The government may establish a separate fund with other resources for the purpose of purchasing or redeeming special assessment debt;

g. The government explicitly indicates by contract, such as the bond agreement or offering statement, that in the event of default it may cover delinquencies, although it has no legal obligation to do so; or

h. Legal decisions within the State, or previous actions by the government related to defaults on other special assessment projects, make it probable that the government will assume responsibility for the debt in the event of default.

CHAPTER 13 PROPRIETARY FUNDS

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CHAPTER 13 PROPRIETARY FUNDS

Proprietary Funds

13.01 Characteristics

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

Internal Service Funds (ISF)

13.02 Nature and Purpose

Internal Service Funds are used to account for providing goods or services within the reporting governmental unit (including its agencies and departments, other funds and component units) or to other governments on a user-charge, cost-reimbursement basis. Internal service funds should be used only if the reporting government is the predominant participant in its activity; otherwise, the activity should be reported as an enterprise fund. The government should report the enterprise funds activities (internal service fund's residual assets, deferred outflows of resources, liabilities, and deferred inflows of resources) within the business-type activities column in the statement of net position.

13.03 Examples of Internal Service Funds

Examples of central services appropriate for ISF accounting are:

- Equipment, vehicle, and office machine maintenance and rental
- Stores
- Information technology
- Mailing services
- Printing and duplicating
- Communications
- Purchasing
- Carpentry and repair shops
- Risk management

Enterprise Funds

13.04 Nature and Purpose

An *Enterprise Fund* gives communities the flexibility to account separately for all financial activities associated with a broad range of municipal services. It establishes a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services.

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

The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.

Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.

The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

13.05 Examples of Enterprise Funds

For purposes of uniformity, enterprise finds include:

Example of Enterprise Funds	
1	Airports
2	Harbors
3	Recreational facilities and services such as: ▪ Marinas ▪ Golf courses ▪ Stadiums ▪ Tennis centers ▪ Parks ▪ Swimming Pools
4	Parking facilities
5	Transit systems
6	Public Housing
7	Toll bridges
8	Health services and facilities such as: ▪ Hospitals ▪ Medical facilities
9	Public utilities such as: ▪ Water ▪ Electricity ▪ Gas ▪ Waste Collection and disposal ▪ Cable TV

Proprietary Fund Accounting

13.06 Accounting Objectives

Accounting for proprietary funds:

- Accumulates the total cost (including depreciation and overhead) of providing the service;
- Permits integration of as much of a cost system as necessary to develop unit costs;
- Accumulates the charges to others; and
- Indicates the extent to which the user charges cover the cost.
- For enterprise funds, authorized subsidies indicate the amount which must be financed from taxes or other sources. Where a significant profit or loss will occur, mid-year rate adjustments should be made.

ISF charges should not produce any significant profit or loss in the long run. They should recover only the total costs of such services but should not result in any appreciable loss or require subsidies to avoid such losses.

Similarly, where the operations of an enterprise fund will produce significant fund net assets, rates should be adjusted periodically. There may be occasions where there are significant negative fund net assets which are expected to extend beyond the next fiscal year. In such circumstances, the negative position should be eliminated by increasing the rate and/or making transfers from the appropriate fund(s). These actions may extend beyond one year, if a plan acceptable to the county auditor is established and followed.

This does not preclude the county from contributing start-up operating capital, funding for additional capital assets, or amounts to cover increased costs of capital asset replacement. Also, the county may adopt a policy that view any increased costs associated with capital asset replacement as part of the total costs of operations. Consequently, ISF charges may be established at a level that includes an amount designed to contribute to replacement on a pay as you go basis. Equity generated by this charge must be reserved.

13.07 Number of Funds

Individual proprietary funds are used to account for individual services. Such segregation is required to:

- Determine the total cost of providing a service, and
- Ensure that the resources generated by one service are not improperly or illegally utilized by another.

The single exception is where closely related services are merged into one enterprise fund because their respective revenues have been cross-pledged as security for a single issue of combined-purpose revenue bonds.

13.08 Budget and Budgetary Control

Sound financial administration requires the preparation and adoption of a comprehensive annual operating budget for the entire county government. This includes each of its proprietary funds. Budgets are necessary to ensure that:

- Service objectives are attained,
- Expenses are properly controlled, and
- Adequate resources will be available to finance current operations, repay long-term liabilities, and meet capital outlay requirements.

A proprietary fund budget is presented as a pro forma income statement and an accompanying schedule of expected capital asset purchases and position allocations and salaries. These statements and schedules, when approved, constitute the operating plan for their respective funds. Amounts are not brought forward to the budget summary.

For most proprietary fund operations, the demand determines the level of revenues and expenses. Increased demand for goods or services increases expenses but also results in a higher level of revenues. Similarly, decreased demand results in decreased expenses and revenues.

A proprietary fund should be allowed to operate in response to demand for its service. The governing body should establish procedures providing for adjustments to meet the demand.

The adopted expense estimates are not appropriations. They need not be established as budgetary accounts in the proprietary fund accounting system. The use of budgetary accounts in proprietary funds is optional. Where a more formal or detailed control is desired, an integration similar to that for governmental funds is appropriate.

Similarly, proprietary fund financial reports do not require budgetary comparisons. Such comparisons may be shown as supplementary data if desired.

13.09 Basis of Accounting

Proprietary funds use the accrual basis of accounting in essentially the same manner as in commercial accounting. Recognition occurs at the time of the transaction: revenues when earned and expenses when incurred.

13.10 Accounts

Revenue and expense classifications of proprietary funds should parallel those of commercial enterprises providing similar services. This also applies to other accounts. Such a treatment enhances the comparability of financial statements and their usefulness for analysis purposes.

The State Controller has published the *Special Districts Uniform Accounting and Reporting Procedures* (SPD) manual (see State Controller's Office publications at https://www.sco.ca.gov/pubs_guides.html), which specifies appropriate accounting for particular enterprise operations. It should be followed for the activities included.

Proprietary fund capital assets and leasehold improvements are recorded in the fund accounts because they are used in the production of the goods or services provided to users. Moreover, the capital assets may serve as security for debt issued to establish, acquire, or improve the proprietary fund.

Depreciation, depletion, or amortization of these assets must be recorded to determine total expenses, net income, and changes in net position.

Long-term liabilities (such as bonds, notes, capital leases, pensions, judgments, and similar commitments) directly related to and expected to be paid from proprietary funds should be included in the fund. These are specific fund liabilities. Also, such liabilities may constitute a mortgage or lien on the specific fund asset or income.

13.11 Establishing Charges

The board should set rates for goods and services so as to recover total costs for an internal service fund or the predetermined level of cost in the case of an enterprise fund. As previously noted, total costs include depreciation and full overhead, and may include an amount designed to contribute to the replacement of capital assets.

Establishment of rates and billings for services must be cost-based. An approved method of cost accounting and/or cost allocation is recommended. These methods assign the individual costs to the particular unit of service provided.

Frequently, expenses such as direct labor and supplies can be charged directly to the cost unit or activity. Others, such as office expense, utilities, building depreciation, and insurance, must be applied through an overhead rate.

13.12 Regulated Operations

Deferred inflows of resources may result from rate actions by a regulator that imposes limitations on the assets of a government including:

- Establishment of current rates at a level adequate to recover costs that are expected to be incurred in the future, and
- Refund of gains or reductions of net allowable costs be given to customers over future periods.

See GASB Statement No. 65*, Items Previously Reported as Assets and Liabilities* for specific information.

13.13 Income/Loss

An internal service fund's activities may result in income or loss for the fiscal year. If the mid-year results indicate that there will be either a substantial income or loss for the year, rates should be adjusted at that time; otherwise, they should be adjusted at year-end. The determination of the income or loss must take into consideration any required reserves. Adjustments to the ISF must also account for the balances in *Unrestricted Net Assets*.

Enterprise funds may be subsidized from general governmental sources. Generally, this takes the form of a contribution at a stipulated maximum, to offset the deficit. Such support should be recorded in the budget as an interfund transfer. Actual payment is recorded as a transfer-in.

As with internal service funds, enterprise funds should adjust their rates at mid-year if a significant operating deficit is indicated.

13.14 Transfers

a. The General Fund may provide support to an enterprise fund to cover operating deficiencies.

Example

Service charges in the enterprise fund have been set to recover an estimated 80% of the cost, the balance to be underwritten by the *General Fund*. The budget of the latter fund contains $60,000 under Interfund Transfers for this purpose. The budgeted support is now transferred to the enterprise fund:

Account	Debit	Credit
General Fund		
Transfers-Out	60,000	
Cash		60,000

Account	Debit	Credit
Enterprise Fund		
Cash	60,000	
Transfers-In		60,000

b. The board may authorize the *General Fund* to make capital contributions to the proprietary funds or transfer excess funds from the proprietary funds. The board may also abolish a proprietary fund.

Example

At the end of the year, after closing, the enterprise fund net assets account has a balance of $125,000. The supervisors order the total capital reduced to $110,000, along with a 5% decrease in rates:

Account	Debit	Credit
General Fund		
Cash	15,000	
Transfers-In		15,000

Account	Debit	Credit
Enterprise Fund		
Transfers-Out	15,000	
Cash		15,000

c. The board may transfer to a proprietary fund any cash or other assets that can legally be transferred. This includes cash from the *General Fund* and capital assets that were not initially acquired with restricted moneys. Any general capital assets to be used in the enterprise fund are transferred from the Capital Asset Accounting System to the enterprise fund.

Example

Enterprise Fund	Sub	Debit	Credit
Land	$ 100,000		
Buildings and Improvements	350,000		
Equipment	20,000		
Accumulated depreciation — S & I		$ 110,000	
Accumulated depreciation — equipment			$ 8,000
Net assets Invested in capital assets			351,500

NOTE: A corresponding offsetting entry needs to be made to the Capital Asset Accounting System. As an alternative, the asset may be transferred at its net book value and depreciated over its remaining useful life.

Example

The budget contains a provision for a contribution of $100,000 from the *General Fund* to an enterprise fund - interfund transfers. The $100,000 is transferred to the enterprise fund.

Account	Debit	Credit
General Fund		
Transfers-Out	100,000	
Cash		100,000

Account	Debit	Credit
Enterprise Fund		
Cash	100,000	
Transfers-In		100,000

If capital assets originally purchased from restricted funds are to be used in the enterprise, these items must be purchased by the enterprise fund or the donating fund.

13.15 Restricted Assets

Legally restricted enterprise fund cash, investments, and interest receivable balances are recorded in separate *restricted assets* accounts. Physical segregation is not required unless commingling is legally prohibited.

Examples

- Customer deposits
- Revenue bond restricted assets:
  - Construction account
  - Operations and maintenance
  - Current debt service account
  - Future debt service account
  - Renewal and replacement account

Revenue bond indentures usually refer to these accounts as *funds.* However, they are not funds in the sense of accounting entities. They are merely mandatory segregations. Whenever possible they should be referred to as accounts rather than funds.

Revenue bond proceeds earmarked for capital asset construction must be accounted for in a *Revenue Bond Construction* account. Disbursements for authorized purposes are made from this account.

A *Revenue Bond Operations and Maintenance* account often is established pursuant to a bond indenture. Resources for this account are provided through bond proceeds and/or operating income or net income. This account generally accumulates assets equal to operating costs for one month.

Moneys are accumulated in a *Revenue Bond Current Debt Service* account (usually from certain bond proceeds and/or net operating revenues). Current debt service payments are made from this account. The current liabilities for revenue bond principal and interest are reported as: *liabilities payable from restricted assets.*

Funds are accumulated in the *Revenue Bond Future Debt Service Reserve* account to pay matured bond principal and interest in the event of a deficiency. The amount is usually related to the annual debt service requirement and will not be utilized until the final payment.

Funds are also accumulated in a *Revenue Bond Renewal and Replacement* account for emergency operating expenditures or renewals or replacement of assets.

Amounts that should be accumulated in *Revenue Bond Operations and Maintenance*, *Revenue Bond Current Debt Service*, *Revenue Bond Future Debt Service Reserve*, and *Revenue Bond Renewal and Replacement* accounts should be offset as a reservation of retained earnings. Details of shortages should be disclosed in notes to the financial statements.

13.16 Accounting and Reporting for Special Assessments

The accounting treatment described in GASB Statement No. 6, *Accounting and Financial Reporting for Special Assessments*, should be followed when the capital improvements financed by special assessments provide capital assets to a government's enterprise fund, except that the cost of the improvements should be capitalized. In addition, only that portion, if any, of special assessment debt that (a) is a direct obligation of the enterprise fund or (b) is not a direct obligation but is expected to be repaid from enterprise fund revenues should be recorded as a liability on the enterprise fund's books.

However, a governmental entity is not precluded from recording all of the transactions and balances of a special assessment project within an enterprise fund to properly reflect the actual administration of a project. For example, an enterprise fund may bill and collect assessments, may be required to subsidize debt service payments from enterprise fund resources, and may have unrestricted use of project surpluses. In that situation, the entire amount assessed to property owners should be recorded as the enterprise fund's assessments receivable at the time of the levy; special assessment debt, if any, should be recorded as a liability of the enterprise fund; and so forth. Collections of assessment principal reduce the receivable, and debt service payments reduce the liability. Interest income and expense should be recognized as they accrue.

13.17 Internal Service Fund — Illustrative Case

The following example illustrates the operation of an internal service fund.

Example:

a. Prior to the 20X1-X2 fiscal year, the county decided to centralize the ownership and maintenance of all motor vehicles in an internal service fund. Funds were accumulated in the *Designated for Establishment of a Motor Pool Fund* account. By June 30, 20X5, this account amounted to $315,000. Road equipment to be purchased is now recorded in the Capital Asset Accounting System at $450,000.

An appraisal of each item in terms of age, condition, and estimated remaining life has established a current total book value of $300,000. All other motor vehicles had been originally purchased by the *General Fund*. Their recorded value is $60,000; current book value is $30,000.

As of July 1, 20X5, the county transfers the accumulated $315,000 and the vehicles originally purchased by the *General Fund* to the *Motor Pool Fund*. Office, storage, and repair facilities are rented from the *Road Fund* at $400 per month:

Account	Debit	Credit
General Fund		
Transfers-Out	315,000	
Fund Balance Designated for Establishment of a Motor Pool Fund	315,000	
Cash		315,000
Fund Balance Available		315,000

Account	Debit	Credit
Motor Pool Fund		
Cash	315,000	
Equipment	60,000	
Accumulated Depreciation		30,000
Transfers-In		345,000
(As an alternative, equipment may be recorded at book value of $30,000.)		

At the same time the *Motor Pool Fund* purchases the vehicles of the *Road Fund*:

Account	Debit	Credit
Motor Pool Fund		
Equipment	450,000	
Accumulated Deprecation		150,000
Cash		300,000
Unrestrictive Net Assets	300,000	
Investment in Capital Assets, Net of Related Debt		300,000
(As an alternative, equipment may be recorded at book value, $300,000)		
Note: This entry may be made for each sale or purchase of a capital asset or at year-end.		

Account	Debit	Credit
Road Fund		
Cash	300,000	
Sale of Capital Assets		300,000
Unrestricted Net Assets	300,000	
Investment in capital Assets, Net of Related Debt		300,000
Note: This entry may be made for each sale or purchase of a capital asset or at year-end.		

b. The *General Fund* makes a capital contribution of $10,000 and an advance of $25,000 to the *Motor Pool Fund* to finance initial operations:

Account	Debit	Credit
Motor Pool Fund		
Cash	35,000	
Transfers-In		10,000
Advance from Other Funds — General Fund		25,000

Account	Debit	Credit
General Fund		
Transfers-Out	10,000	
Advance to Other Funds — Motor Pool Fund	25,000	
Cash		35,000

c. For July, total billings to departments for equipment rental were $11,000 ($9,500 to the *Road Fund* and $1,500 to the *General Fund*):

Account	Sub	Debit	Credit
Motor Pool Fund			
Accounts Receivable		11,000	
Income — Equipment Rental			11,000
Road Fund	9,500		
General Fund	1,000		

d. On August 5, cash in the amount of the July billings was transferred to the *Motor Pool Fund*:

Account	Sub	Debit	Credit
Motor Pool Fund			
Cash		11,000	
Accounts Receivable			11,000
Road Fund	9,500		
General Fund	1,500		

Account	SUB	Debit	Credit
Road Fund			
Expenditures		9,500	
Cash			9,500
Road Department - Rents and Leases - Equipment	9,500		

Account	SUB	Debit	Credit
General Fund			
Expenditures		1,500	
Cash			1,500
Various Budget Units: Rents and Leases — Equipment	1,500		

e. On September 1, a grader and two four-door sedans were traded in on similar new items of equipment. Details of these transactions are presented in tabular form:

	Purchase Price New Assets	Original Cost	Accumulated Depreciation	Trade-In Allowance
Grader	$ 6,000	$ 5,000	$ 4,500	$ 1,500
Sedan, 4-Door	1,500	1,400	1,000	350
Sedan, 4-Door	1,550	1,400	1,000	300
Total	$ 9,050	$ 7,800	$ 6,500	$ 2,150

Account	Debit	Credit
Motor Pool Fund		
(Summary entry)		
Equipment	8,200	
Accumulated Depreciation	6,500	
Net Assets Unrestricted	7,750	
Net Assets Invested in Capital Assets		7,750
Equipment		7,800
Cash		6,900

NOTE: It was determined that, during the first year of operation, equipment purchases would be limited to those that could be financed from the general cash account in order to allow the *Cash for Equipment Replacement* account to build up a balance. Beginning with the next year, replacement would be paid from the latter cash account. If the restricted cash account were used, the entry would be:

Account	Debit	Credit
Motor Pool Fund		
Equipment	8,200	
Accumulated Depreciation	6,500	
Net Assets Reserved for Vehicle Replacement	6,500	
Equipment		7,800
Cash		400
Cash Restricted for Vehicle Replacement		6,500
Net Assets-Unrestricted		6,500
(This assumes that the restricted cash account is maintained at a level equal to accumulated depreciation		

f. On October 1, short-term investments were purchased for $27,000:

Account	Debit	Credit
Motor Pool Fund		
Investments	27,000	
Cash		27,000

g. For the remainder of the year ended June 30, 20X6, additional outlays of the *Motor Pool Fund* were $136,250:

Account	Debit	Credit
Motor Pool Fund		
(Summary entry)		
Superintendent's Salary	7,500	
Mechanics' Salary	20,000	
Office Salaries	7,000	
Clerical Services	800	
Depreciation - Equipment	50,000	
Rent — Structures	4,800	
Repairs and Maintenance	14,000	
Insurance	2,500	
Employees' Retirement	2,800	
Supplies Used	23,650	
Inventory of Supplies (Increase)	3,200	
Net Assets Invested in Capital Assets	50,000	
Net Assets Unrestricted		50,000
Cash		76,500
Accumulated Depreciation		50,000
Accounts Payable (Increase)		9,750

h. Total billings for the period of August 1, 20X5, to June 30, 20X6, were $124,600. At June 30, 20X6 all billings have been paid, with the exception of one to the City of Oak Park for $1,500:

Account	Debit	Credit
Motor Pool Fund		
(Summary Entry)		
Cash	123,100	
Accounts Receivable	1,500	
Income — Equipment Rental Cash		124,600

i. Interest earned on investments amounted to $2,000 for the fiscal period:

Account	Debit	Credit
Motor Pool Fund		
Cash	2,000	
Interest Revenue		2,000

j. At year-end, income and expense accounts are closed to *Net Assets — Unrestricted*:

Account	Debit	Credit
Motor Pool Fund		
Income — Equipment Rental	135,600	
Income — Interest	2,000	
Expenses (Summary)		133,050
Net Assets — Unrestricted		4,550

13.18 Equipment Replacement Reserve (Designation)

Government Code section 25262 authorizes the establishment of an *Equipment Replacement Reserve (Designation)* based upon estimated replacement cost. The methodology used to determine the replacement cost, or inflationary factor, may vary depending on the class of equipment, availability of information (indices), or other market factors.

A. The illustrative case below assumes the availability of accurate replacement cost information and a capital asset system that is capable of depreciating by class, using the straight-line method and historical cost.

   1. The *Motor Pool Internal Service Fund* wishes to establish an *Equipment Replacement Reserve (Designation)* based on replacement cost beginning with fiscal year 20X5-X6. The straight-line depreciation based on historical cost for the year is $50,000, while replacement cost for the same vehicles equals $62,000. The equipment rental rates used to bill the various departments would be based on the $62,000; the actual depreciation expense would be $50,000, in accordance with Generally Accepted Accounting Principles (GAAP).

   2. The total revenue raised by the rental rates based on replacement cost for FY 20X5-X6 would be $147,600.

A new entry to establish the *Equipment Replacement Reserve (Designation)* based on replacement cost would be required to comply with Government Code section 25262.

Account	Debit	Credit
Motor Pool Fund		
Net Assets - Unrestricted	12,000	
Net Assets Designated for Equipment Replacement		12,000

B. The case assumed required accurate replacement information and a sophisticated capital asset system. This capability will not exist in all counties; as a result, other methods of estimating replacement cost may be used. The case offered below assumes the availability of an industry-wide inflationary index for vehicles:

   1. Once again, the *Motor Pool Internal Service Fund* wishes to establish an *Equipment Replacement Reserve*. On July 1, 20X5, the index that the fund uses to determine inflationary trends shows that, during the preceding year, the cost of new vehicles increased 3%. This increase will be applied to the historical cost of the fleet of vehicles on hand ($510,000 x 3%) to determine the additional revenue ($15,300) that needs to be raised to establish the *Equipment Replacement Reserve (Designation)*. Rental rates for the coming year would be adjusted to achieve the total income requirement of $150,900.

   2. The remainder of the entries will be essentially the same as those contained in the prior example, except that the net effect of each will be higher by $3,300 due to the increase in revenue over that achieved by the other method.

C. The entries regarding the purchase of equipment during the following fiscal year would be as follows, assuming the existence of an *Equipment Replacement Reserve*:

Account	Debit	Credit
Equipment	8,200	
Accumulated Depreciation	6,500	
Net Assets Designated for Equipment Replacement	1,250	
Net Assets - Unrestricted	7,750	
Net Assets Invested in Capital Assets		7,750
Equipment		7,800
Cash		400
Cash Restricted for Vehicle Replacement		6,500
Net Assets - Unrestricted		1,250

NOTE: The cases used to illustrate the uses of an Equipment Replacement Reserve (Designation) reflect the accounting and reporting of designations and not reserves.

13.19 Accounting and Financial Reporting for Proprietary Activities

GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, provides interim guidance on business-type accounting and reporting for proprietary activities, pending the expected issuance of one or more future pronouncements on the subject.

Proprietary activities should apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, except for those that conflict with or contradict GASB pronouncements: FASB Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB).

In addition to applying the FASB Statements and Interpretations, APB Opinions, and ARBs required above, a proprietary activity may also apply to all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

The requirements of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, also apply to all county proprietary nonexpendable trust funds and pension trust funds.

13.20 Refunding of Proprietary Debt

The accounting treatment described in GASB Statement No. 62, *Codification of Accounting and Financial reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments,* GASB Statement No. 23*, Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, and GASB Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt* should be followed when debt refunding resulting in defeasance of debt is encountered in proprietary funds. The guidance provided in these GASB Statements should also be followed for governmental fund debt refunding and general reporting requirements for debt refunding.

A transaction that results in outstanding debt being removed from the balance sheet (i.e., extinguished) for financial reporting purposes is known as defeasance. For current refundings and advance refundings resulting in the defeasance of debt reported by proprietary activities, the difference between the reacquisition price (amount required to repay previously issued debt in a refunding transaction) and the net carrying amount of the old debt (amount due at maturity, adjusted for any unamortized discount or premium and issuance costs related to the old debt) should be deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.

For current refunding of prior refunding and for advance refunding of prior refunding resulting in defeasance of proprietary fund debt, the difference between the reacquisition price and the carrying amount should be deferred and amortized over the shorter of the original amortization period remaining from the prior refunding or the life of the latest refunding debt (i.e., the new debt).

All governmental entities that defease debt through an advance refunding should provide a general description of the transaction in the notes to the financial statements and should include the difference between the cash flows required to service the old debt and the cash flows required to service the new debt, and the economic gain or loss that arises as a result of the debt refunding.

The computations and disclosure requirements for advanced refunding and defeasance of debt are extensive. If advanced refunding resulting in defeasance of debt is encountered, refer to GASB Statement No. 62, No. 34, No. 23, and No. 7 to ensure proper accounting and reporting.

13.21 Use of Not-for-Profit Accounting and Financial Reporting Principals by Proprietary Activities

Not-for-profit accounting and financial reporting principles are generally defined as those contained in the American Institute of Certified Public Accountants' (AICPA) Audit and Accounting guide *Not-for-Profit Organizations* (the New Guide), except for those provisions relating to the joint costs of information materials and activities that include a fund-raising appeal.

Although the New Guide superseded AICPA Statement of Position (SOP) 78-10, *Accounting Principles and Reporting Practices for Certain Nonprofit Organizations*, it did not supersede the guidance in paragraph .13 of AICPA SOP 78-10. This paragraph states, "…entities that otherwise would be prohibited from presenting consolidated financial statements under the provisions of this SOP, but that currently present consolidated financial statements in conformity with the guidance in SOP 78-10, may continue to do so".

Organizations that presented consolidated financial statements in conformity with the guidance in SOP 78-10 may continue to do so. Proprietary activities that apply paragraph 7 of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, need to refer to GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* for the required modifications to the AICPA publications. This is due to the fact that GASB Statement No. 20 has been entirely superseded by GASB Statement No. 62.

CHAPTER 14 FIDUCUARY FUNDS (TRUST AND AGENCY FUNDS)

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CHAPTER 14 FIDUCIARY FUNDS (TRUST AND AGENCY FUNDS)

14.01 Fiduciary Funds (Trust and Agency Funds)

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

- Pension (and Other Employee Benefit) Trust Funds — used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans, or other employee benefit plans.
- Investment Trust Funds — used to report the external portion of investment pools reported by the sponsoring government, as required by GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, paragraph 18.
- Private-Purpose Trust Funds — used to report all other trust arrangements under which principal and income benefit individuals, private organizations, or other governments (such as a fund used to report escheat property).
- Agency Funds — 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.

14.02 Classification of Fiduciary Funds

The following is a description and example of the Fiduciary Fund classification:

Classification	Includes	Examples	
Pension (and other employee benefit) Trust Funds	Funds accounting for locally-administered retirement systems.	▪ 1937 Act Retirement Funds ▪ Defined Contribution Plans	
Investment Trust Funds	Amounts managed by the county treasury for the external pool participants.	▪ School Districts ▪ Independent Special Districts ▪ Trial Courts	
Private-Purpose Trust Funds	Amounts held by the county under which the principal and income benefit individuals, private organizations, or other governments.	▪ When legally mandated or under a formal trust agreement	
Agency Funds	Only assets held for specific persons or entities.	▪ Taxes ▪ Interest ▪ Tax-defaulted Land Rentals ▪ In-lieu Monies ▪ Payroll Clearing Funds ▪ Tax Redemption Fees ▪ Inheritance Taxes	▪ Fines, Forfeits, and Penalties ▪ Sales and Use Tax Clearing Fund ▪ Withholding Tax ▪ Credit Union Deduction ▪ State Retirement System

14.03 Number of Funds

Separate funds must be established where legally required. Separate pension (and other employee benefit) trust funds must be used for individual retirement systems. *Agency Funds* are used for individual agency relationships; however, it is frequently possible to utilize a separate account instead of a separate fund. Many fiduciary funds have only a single asset, cash, offset by one or more liabilities or fund balance accounts totaling the same amount. Debits to cash are offset by credits to the fund liability and vice versa. This condition lends itself to a grouping, under which the several cash accounts are combined into a single cash account, and the share of each fund in the consolidated cash is preserved through separate accounts. This device permits a substantial reduction in the number of funds and accounts without loss of accountability.

14.04 Agency Fund Accounting Entries

All agency fund transactions simply increase or decrease assets and liabilities. If agency fund cash is invested and interest earnings are allocable to parties outside the government, such earnings are credited to appropriate liability accounts due to those parties.

14.05 Taxes

In order to properly account for the levy, collection, and distribution of the various kinds of property taxes, a number of accounts and subsidiary records are used.

14.06 Transfers Involving Trust and Agency Funds

Government Code sections 27005 and 27009:

The treasurer shall disburse the county money and all other money placed in his or her custody by official authority only on county warrants, checks, or electronic fund transfers issued by the county auditor, except for the making of legal investments.
(Amended by Stats. 1994, Ch. 939, Sec. 8. Effective September 28, 1994. Operative January 1, 1995, by Sec. 29 of Ch. 939.)

The treasurer shall give a receipt to each person who deposits money in the county treasury.
(Amended by Stats. 2006, Ch. 643, Sec. 6. Effective January 1, 2007.) It is recommended that transfers between funds be accomplished by journal entry rather than by warrant.

CHAPTER 15 CAPITAL ASSETS

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CHAPTER 15 CAPITAL ASSETS

Introduction

15.01 Introduction

Capital asset accounting is required to:

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

This discussion is limited to the accounting for capital assets for governmental funds that are accounted for in the Capital Assets Accounting System, regardless of the fund that may finance their acquisition. Capital assets acquired by proprietary funds are not included in this discussion. Although it is possible that under certain conditions, some of the principles outlined herein may be applicable to the accounting for capital assets in proprietary funds, in general such accounting should follow the principles of commercial accounting.

Service Concession Arrangement (SCA) requirements are set forth in GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. For specific information regarding the accounting and reporting of capital assets that meet the criteria of an SCA, see Chapter 8, *Specific Accounting Procedures*.

Definitions

15.02 Capital Assets

Capital assets are assets of significant value used in operations that have a utility that extends beyond the current year; they are broadly classified as land, buildings and improvements, equipment, infrastructure, and intangible assets. The county determines the capitalization threshold policy.

15.03 Land

Land includes that associated with infrastructure and should be reported at cost, estimated cost, or estimated fair value at the date of acquisition.

15.04 Buildings and Improvements

Buildings and improvements include physical property of a permanent nature. Examples include buildings, structural attachments, storage tanks, reservoirs, and parking areas. Sidewalks, trees, and drives in connection with other structures or parks should also be capitalized.

Structures and improvements with a value that exceeds a minimum value of $5,000 to $150,000, as established by the county's capitalization policy, should be capitalized. A governmental agency may exercise the option to consistently capitalize selected items of lesser value.

Construction costs of streets, roads, bridges, drainage or lighting systems, etc., have generally been excluded from the general fixed assets of governmental entities because they usually are immovable and of value only to the governmental unit. However, it is now recommended that the asset is recorded for record- keeping and stewardship purposes, if desired, provided appropriate disclosure is made in the notes of the agency's financial statements and that subsequent ongoing expenditures for streets and roads not be capitalized. Construction of a street or road system includes such appurtenances as traffic signs and signals, street name signs, street lights, bridges, and grade separations. Items that are not an integral part of the system, such as parking meters and portable traffic signals, are considered equipment and are handled in the manner described in the equipment category.

Fixtures are permanent structural attachments that are not intended to be removed and that function as a part of the structure, such as boilers, lighting fixtures, and plumbing.

15.05 Equipment

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

> *Relatively Permanent* — having a useful life of one year or longer.
>
> *Significant Value* — a minimum value of $100 to $5,000[1] as established by the county's capitalization policy.

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

Although a library's investment in books might be regarded as a capital asset, practical considerations dictate that book purchases should not be capitalized. With the exception of some of the more expensive volumes and sets, individual purchases do not meet the significant value test. Also, formal accounting could add little in the way of control to the card indices and charge-out procedures already in effect. The additional benefit does not justify the expenditure of time and effort.

15.06 Infrastructure

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

Infrastructure assets include roads, bridges, tunnels, drainage systems, water and sewer systems, dams, and lighting systems. Buildings, except those that are an ancillary part of a network of infrastructure assets, should not be considered infrastructure.

Other items that are not an integral part of the infrastructure, such as parking meters and portable traffic signals, are considered equipment.

[1] Code of Federal Regulations (CFR) section 200.33 "Equipment."

15.07 Intangible Assets

Intangible assets include easements, land use rights (such as the right to use a water source), computer software, patents, and trademarks. Intangible assets may be externally generated (purchased or received from a third party) or internally generated, such as computer software. Generally, intangible assets have the following three required characteristics:

- Lack of physical substance;
- Nonfinancial in nature; and
- Useful life extends beyond a reporting period.

Intangible assets should be classified as capital assets and the existing authoritative guidance related to the accounting and financial reporting for capital assets should be followed. One key exclusion relates to intangible assets that are acquired or created primarily for the purpose of directly obtaining income or profit. These intangible assets should be treated as an investment. Intangible assets with a value that exceeds a county's capitalization policy shall be capitalized. A governmental agency may exercise the option to consistently capitalize selected items of lesser value.

Externally acquired intangible assets are reported when purchased or received. Internally generated intangible assets must meet three criteria prior to being reported as a capital asset:

- Objective: The government's specific objective and service capacity have been determined;
- Feasibility: The potential of completing the asset for its intended use has been demonstrated; and
- Intention: The government's intention to complete the project has been demonstrated.

An intangible asset within a Service Concession Arrangement (SCA) is not subject to the provisions of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* and should be reported outside of the capital asset classification.

15.08 Treatment of Costs Subsequent to Acquisition

Capital asset expenditures that are incurred after their original acquisition are defined and recorded as follows:

Maintenance — expenditures that neither materially add to the value of property nor appreciably prolong its life, but merely keep it in an ordinary efficient operating condition. Maintenance costs shall not be capitalized.

Capitalized Expenditures — expenditures that materially add to the value of property or appreciably extend its life. The cost of capitalized expenditures should be added to the book value of the asset where the original cost of a component being improved can be specifically identified. This amount should be written off and the new cost capitalized. Capitalized expenditures are, on occasion, referred to as betterments.

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

Additions — new and separate units, or extensions of existing units that are considered capital assets. The test of significance should be applied for betterments. Additions and improvements to infrastructure assets should be capitalized.

Alterations — changes in the physical structure or arrangement of capital assets, the cost of which does not qualify as an increase in capital assets under the foregoing definitions of betterments and additions. Alterations shall not be capitalized.

15.09 Unit of Accountability

It is essential to the application of capitalization policy that the unit of accountability be established. A capital asset may be a small integrated item, such as a desk or adding machine, or it may be a complex aggregation of components, such as a building or a block of similar items. The classification of an expenditure between capital outlay and operating expense often is determined by its relationship to some existing unit.

15.10 Classification Independent of Financing Source

The decision whether or not to capitalize an expenditure must be based on the definitions and rules described herein. The source of financing, although important in other respects, has no bearing upon classification.

Valuation

15.11 Reasons for Assigning Value

A dollar value should be assigned to each capital asset item as dollar amount because they:

- are an important aspect of identification of a particular item or group of items;
- make it possible to present to the public the governmental agency's investment in capital assets;
- provide a check on the adequacy of the governmental agency's insurance coverage;
- provide information on individual items for cost accounting; and
- provide the cost basis for depreciating the asset for financial reporting.

15.12 Valuation Basis

Capital assets should be recorded at historical cost. The cost of a capital asset should include capitalized interest or ancillary charges necessary to place the asset into its intended location and condition for use. Ancillary charges include costs that are directly attributable to asset acquisition, such as freight and transportation charges, site preparation costs, and professional fees. Donated capital assets should be reported at their estimated fair value on the date accepted by the board.

Historical cost determination problems are most often encountered in the case of land or structures acquired in the distant past. If determining historical cost is not practical due to inadequate records, recording should be based on estimates of original cost at the date of construction or purchase. The difference between the actual cost and the recorded estimate could be sizeable and still have no material impact on current financial statements. Also, as the capital asset system ages, recorded value will tend to approach historical cost. However, recording current value instead of an estimated original cost is not acceptable.

15.13 Land Cost

The cost of land includes all expenditures in connection with its acquisition, such as:

- Purchase price
- Appraisal and negotiation fees
- Title search fees
- Surveying fees
- Cost of consents
- Relocation costs
- Condemnation costs
- Clearing land for use
- Demolishing or removing structures
- Filing costs

Receipts from the sale of salvage should be credited against the land cost.

In establishing the Capital Assets Accounting System, the assessor may be able to supply information about the location and value of land owned.

15.14 Buildings and Improvements Cost

The cost of buildings and improvements includes all expenditures in connection with their acquisition, such as:

- Purchase price of construction cost
- Fixtures attached to the structure
- Architects' fees
- Accident or injury costs
- Payment of damages
- Insurance during construction
- Cost of permits and licenses
- Net interest cost during construction

The cost should be reduced for:

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

Rentals of property during the construction period should be credited to revenue unless otherwise restricted. Actual or imputed interest costs associated with the construction period should be capitalized in accordance with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

In establishing the capital assets accounting system, information about the buildings and improvements owned may be obtained from the assessor and the insurance carrier.

15.15 Equipment Cost

The cost of equipment includes:

- Purchase price or construction cost less discounts
- Freight or other carriage charges
- Sale, use, or transportation taxes
- Installation costs

In establishing the capital assets accounting system, information on equipment may be obtained from departmental inventories on file, insurance carriers, and special physical inventories.

15.16 Intangible Costs

The cost or value of intangible assets includes:

- Purchase price
- Labor costs
- Appraisal and negotiation fees
- Development costs
- Installation costs

15.17 Infrastructure Costs

The cost of infrastructure includes all costs in connection with their acquisition, such as:

- Construction or purchase costs
- Engineering, surveyor, and architect fees
- Insurance costs related to construction
- Permit or license fees

Major types of infrastructure cost include:

- Roads and Highways
- Gas distribution piping
- Insurance costs related to construction
- Permit or license fees
- Insurance costs related to construction
- Permit or license fees
- Sea walls
- Fire hydrants
- Drainage ditches
- Water wells
- Irrigation systems
- Highways
- Guard rails
- Tunnels
- Sidewalks
- Culverts
- Dams/dikes
- Curbs
- Airport runways
- Landscaping
- Piers
- Bridges
- Storm piping
- Docks
- Sewers
- Electrical Systems

Original historical cost may be estimated when records are unavailable or inadequate.

15.18 Construction or Development by Force Account

Capital assets constructed or developed by the governmental agency are recorded in the same manner as those acquired by purchase or construction contract.

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

15.19 Donated Assets

Capital and intangible assets donated to the governmental agency should be entered in the accounts at their fair market value as of the date of acceptance by the board.

Surplus property purchases at nominal prices far below actual value are in part donations and should be valued accordingly.

15.20 Assets Acquired Under Lease Purchase Agreements

Lease contracts convey property to another for a specific period of time for a specified rent. Lease contracts are accounted for by the financing method under which the payments are treated as debt service. For accounting treatment of capital leases, refer to Chapter 11, *Debt*.

15.21 Transfers to Proprietary Funds

As discussed in section 15.01, capital assets used by proprietary funds are considered to belong to those funds, rather than being accounted for in the Capital Assets Accounting System. This circumstance requires that transactions involving capital assets and proprietary funds be regarded as taking place between independent financial entities.

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

- receive cash (accounted for as revenue); or
- acquire a receivable that will be collected from future earnings of the fund purchasing the assets.

Conversely, if governmental funds are used to purchase proprietary fund capital assets, the purchase price must be recorded as an expenditure as though purchased from an outside vendor.

15.22 Sources of Information

Information regarding capital asset additions is best taken from purchase invoices and contracts, even though there is sometimes an undue lag between physical possession of the property and the receipt of these documents.

For governmental agencies that use a purchasing agent who is assigned the responsibility for handling surplus property sales, equipment abandonments, and interdepartmental transfers of equipment, close cooperation with the purchasing agent facilitates the functioning of the property accounting system. For those agencies that do not use a purchasing agent and the individual department head controls the purchase, movement, and disposition of assets, procedures and report forms must be designed to give the property accounting officer prompt notice of any change in the composition or physical location of the assets.

Accounts and Procedures

15.23 Capital Assets Accounting System

Capital assets acquired from a governmental fund, as distinguished from a proprietary fund, are accounted for in a capital assets accounting system. The asset accounts in this system are:

- Land
- Buildings and improvements
- Equipment

- Infrastructure
- Intangible assets
- Construction or development in progress

The equity of the governmental agency in these assets is shown in a number of Investment accounts, set up according to the source of the outlay, such as:

- Investment in Capital Assets — General Fund
- Investment in Capital Assets — Special Revenue Funds
- Investment in Capital Assets — General Obligation Bonds
- Investment in Capital Assets — Accumulative Capital Outlay Fund
- Investment in Capital Assets — Donations

These accounts are posted simultaneously with, but independently of, the related transactions recorded in the governmental funds.

15.24 Construction/Development in Progress

At the close of the fiscal period, the recorded project expenditures for capital assets not yet completed should be recognized in the Capital Assets Accounting System. This is accomplished by charging "Construction" or "Development in Progress" and crediting the appropriate "Investment in Capital Assets" account. If the project is incomplete by the end of the following period, then these accounts are adjusted to reflect any additional expenditures.

When the project is completed the proper asset account, usually "Buildings and Improvements" or "Infrastructure", is debited with the total of the completed construction or development; the "Construction" or "Development in Progress" account is credited with previously recorded costs; and the "Investment" account is credited for the difference.

15.25 Disposition of Capital Assets

Capital assets may be sold, abandoned, or traded in for new assets. Regardless of the manner of disposition or the amount of the proceeds, the asset must be removed from the Capital Assets Accounting System at its recorded value.

15.26 Identification of Equipment

There are two main reasons for affixing a sequence number to as many items as is possible and practical:

- Ease of Identification: It is much quicker to identify equipment by number than either to search for obscurely placed serial numbers or to match physical characteristics to a word description. This is particularly true when dealing with many items of similar, but not quite identical appearance.
- Inventory-Taking: A department physical inventory may be taken rapidly if a listing of items in sequential number order is available. Any item seen can be quickly located on the list and checked off. Otherwise the inventory must be taken in the order listed or the entire listing must be searched to locate the item.

There are some items for which a number may not be practical, such as:

- Certain medical and laboratory instruments
- Equipment habitually coated with dirt and grease
- Unique, readily identifiable items

Judgment must be exercised as to which equipment is best left unnumbered. Probably no single method of numbering will prove adequate, depending upon the surface, composition, and usage of the item. Some of the commonly used identifiers are:

- Decals
- Die-stamped numbers
- Metal tags affixed with rivets or nails
- Metal tags with pre-coated adhesive on the back
- Stenciled numbers

Standardization regarding the location for affixing tags to capital assets is desirable.

15.27 Individual Records

An individual record of each unit of accountability should be maintained. Information recorded should include:

- An abbreviated word description
- Cost or other basis
- Date acquired
- Date and method of retirement
- Department charged with the item
- Fund from which purchased
- Method by which acquired
- Posting reference
- Assigned sequence number
- Vendor's name (if purchased)

Optional data might include value for insurance purposes, estimated life, and equipment class code.

15.28 Subsidiary Records

For control purposes, it is convenient to group detailed records by department, or by location in the case of equipment. Records filed by department constitute a subsidiary ledger to the capital assets accounting system control account *Equipment*. Similarly, individual records for land, infrastructure, and buildings and improvements may be grouped by location to constitute subsidiary ledgers to the other control accounts. Larger governmental agencies with thousands of assets may wish to install intermediate control records and group them by the various departments and locations.

15.29 Physical Inventories

To ensure that the system is functioning as intended, complete physical inventories of equipment should be taken at intervals prescribed by law or, in the absence of applicable statute, the judgment of the local governing body.

The taking of inventories can be facilitated if the property accounting officer provides a current listing in numerical order of the equipment charged to departments. The listing form should provide space for checking each item present, notation of exceptions, and certification.

The property accounting officer, in the interests of internal control, should conduct test-check physical inventories of departments or item groups selected at random. A failure to find any item should be discussed with the department head promptly.

15.30 Shortages and Overages

An investigation of any shortages or overages should be made in cooperation with the department involved. Frequently, such shortages or overages are due to an accounting lag in recording acquisitions, transfers, or dispositions. Overages are seldom unexplainable. Shortages may exist because of the accounting lag or because of pilferage.

15.31 Depreciation

Capital assets should be depreciated over their estimated useful lives unless they are either inexhaustible or are infrastructure assets reported using the modified approach. Inexhaustible capital assets such as land and land improvements should not be depreciated.

Capital assets that are being or have been depreciated should be reported net of accumulated depreciation in the statement of net assets (accumulated depreciation may be reported on the face of the statement or disclosed in notes). Capital assets that are not being depreciated, such as land or infrastructure assets reported using the modified approach, should be reported separately if the government has a significant amount of these assets. Capital assets may also be reported in greater detail, such as by major class of asset (i.e., infrastructure, buildings and improvements, vehicles, machinery, and equipment).

Depreciation expense should be reported in the government-wide statement of activities. Depreciation expense should be measured by allocating the net cost of depreciable assets (historical cost less estimated salvage value) over their estimated useful lives in a systematic and rational manner.

15.32 Amortization

Qualified intangible assets should be amortized over their useful life. Intangible assets with no legal, contractual, regulatory, technological, or other factors limiting their useful life should be considered to have an indefinite useful life and should not be amortized. As an example, a permanent right-of-way easement would be considered to have an indefinite useful life. Additional information regarding the accounting and financial reporting for intangible assets can be found in GASB Statement No. 51, *Accounting and Reporting for Intangible Assets*.

Exhibits

E15.01 Examples of Classification and Posting

For simplicity, it is assumed that all transactions are cash. Departments mentioned are financed through the *General Fund*, unless otherwise stated.

Capital Asset Purchase	A printer is purchased for $1,000 for the clerk.							
	Application of Policy: The asset is capitalized in the amount of the expenditure.							
General Ledger			**Subsidiary Ledger (Program Ledger)**			**Capital Assets Accounting System**		
Accounts	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**
Expenditures	1,000		Clerk — Equipment	1,000		Equipment	1,000	
Cash		1,000				Investment in Capital Assets — General Fund		1,000

Distinction between Capital Asset and Maintenance Expenditures

Capital Asset vs. Maintenance Expenditure Example 1	A section of bleachers costing $200 is purchased for the Parks and Recreations Building as a replacement for a damaged section of bleachers' having 40 sections.							
	Application of Policy: The section replaces a part of the larger accountability unit of 40 sections and is therefore maintenance.							
General Ledger			**Subsidiary Ledger (Program Ledger)**			**Capital Assets Accounting System**		
Accounts	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**	**Accounts**	**Debit**	**credit**
Expenditures	200		Parks and Recreation — Building Maintenance of Equipment.	200		No Entry		
Cash		200						

Capital Asset vs. Maintenance Expenditure Example 2	Ten $200 sections of bleachers are added to the above bleachers, making a total of 50 sections.							
	Application of Policy: This is an addition to the existing capitalized bleachers. Additions to such equipment blocks should be capitalized regardless of whether or not they meet the cost test.							
General Ledger			**Subsidiary Ledger (Program Ledger)**			**Capital Assets Accounting System**		
Accounts	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**
Expenditures	2,000		Parks and Recreation — Building Equipment	2,000		Equipment	2,000	
Cash		2,000				Investment in Capital Assets — General Fund		2,000

Capital Asset vs. Maintenance Expenditure Example 3	A new radiator is installed in a five-year-old auto for the administrator at a cost of $145.
	Application of Policy: This is ordinary maintenance, as defined.

General Ledger			Subsidiary Ledger (Program Ledger)			Capital Assets Accounting System		
Accounts	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**
Expenditures	145		Administrator Maintenance of Equipment	145		No Entry		
Cash		145						

Capital Asset vs. Maintenance Expenditure Example 4	A boiler part of the hospital heating system is being replaced by a boiler purchased for $5,000. The original cost of the existing boiler was included in the cost of the hospital structure originally capitalized in the Capital Asserts Accounting System.
	Application of Policy: This is maintenance of the existing heating system, even though the old boiler may have cost only $3,500.

General Ledger			Subsidiary Ledger (Program Ledger)			Capital Assets Accounting System		
Accounts	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**
Expenditures	5,000		Hospital Maintenance of Buildings and Improvements	5,000		No Entry		
		5,000						

Capital Asset Maintenance Expenditure Example 5	A new 5-ton cooling system costing $3,500 is installed in the hospital, replacing an existing 3 ton system, which had originally cost $1,500.
	Application of Policy: The expenditure is an expenditure that can be capitalized: capitalize the new item; write off the replaced item.

General Ledger			Subsidiary Ledger (Program Ledger)			Capital Assets Accounting System		
Accounts	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**
Expenditures	3,500		Hospitals-Buildings and Improvement	3,500		Buildings and Improvements	3,500	
Cash		3,500				Investment in Capital Assets — General Fund		3,500
						Investment in Capital Assets — General Fund	1,500	
						Buildings and Improvement		1,500

Capital Asset vs. Maintenance Expenditure Example 6	$1,750 is expended on the installation of new partitions in the hospital lobby to provide additional office space.
	Application of Policy: The addition is less than $5,000 and is accordingly charged to maintenance.

General Ledger			Subsidiary Ledger (Program Ledger)			Capital Assets Accounting System		
Accounts	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**
Expenditures	1,750		Hospital-Manteca of Buildings and Improvements	1,750		No Entry		
Cash		1,750						

Capital Asset vs. Maintenance Expenditure Example 7	A new building is painted at a cost of $11,000
	Application of policy: Painting as part of the initial construction cost is regarded as capital outlay. Subsequent repair is maintenance.

General Ledger			Subsidiary Ledger (Program Ledger)			Capital Assets Accounting System		
Accounts	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**
Expenditures	11,000		Buildings and Improvements of Equipment	11,000		Buildings and Improvements	11,000	
Cash		11,000				Investment in Capital Assets-General Fund		11,000

Capital Asset vs. Expenditure Example 8	An administration building was constructed with an unpainted exterior. After 15 years, the building is painted at a cost of $15,000.
	Application of Policy: Although a theoretical case exists for classification as an addition, it is considered preferable to regard this as an expense of maintaining the original exterior of the building.

General Ledger			Subsidiary Ledger (Program Ledger)			Capital Assets Accounting System		
Accounts	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**
Expenditures	15,000		Administration Building-Maintenance of Buildings and Improvements	15,000		No Entry		
Cash		15,000						

Capital Asset vs. Maintenance Expenditure Example 9	A shop building is completely reshingled for $1,700.
	Application of Policy: The replacement is in-kind and is accordingly classified as maintenance.

General Ledger(			Subsidiary Ledger Program Ledger)			Capital Assets Accounting System		
Accounts	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**
Expenditures	1,700		Shop Building Maintenance of Buildings and Improvements	1,700		No Entry		
Cash		1,700						

Capital Asset vs. Maintenance Expenditure Example 10	The shingles in the above roof are replaced with shake shingles at a cost of $6,800
	Application of Policy: The amount of the betterment is greater than $5,000 as established by the auditor. Capitalize the new item; write off the $1,100 remaining book value of the old roof.

General Ledger			Subsidiary Ledger (Program Ledger)			Capital Assets Accounting System		
Accounts	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**
Expenditures	6,800		Shop Buildings and Improvements	6,800		Buildings and Improvements	6,800	
Cash		6,800				Investment in Capital Assets-General Fund		6,800
						Investments in Capital Assets-General Fund	1,100	
						Buildings and Improvement		1,100

Purchase of a capital asset with a trade-in for a governmental fund type Example 11, Method A	A laptop is purchased for the assessor for $2,675. The vendor allows $125 for an old laptop, which had originally cost $1,250.
	Application of Policy: The new asset is recorded at fair market value. The old asset is removed from the Capital Assets Accounting System at its recorded value. The trade in allowance is recognized as Other Financing Sources.

General Ledger			Subsidiary Ledger (Program Ledger)			Capital Assets Accounting System		
Accounts	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**
Expenditures	2,675		Assessor-Equipment	2,675		Equipment	2,675	
Cash		2,550				Investment in Capital Assets-General Fund		2,675
Other Financing Sources-Proceeds from General Capital Asset Trade-In		125				Investment in Capital Assets-General Fund	1,250	
						Equipment		1,250

Purchase of a capital asset with a trade-in for a governmental fund type Example 11, Method B	A laptop is purchased for the assessor for $2,675. The vendor allows $125 for an old laptop, which had originally cost $1,250.
	Application of Policy: Record purchase of the laptop net of the trade-in allowance. Note that the trade-in value is recognized only in the Capital Assets Accounting System.

General Ledger			Subsidiary Ledger (Program Ledger)			Capital Assets Accounting System		
Accounts	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**
Expenditures	2,550		Assessor Equipment	2,550		Equipment	2,675	
Cash		2,550				Investment in Capital Assets-General Fund		2,675
						Investment in Capital Assets-General Fund	1,250	
						Equipment		1,250

Sale of a capital asset for a governmental fund type Example 12	The Public Works Department sells a truck, originally costing $3,500 for $600
	Application of Policy: Assets sold must be removed from the capital assets accounting system at their recorded value, regardless of selling price.

General Ledger			Subsidiary Ledger (Program Ledger)			Capital Assets Accounting System		
Accounts	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**
Cash	600		Sale of Capital Assets		600	Investment in Capital Assets-General Fund	3,500	
Revenue		600				Equipment		3,500

Abandonment of a capital asset for a governmental fund type Example 13	Wooden shelving charged to the library is abandoned with no salvage recovery. It has been valued at $250
	Application of Policy: Assets disposed of in any manner must be removed from the Capital Assets Accounting System at their recorded value.

General Ledger			Subsidiary Ledger (Program Ledger)			Capital Assets Accounting System		
Accounts	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**
No Entry			No Entry			Investment in Capital Assets-General Fund	250	
						Equipment		250

Construction in Progress for a governmental fund type Example 14	At fiscal yearend, a total of $30,000 has been expended on a capital projects fund toward construction of a new health building.
	Application of Policy: The sum of the expenditures at the close of the fiscal year is recorded in the Capital Assets Accounting System.

General Ledger			Subsidiary Ledger (Program Ledger)			Capital Assets Accounting System		
Accounts	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**	**Accounts**	**Debits**	**Credit**
No Entry			No Entry			Construction in Progress	30,000	
						Investment in Capital Assets from Capital Projects Fund-General Obligation Bonds		30,000

Development in progress: Internally-generated intangible asset - Public Works software for governmental fund type Example 15	At fiscal yearend, a total of $125,000 has been expended in a special revenue fund toward development of software being internally generated for Public Works. **Application of Policy:** The sum of the expenditures at the close of the fiscal year is recorded in the Capital Assets Accounting System.

General Ledger			Subsidiary Ledger (Program Ledger)			Capital Assets Accounting System		
Accounts	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**
No Entry			No Entry			Development in Progress	125,000	
						Investment in Capital Assets from Special Revenue Fund — General Obligation Bonds		125,000

Capitalizing net interest cost during construction Example 16	Construction of a new health building is financed with a $75,000 tax-exempt issue at 10%. Proceeds have been invested at 9% until needed for payment of construction. Interest expenditures for the year (debt service fund) amounted to $3,750. Interest income (Capital Projects Fund) amounted to $3,600. **Application of Policy:** Net interest cost of $150 at the close of the fiscal year is recorded in the Capital Assets Accounting System.

General Ledger			Subsidiary Ledger (Program Ledger)			Capital Assets Accounting System		
Accounts	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**
Expenditures	3,750		Interest	3,750		Construction in Progress	150	
Cash		3,750	Interest on Bonds		3,750	Investment in Capital Assets from Capital Projects Fund — General Obligation Bonds		150
Cash	3,600							
Revenue		3,600						

Completion of construction formerly in progress.	**On February 1st of the following year, the health building is completed. The total cost was $77,950 including net interest costs of $2,950 incurred during construction. The project entries are posted and the project is closed.**
Net interest cost during final phase of construction is also capitalized. for a governmental fund type Example 17	**Application of Policy:** Current year interest is accrued and the prior balance of $30,500 in Construction in Progress is transferred to Buildings and Improvements along with the current fiscal year expenditure of $47,800—including the $2,800 of net interest cost for the final phase. The project, including appropriation, is then closed.

General Ledger			Subsidiary Ledger (Program Ledger)			Capital Assets Accounting System		
Accounts	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**
Expenditures	4,375		Interest	4,375		No Entry		
Accrued interest payable		4,375						
Accrued interest received	1,575		Interest on Bonds		1,575	No Entry		
Revenue		1,575						
Appropriation	80,000		Budgetary Fund Balance (Closing entry)		77,950	Buildings and Improvements	77,950	
Revenue	1,575					Construction in Progress		30,150
Expenditures		75,000				Investment in Capital Assets from Capital Projects Fund — General Obligation Bonds		47,800
Budgetary Fund Balance (Closing entry)		6,575						

A lease contract requiring operating method of accounting Example 18	The Library leased a van for two months at $400 per month while its bookmobile was being overhauled.
	Application of Policy: The lease agreement contains no provision for acquiring title

General Ledger			Subsidiary Ledger (Program Ledger)			Capital Assets Accounting System		
Accounts	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**	**Accounts**	**Debit**	**Credit**
Expenditures	800		Library Operations	800		No Entry		
Cash		800						
Lease-purchase	For a lease-purchase contract subject to the financing method of accounting. Please refer to Chapter 11, Debt							

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CHAPTER 16 BUDGETARY

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CHAPTER 16 BUDGETARY

16.01 Scope of Chapter

One of the fundamental principles governing the manual states, "The accounting system should provide the basis for appropriate budgetary control." This chapter describes the accounts and procedures by which such control may be established. It does not deal with budget forms, presentation, or procedure, which are governed by state law and administrative directive. It is concerned with accounting for actual transactions within the framework of the adopted budget.

An accurate comparison of transactions with budget estimates shows compliance with legal provisions and assists in the preparation of future budgets.

16.02 Budgetary Accounts

Budgetary accounts are those necessary to reflect budget operations and conditions. Although based entirely upon estimate, they have the same status as those accounts that reflect actual financial transactions. All are integrated into the overall accounting structure, a condition which emphasizes the importance of the budget in the county operation. The budgetary accounts are:

Estimated Revenues and Estimated Other Financing Sources — Amounts of revenue estimated to accrue or to be collected during a given period.

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

Encumbrances — Commitments related to unperformed (executory) purchase orders, contracts, or other obligations that are chargeable to an appropriation and for which a part of an appropriation is segregated. This account is used if a county uses the encumbrance system. The *Encumbrances* account never has a credit balance and always agrees with the *Budgetary Fund Balance - Reserved for Encumbrances* account. Encumbrances outstanding at fiscal year-end do not constitute expenditures. For financial reporting purposes, reserves for encumbrances will need to be reclassified as restricted, committed, or assigned fund balance depending on the county's spending prioritization policy.

Budgetary Fund Balance — This budgetary account is used to account for differences between estimated revenue and appropriations. The use of a budgetary fund balance account simplifies the integration of budgetary accounts into the general ledger and permits the periodic testing of budgetary account balances with a budgetary trial balance. For additional budgetary control, counties may establish budgetary fund balance accounts for the various fund balance classifications (non-spendable, restricted, committed, assigned, and unassigned). For budgetary purposes, non-spendable, restricted, committed, and assigned fund balance are also referred to as unavailable fund balance.

At all times during the year: (1) total general ledger budgetary account debits and credits must be equal; (2) total general ledger account debits and credits must be equal; and (3) total integrated general ledger debits and credits (including both budgetary and actual account balances) must be equal. The equality of these relationships should be tested periodically. This practice is consistent with the all-inclusive (clean surplus) theory, which states, in part, that only the results of operations should be reflected in the fund balance.

Budgetary Fund Balance — Reserved for Encumbrances — This account is used whenever a county uses the encumbrance system. This account never has a debit balance and always agrees with the balance in the *Encumbrances* account. This account is always posted at the same time as the *Encumbrances* account and in the same amounts. As a budgetary account, it is closed at fiscal year-end, along with encumbrances.

Like operating accounts, budgetary accounts are closed at the end of the fiscal period.

16.03 Fund Balance - Reserved for Encumbrances

There is a *Reserve for Encumbrances* account in the actual account structure. It is a segregation of fund balance to provide for expenditures upon vendor performance of outstanding commitments at year-end, represented by encumbered appropriations just before the budgetary accounts are closed. On the balance sheet, *Reserved for Encumbrances* must be reclassified *as* restricted, committed, or assigned, as appropriate in the Fund Balance section.

16.04 Budgetary Control

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

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

Budgetary Account	Account or Balance Controlled	Differences Indicate
Estimated revenues (debit)	Revenues (credit)	Over- or under- realized Revenues
Appropriations (credit)	Expenditures (debit) Encumbrances (debit)	Unexpended and unencumbered appropriations
Budgetary fund balance	Estimated revenues and appropriations	Effect on beginning fund balance available

16.05 Control and Subsidiary Ledger Accounts

Budgetary accounts in the general ledger are also referred to as control accounts, with reference to their subsidiary ledger accounts. Just as all the detailed expenditure subobjects of a fund are controlled by a single general ledger expenditures account, the detailed appropriations by budget unit and subobject are controlled by the general ledger appropriations account. Similarly, the *Estimated Revenues* account in the general ledger controls the revenue estimates by account for that fund. All encumbrances placed on individual appropriations of a fund are controlled by the *Encumbrances* account.

16.06 Combined Subsidiary Ledgers

A subsidiary ledger could be established for estimated revenues and another for appropriations. However, since both estimated revenues and revenues are expressed in terms of the same accounts, their subsidiary ledgers are often combined. This facilitates the budgetary control function and adds little to the size of the resulting ledger, since the recording of an estimated revenue seldom requires more than one entry per account per year.

General Fund		20X1 – 20X2		Account Library Services	
			Revenues		
Date	Posting Reference	Description	Estimate Debit	Actual Credit	Unrealized Balance
07/01	J-1	Budget	1,500*		1,500 Dr.
08/06	DP-161	July Fines		150**	1,350 Dr.
*Controlled by general ledger ***Estimated Revenues*** account					
Controlled by general ledger ***Revenues* account					

Similarly, appropriations and expenditures are both expressed in terms of the expenditure accounts and may be readily combined in a single appropriation expenditure ledger.

General Fund		20X1 – 20X2		Account Library Services	
			Expenditures		
Date	Posting Reference	Description	Actual Debit	Appropriation Credit	Remaining Balance
07/01	J-1	Budget	160*		5,840 Cr
07/05	W-98	Jones Off.		6,000**	6,000 Cr
*Controlled by general ledger ***Expenditures*** account					
Controlled by general ledger ***Appropriations* account					

16.07 The Encumbrance System

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

Encumbrances may be set up in a separate subsidiary ledger. However, it is usually more convenient and useful to also include them in the combined appropriation-expenditure ledger.

<u>Example</u>

a) A purchase order is issued for a microfilm machine for the clerk. The estimated cost is $2,500:

Account	Sub	Debit	Credit
Encumbrances		2,500	
Budgetary Fund Balance - Reserved for Encumbrances			2,500
Clerk — Equipment	2,500		

b) The microfilm machine is received, along with a statement for $2,530. The statement is paid:

Account	Sub	Debit	Credit
Budgetary Fund Balance - Reserved for Encumbrances		2,500	
Encumbrances			2,500
Clerk — Equipment	2,500		
Expenditures		2,530	
Cash			2,530
Clerk — Equipment	2,530		

NOTE: The encumbrance is always reversed in the same amount for which it was placed, regardless of the amount of the related expenditure. An encumbrance system, properly used, reduces the possibility of commitments in excess of appropriations due to a delay in the receipt of billings. Obviously, if a difference existed between the estimated and the actual cost of an item, an additional appropriation may be required.

16.08 Extent of Application

When an encumbrance system is used, appropriations should be encumbered for all purchase orders, contracts, and other written commitments. Additional encumbrances are a matter of local choice.

16.09 Need for Encumbrance System

Generally, the need for the type of control provided by encumbrance accounting increases as the size of the county increases. No exact rule can be stated as to what size county should use an encumbrance system. The best guide is probably that encumbrance accounting should be utilized to the extent necessary to ensure effective budgetary control and accountability and to facilitate effective cash planning and control.

It is also possible, particularly in very small governments, to facilitate appropriate budgetary control through the use of a simple file of unfilled purchase orders. When a particular purchase is proposed, this file is checked to determine whether any encumbrances are outstanding against the relevant appropriation. If so, no commitment can be made unless the unencumbered balance is sufficient to cover the proposed purchase.

16.10 Purchase Order Clearance Necessary

It is not necessary that a county have a purchasing agent in order to use the encumbrance system. However, in order for the encumbrance system to function, purchase orders must be reviewed by the auditor to determine the adequacy of unencumbered appropriations before approval and issuance to vendors. No pre-expenditure control can be exerted if the first notice of a proposed expenditure is the arrival of an invoice or claim.

16.11 Year-End Treatment of Budgetary Accounts

At June 30, the balances of *Appropriations* and *Estimated Revenues* are closed to *Budgetary Fund Balance*. The *Encumbrances* accounts are also closed at year-end, along with the *Budgetary Fund Balance - Reserved for Encumbrances*. However, the fund balance at June 30 should be offset to the extent of outstanding commitments. This outstanding commitment, with approval of the governing body, should be re-established as appropriations applicable to prior years in the new fiscal year. If prior-year commitments are not re-established, they should be cancelled unless otherwise provided for in the New Year.

If an encumbrance system is in effect, encumbrances outstanding at year-end represent the estimated amount of the expenditures that will result if unperformed commitments in process at year-end are completed. Encumbrances outstanding at year-end do not constitute expenditures or liabilities. If performance on an executory contract is complete, or meets criteria for accrual, an expenditure and liability should be recognized rather than an encumbrance. In the current budget document, the total of such appropriations is offset by the *Budgetary Fund Balance - Reserved for Encumbrances*; there is no detailed presentation by budget unit.

<u>Example</u>

a) Entry to adopt budget:

Account	Debit	Credit
Budgetary Unassigned Fund Balance	300,000	
Estimated Revenues	900,000	
Appropriations		1,200,000

b) As of June 30, the books are closed:

Account	Debit	Credit
Revenues	1,000,000	
Appropriations	1,200,000	
Budgetary Fund Balance — Reserved for Encumbrances	50,000	
Unassigned Fund Balance	100,000	
Estimated Revenues		900,000
Expenditures		1,100,000
Encumbrances		50,000
Budgetary Unassigned Fund Balance		300,000

c) As of June 30 the *Reserved for Encumbrances* outstanding is established:

Account	Debit	Credit
Unassigned Fund Balance	50,000	
Fund Balance — Reserved for Encumbrances		50,000

d) As of July 1 of the new fiscal year, the new budget is recorded:

Account	Debit	Credit
Estimated Revenues	950,000	
Budgetary Unassigned Fund Balance	150,000	
Appropriations		1,100,000

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

Account	Debit	Credit
Budgetary Accounts		
Budgetary Unassigned Fund Balance	50,000	
Encumbrances	50,000	
Appropriations — Prior Year		50,000
Budgetary Fund Balance — Reserve for Encumbrances		50,000

The above balance of the Reserve for Encumbrances is useful when classifying General Ledger fund balances for reporting purposes.

The detailed appropriations making up the $50,000 total are entered in the subsidiary ledger and immediately encumbered. Either of the following methods may be used:

Method 1

Current-year appropriations and appropriations for re-established encumbrances are recorded in the same account as the expenditures occur. Under this method, differences between amounts encumbered and amounts actually expended are immediately transferred from the appropriations account involved to Appropriation for Contingencies or to the contingencies fund, to prevent the indirect increase in current appropriations through the over-encumbering of prior-year appropriations.

			Budgetary Entries to General Fund 20X1 – 20X2		Budget Unit Library Account Office Expense	
Date	**Posting Reference**	**Description**	**Encumbrances *Debit***	**Appropriations *Credit***	**Expenditures *Debit***	**Unencumbered Appropriations *Credit***
07/01	J-1	Appropriated Budget		50,000		50,000
07/01	J-2	Prior encumbrance reestablished		50,000		-50,000
07/15	W-246	Goods Received, Smith Pub. Co.		-50,000	49,000	-1,000
07/15	J-3	Close contingent appropriation		-1,000		1,000

Method 2

Appropriations for re-established encumbrances are recorded in an account separate from current-year appropriations. Under this method such differences may be transferred to *Appropriation for Contingencies*, the *contingencies fund*, or the fund balance at the end of the fiscal year, inasmuch as separate accounting control is exerted over the appropriation for re-established encumbrances.

			Budgetary Entries to General Fund 20X1 – 20X2		Budget Unit Library Account Office Expense	
Date	**Posting Reference**	**Description**	**Encumbrances *Debit***	**Appropriations *Credit***	**Expenditures *Debit***	**Unencumbered Appropriations *Credit***
07/01	J-1	Appropriated Budget		50,000		50,000
07/01	J-2	Prior encumbrance reestablished	50,000			-50,000
07/15	W-246	Goods Received, Smith Pub. Co.	-50,000		49,000	-1,000
06/30/X2	J-3	Close appropriation		-1,000		1,000

16.12 Deposits with Others

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

<u>Example</u>

Road F.A.S. payments will be expensed when the warrant is drawn.

a) A deposit is made for the project:

Account	Subsidiary Expenditure	Debit	Credit
Encumbrances		50,000	
Budgetary Fund Balance — Reserved for Encumbrances			50,000
Professional and Specialized Services	50,000		
Deposits With Others		50,000	
Cash			50,000

b) Upon completion of the project, the county's share of the cost is $46,000. The remaining $4,000 on deposit is refunded:

Account	Subsidiary Expenditure	Debit	Credit
Budgetary Fund Balance — Reserved for Encumbrances		50,000	
Encumbrances			50,000
Professional and Specialized Services	50,000		
Cash		4,000	
Expenditures		46,000	
Deposits With Others			50,000
Professional and Specialized Services	46,000		

CHAPTER 17 COST ACCOUNTING

Refer to federal guidance 2 CFR Chapter 1, Chapter II, Part 200, et al.

(Supersedes 2 CFR Part 225 and OMB Circular A-87).

Federal Register: Title 2 CFR Chapter 1, Chapter II, Part 200, et al., Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is effective December 26, 2013 and combines Parts 200, 215, 220, 225, 230 (http://www.gpo.gov/fdsys/pkg/FR-2013-12-26/pdf/2013-30465.pdf)

- Subpart E, Cost Principles — Beginning with Section 200.400 provides guidance on principles for determining allowable costs of programs administered by state and local governments under grants from and contracts with the federal government.
- This Super Circular supersedes and streamlines the following Circulars: A-21, A-87, A-110, and A-122; following up with Circulars A-89, A-102, A133, and A-50 Single Audit Act.

Other Federal Resources:
Office of Management and Budget (OMB)
Policy Statements — Uniform Grant
Guidance: https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/circulars/A102/a102.pdf

Electronic Code of Federal Regulations, e-CFR — Refers to Title 2 CFR Chapter 1, Chapter II, Part 200, Subpart E, Cost Principles: http://www.ecfr.gov/

Contact information:

Office of Management and Budget (OMB)
The Office of Management and Budget
725 17th Street, N.W.
Washington, D.C. 20503
Information and Directory Assistance: (202) 395-3080
Website: http://www.WhiteHouse.gov/omb

The OMB, in consultation with federal grantor agencies, the Governmental Accountability Office, and representatives of grant recipients, developed a series of financial circulars that establish uniform policies and rules to be observed by all executive branch agencies of the federal government.

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CHAPTER 18 PROPERTY TAXES

18.01 Introduction

Land, improvements, and other taxable properties are accounted for on property tax rolls (i.e. lists) maintained primarily by the county assessor. Each roll contains an entry for each parcel of land, including its parcel numbers, owner's name, and value. The various types of rolls are (see glossary for definition):

- Secured roll
- Unsecured roll
- State assessed roll
- Supplemental roll
- Redemption roll
- Delinquent unsecured roll

Property taxes present a significant accounting problem because:

- Subsidiary records are required for each individual parcel, boat, airplane, and mobile home and its classification as secured or unsecured property.
- Ad valorem tax amounts billed and collected are distributed to various school districts, special districts, cities, and counties.
- Cash controls and proper balancing methods are accomplished on totals without regard to the final distribution to various jurisdictions.

In addition to the above, a tax bill contains a one-percent (1%) countywide levy. A tax bill may also contain amounts based on an ad valorem rate for voter-approved debt, special benefit assessment(s) or fixed charge assessment(s), and negative tax rates. Some districts are restricted on the type of property their rate for voter-approved debt may be applied or levied against, i.e., land-and-improvements-only, or land-only valuations.

The Revenue and Taxation Code (RTC) prescribes distribution formulas and methods for the different types of property tax levies.

Special taxes, assessments, fees and charges, are distributed directly to jurisdictions.

In view of these complexities concerning the levy, collection, and distribution of property tax revenues, it is vital that an adequate tax accounting system be used to control current and delinquent tax charge files and enable the county to perform its statutory responsibilities.

The examples in this chapter are primarily of accounting entries based on the secured and redemption rolls. The same principles would apply to both the unsecured and the supplemental rolls. The examples omit details relative to debt service amounts, the 1% levy or fixed charges, and reflect total amounts only.

This chapter is primarily concerned with accounting procedures relating to the levy, collection, distribution, and accrual of property tax revenues. Also included are procedures relating to the following:

- Allocation formulas used in apportioning the 1% segment of the levy to various jurisdictions
- State assessed unitary property
- Redevelopment agencies
- Supplemental property taxes
- Glossary of terms relating to property-tax procedures
- Other revenues closely related to property taxes
- Year-end accruals

It should be noted that some of the recommended procedures contained in this chapter do not apply to counties that have adopted the Alternate Method of Tax Apportionment pursuant to RTC Section 4701, et seq.

18.02 Taxes

Accounting for Taxes

The unapportioned tax fund is used to control the tax charges and collections prior to distribution, and also acts as a suspense fund for tax receipts collected by the tax collector. By definition, this fund is an agency fund; refer to *Chapter 14: Fiduciary Funds (Trust and Agency Funds*). Counties may combine the cash accounts of this fund and account for the liabilities through separate liability accounts for each type of collection.

Unapportioned Tax Fund Accounts

The accounts prescribed for the Unapportioned Tax Fund and their normal balances are:

Unapportioned Tax Fund Accounts	Debit	Credit
Cash	X	
Taxes receivable — current secured	X	
Taxes receivable — current unsecured	X	
Taxes receivable — current supplemental	X	
Taxes receivable — prior secured	X	
Taxes receivable — prior unsecured	X	
Taxes receivable — prior supplemental	X	
Due to other funds and entities — current secured		X
Due to other funds and entities — current unsecured		X
Due to other funds and entities — current supplemental		X
Due to other funds and entities — prior secured		X
Due to other funds and entities — prior unsecured		X
Due to other funds and entities — prior supplemental		X
Due to other funds and entities — tax defaulted land sales		X
Due to other funds and entities — redemption installments		X
Due to other funds and entitles — advance collections		X
Due to other funds and entities — refundable taxes		X
Due to other funds and entities — protested taxes impounded		X
Due to other funds and entities — other taxes (designate)		X

Accounting Basis

To exercise control over the current secured, unsecured, and supplemental levies, tax receivables are recorded in the unapportioned tax fund. Taxes receivable and other revenues may be collected in advance of the fiscal year to which they apply. If all eligibility requirements, excluding time requirements, have been met, amounts received in advance should be recorded as a deferred inflow of resources and recognized as revenue of the period to which they apply. If not an advance payment, receivables are recorded at the time the tax charge or levy computations are completed. Supplemental receivables are updated to account for each billing.

Recording the Change

The tax charge (sum total of the tax bills prepared) is recorded in the Unapportioned Tax Fund:

Account	Debit	Credit
Unapportioned Tax Fund		
Taxes receivable — current secured	5,000,000	
Due to other funds and entities — current secured		5,000,000
(To record the tax charge in the Unapportioned Tax Fund)		

Roll Changes

Assessed values and tax charges may change after tax bills are mailed, due to changes made by the auditor during the year. The types of changes fall into four general categories:

- Cancellations — These are often a result of acquisitions of property by tax-exempt jurisdictions during the year requiring either a portion or all of the tax amount due to be canceled. Another common reason includes duplicate or erroneous property assessments by the Assessor.

- Escaped Assessments — These changes pertain to current and prior year assessed valuations of properties that were not assessed and taxed during that fiscal year. The tax amounts are based on the rates levied for the escaped year and added to the current charge file. These types of corrections are found on both the current secured and unsecured rolls.

- Fixed Charges — These types of corrections are usually reported to the auditor by a local district to correct fixed charges such as special benefit assessments added to the tax bill. These corrections affect the tax charge only and do not involve assessed valuations.

- Corrections — This category includes assessor's errors, name changes, missed or erroneous exemptions, erroneous tax rate areas, transfers to the unsecured roll, etc.

Generally, any changes to assessed valuations or the tax charge will necessitate entries in the Unapportioned Tax Fund.

Example

The following changes are received and entered on the current secured roll:

	Change		Amount
A	**The State of California purchased (apportionment date per RTC 5082 10/01) a parcel within the county assessed at $200,000 and a tax bill of $2,200. Taxes in the amount of $1,650 (75%) are cancelled.**	**$**	**(1,650)**
B	During the year the assessor reports escaped valuations for the two previous years in a parcel, resulting in additional taxes of $5,000 added to the current roll.		5,000
C	The auditor is notified by a fire district to cancel weed abatement levied on a parcel in error.		(50)
D	A parcel is transferred from the secured roll to the unsecured roll.		(500)
	Total secured amount of changes	$	2,800
	Total unsecured amount of changes	$	500

Account	Debit	Credit
Unapportioned Tax Fund		
Taxes receivable — current secured	2,800	
Due to other funds and entities — current secured		2,800
Taxes receivable — current unsecured	500	
Due to other funds and entities — current unsecured		500
(To record corrections to current secured and unsecured rolls)		

Collection of Taxes

As tax payments are collected by the county tax collector, they are processed against the tax charge and deposited in the *Unapportioned Tax Fund* of the county treasury. By statutory provision, the tax collector is required each month to furnish the auditor a detailed statement of collections for the preceding month. As illustrated below, collections are credited against the receivable when deposited.

Account	Debit	Credit
Unapportioned Tax Fund		
Cash	1,000,000	
Taxes receivable — current secured		1,000,000
(To record tax collections deposited in the Unapportioned Tax Fund)		

Apportionment of Taxes

The apportionment of taxes by the auditor is governed by various sections of the Revenue and Taxation Code. The frequency of distribution is based upon the type of property tax being distributed and the method of apportionment. The accounting entries made in the *Unapportioned Tax Fund* and each receiving fund or jurisdiction for the apportionment of current secured taxes are shown in the following example:

Account	Debit	Credit
Unapportioned Tax Fund		
Due to Other Funds and Entities — Current Secured	1,000,000	
Cash		1,000,000
(To record the apportionment of collections to various jurisdictions for a specific collection period)		

Each jurisdiction's general and/or debt service fund (if any)

Account	Debit	Credit
Cash	100,000	
Revenue — current secured property taxes		100,000
(To record the receipt of current secured property tax distribution, for a specific collection period)		

Fixed Charges for Special Benefit Assessments

It should be noted that, while fixed charges for various purposes added to the tax bill are collected and distributed along with the property taxes, upon receipt by the jurisdiction specific revenue codes are used to record them. Items such as water or sewer standby charges, weed abatement, street lighting, improvement bonds, and special taxes approved by the electorate are examples of fixed charges that jurisdictions report to the county auditor to be added to the current secured tax bills.

Year-End Entries

It is recommended that the uncollected or unapportioned taxes levied for each county be recognized in the accounts at June 30. The taxes receivable should be offset by the *Allowance for Uncollectible Taxes* equal to the amount of taxes determined to be uncollectible plus the amount to be collected within the established accrual period.

<u>Example</u>

On June 30, taxes levied for the *General Fund* are as follows:

Taxes	Amount
Collected but unapportioned:	
Current secured	$ 1,800
Uncollected:	
Current secured	3,500
Prior secured	800
Current unsecured	1,200
Prior unsecured	300
Total	$ 7,600

Of the uncollected taxes, it is estimated that 75% of current and 50% of prior will be collected during the accrual period as established by the county auditor:

Account	Debit	Credit
County General Fund		
Taxes receivable	7,600	
Allowance for uncollectable taxes		1,725
Property taxes — current — secured		4,425
Property taxes — current — unsecured		900
Property taxes — prior — secured		400
Property taxes — prior — unsecured		150
(To record the year-end accrual of property taxes)		

Opening Entries — Unapportioned Tax Fund

On July 1 unpaid current secured and supplemental (due on or before June 30) property taxes for the previous fiscal year are tax defaulted. Current unsecured property taxes levied in the current fiscal year become prior unsecured taxes as well. These changes in status from current to prior must therefore be recorded in the *Unapportioned Tax Fund*. In each case, the entry would be to transfer the *Receivable* and the *Due to Other Funds and Entities* from current to prior accounts, as shown in the following example.

<u>Example</u>

The uncollected outstanding balance as of June 30 for current secured taxes is $1,500,000:

Account	Debit	Credit
Unapportioned Tax Fund		
Due to other funds and entities — current secured	1,500,000	
Taxes receivable — current secured		1,500,000
Taxes receivable — prior secured	1,500,000	
Due to other funds and entities — prior secured		1,500,000
(Entry to transfer tax-defaulted amounts from current to prior receivables)		

Penalties and Costs

A. Current Secured and Unsecured Levies

Penalties and costs attach to current property tax bills if not paid on or before specific dates. On a current secured tax bill, a 10% penalty is added to each delinquent installment. In addition, a $10 cost is added to all delinquent second installments. On current unsecured tax bills unpaid as of the delinquent date, only the penalty is imposed.

As penalties and costs are added to the tax rolls, the liability of these amounts may be reflected in the control accounts of the *Unapportioned Tax Fund* and added to the appropriate receivable and liability account. Penalties and costs are combined with existing balances and not recorded separately in the control accounts. The distinction between tax and penalty amounts are controlled in the tax charge, collection reports received from the tax collector, and the apportionment process.

Example

Account	Debit	Credit
Unapportioned Tax Fund		
Taxes receivable — current unsecured	50,000	
Due to other funds and entities — current unsecured		50,000
(To record penalties of $50,000 added to delinquent unsecured tax bills as of August 31)		

B. Supplemental Roll

Supplemental property tax bills may be prepared and mailed on a recurring basis (e.g. monthly) throughout the fiscal year. The date the bill is mailed determines the installment and delinquency dates. A 10% penalty is added to each delinquent installment and a $10 cost is added to the final installment. It is permissible to account for penalties and costs in the same manner used in redemption.

C. Redemption

If redemption penalties and costs are regularly added to all tax-defaulted property, they should be posted to the prior secured receivable and due to accounts. However, since redemption penalties accrue on these balances monthly and vary with the year of tax default, the usual practice is to compute the amount necessary to redeem upon request or at the time of payment. Prior secured taxes are recognized without regard to the fiscal year levied. Redemption penalties and fees are posted to the liability account when collected.

Example

A tax-defaulted parcel is redeemed by payment of the following amounts:

Payment	Amount
Amount of tax and fixed charges	**$ 150.00**
10% penalty	15.00
Delinquent cost	10.00
Redemption fee	15.00
Redemption penalties (6 months at 1.5% per month)	13.50
Total Paid	$ 203.50

Account	Debit	Credit
Unapportioned Tax Fund		
Cash	203.50	
Taxes receivable — prior secured		175.00
Due to other funds and entities — prior secured ($15.00 + $13.50)		28.50
(To record redemption of tax-defaulted parcel)		

It should be noted that penalties are apportioned in the same manner as the property taxes and fixed charges that they are charged against. Costs collected are distributed to the county *General Fund*.

Redemption

A. Distribution of Collections

After the tax collector publishes the required statutory notice of delinquent secured taxes, secured property becomes tax-defaulted if unpaid as of June 30. This is the beginning of a five-year period at the end of which the property is subject to the tax collector's power of sale and may be sold at public auction, by sealed bid, or by agreement.

The apportionment of redemption collections is made using the prior fiscal year apportionment factors without regard to the fiscal years of the levy. The exception to this is tax-defaulted supplemental taxes, which is apportioned similarly but with certain changes for K-12 schools.

Example

At the close of a collection period the following redemption amounts have been deposited and are to be apportioned:

Deposited	Amount
Taxes — prior secured	**$ 7,500**
Penalties	1,200
Redemption fees	195
Delinquent costs	130
Total	$ 9,025

Account	Debit	Credit
Unapportioned Tax Fund		
Due to other funds and entities — prior secured	9,025	
Cash		9,025
(To record apportionment of prior secured taxes)		

Account	Debit	Credit
Other Agency Fund (fund used to account for amount due State)		
Cash	65	
Due to State — redemption fee		65
(To record State's portion of redemption fees, equal to one-third of the above redemption fees)		

Account	Debit	Credit
County General Fund		
Cash	2,870	
Property taxes — prior secured		2,250
Penalties and costs — delinquent taxes		620
(To record apportionment of redemption collections)		
(This example assumes that the county received 30% of collections)		

NOTE: The revenue amount shown as *Penalties and Costs — Delinquent Taxes* is comprised of the following:

Revenue	Amount
30% of the total penalties distributed	**$ 360**
100% of the costs apportioned	130
$^2/_3$ of the redemption fees distributed	130
Total penalties and costs received	$ 620

B. Installment Payment Plans

The law contains provisions allowing for the payment of delinquent taxes through installments. Under the plan, the taxpayer initially pays 20% of the redemption amount, and at least 20% annually thereafter, plus interest on the unpaid balance until payment is completed. During this period, the current taxes and penalties shall be paid on or before April 10 of each year to prevent default.

In the *Unapportioned Tax Fund*, the amounts due under installment plans cannot be shown as a separate asset, since the tax-defaulted amounts are already included in the *Taxes receivable - prior secured* account. There are two basic methods of apportioning installment collections.

1. Payments are held until either redemption is completed or the property has lost the right to receive credit for payments made.

<u>Example</u>

A taxpayer agrees to redeem his/her property, having a redemption amount of $500, by paying $100 immediately and $100 plus accrued interest by April 10 of each of the four succeeding fiscal years:

	Unapportioned Tax Fund	Debit	Credit
a	Cash	100	
	Due to other funds and entities — redemption installments		100
	(Entry to record initial payment)		

	Unapportioned Tax Fund	Debit	Credit
b	Cash	172	
	Due to funds and entities — redemption installments		172
	(Entry to record $100 installment payment plus $72 interest based upon 1.5% per month x 12 months on a $400 unpaid balance)		

	Summary Entry	Debit	Credit
c	Cash	408	
	Due to other funds and entities — redemption installments		408
	(Entry to record 3 subsequent installment payments)		

	Summary Entry	Debit	Credit
d	Due to other funds and entities — redemption installments	680	
	Taxes receivable — prior secured		440
	Due to other funds and entities — prior secured taxes		240
	(Entry to record the issuance of a tax redemption certificate)		

	Amount
The $240 consists of:	
Notification fee	$ 35
Delinquent second installment cost	10
Interest	180
Redemption fee	15
Total	$ 240

2. Payments are included with the apportionment of other redemption collections.

Example

Account	Debit	Credit
Unapportioned Tax Fund		
Cash	100	
Taxes receivable — prior secured		88
Due to other funds and entities — prior secured		12
(Summary entry to record payments)		

See Redemption A: Distribution of Collections for entries recording the apportionment of the collections

Tax Defaulted Land Sales

After the five-year period, the property becomes subject to the tax collector's power of sale and may be sold at public auction, sealed bid sale, or by agreement. Sale proceeds may be greater or less than the total redemption amount. Procedures concerning the disposition of proceeds in excess of the redemption amount are covered in Section 4671 et. seq. of the Revenue and Taxation (RTC) Code. When a sale occurs, adjusting entries in the accounts of the *Unapportioned Tax Fund* must be made.

Example

Tax-defaulted property, on which $635 is included in the Taxes receivable — prior secured account, is sold for $560

Account	Debit	Credit
Unapportioned Tax Fund		
Cash	560	
Due to other funds and entities — tax-defaulted land sales		560
Due to other funds and entities — prior secured	635	
Taxes receivable — prior secured		635
(To record the sale of tax-defaulted property)		

When apportioning tax-defaulted land sales collections, special attention is needed to ensure that the proceeds are distributed in the proper order, as follows:

Order		Code	Amount
1st	**Reimbursements to County General Fund**		
a	Advertising costs	RTC §3719, §4673	varies
b	Recording fee	RTC §3719	varies
2nd	Delinquent Tax Sale Trust Fund — RTC §3719		
a	State fee	RTC §4672	$1.50
b	County fee	RTC §4672.1	$150.00
c	Notification fee	RTC §4672.2	Variable — see code
d	Amount required to redeem	RTC §4673.1 (a)	Variable — see code
e	Current taxes	RTC §4673.1 (b)	Variable — see code
f	Any amounts collected in addition to current taxes are called excess proceeds. Any interested party may file a claim for the excess (§4675) up to one year after the deed is recorded. Excess proceeds (§4674) are not subject to distribution until one year after the deed to the purchaser is recorded.	RTC §4675 RTC §4674	Variable — see code

Refundable Taxes

There are a multitude of situations that result in the issuance of tax refunds, such as:

- Erroneous payments (paying the same bill twice, overpayments, etc.);
- Roll corrections reducing parcel valuation or entering an exemption such as a homeowners' exemption where the tax bill has already been paid; or
- Assessment appeal hearings that result in a reduction of value where the tax bill has already been paid.

In some cases, it is necessary for a "claim for refund" to be filed prior to the issuance of a refund of taxes. Procedures governing refunds are covered in Section 5096, et seq., of the Revenue and Taxation Code. Interest on refunds, if applicable, is governed by Revenue and Taxation Code sections 5151 and 5153.

<u>Example</u>

a) The tax collector discovers that a $125 duplicate current unsecured payment was received and issues a refund warrant to the taxpayer:

Account	Debit	Credit
Unapportioned Tax Fund		
Taxes receivable — current unsecured	125	
Cash		125
(To record refund of duplicate payment)		

b) A roll change to a prior-year paid tax bill results in a refund due of $75. Once the refund claim requirements are met, the following entries are recorded:

Account	Debit	Credit
Unapportioned Tax Fund		
Due to other funds and entities — current secured	75	
Due to taxpayers — refundable taxes		75
(To record the receipt of a claim for refund)		

Account	Debit	Credit
Unapportioned Tax Fund		
Due to taxpayers — refundable taxes	75	
Cash		75
(To record the issuance of a refund upon receipt of the claim for refund)		

The amount refunded would subsequently be reversed or deducted from the apportionment covering the period the refund was made.

Pursuant to section 5102 of the Revenue and Taxation Code: if a claim for refund on an overpayment is not filed within four years of the payment date, the unclaimed amount may be transferred to the county's *General Fund* upon order of the board of supervisors.

Advance Collections

Current unsecured property taxes are, by statute, due and payable on the January 1 lien date of the preceding fiscal year for which they are levied. A deferred inflow of resources should be reported when tax payments are collected by the county tax collector before (a) the period for which property taxes are levied or (b) the period when resources are required to be used or when use is first permitted for all other imposed nonexchange revenues in which the enabling legislation includes time requirements.

In this instance, collections received prior to July 1 are credited to the Deferred Inflows of Resources account and subsequently transferred to the Tax Receivable account.

Example

Unsecured payments totaling $5,000 are deposited on May 13 and are applicable to the fiscal year beginning on July 1:

Account	Debit	Credit
Unapportioned Tax Fund		
Cash	5,000	
Deferred Inflows of Resources		5,000
(To record the receipt of advanced unsecured payments)		

After July 1, the unsecured tax levy was recorded. The deferred inflows of resources are transferred:

Account	Debit	Credit
Unapportioned Tax Fund		
Deferred Inflows of Resources	5,000	
Taxes receivable — current unsecured		5,000
(To reduce taxes receivable for unsecured advance collections)		

Disputed Taxes

In the previous section, refund claims were discussed in relation to over payments or erroneous payments. Disputed taxes are those in question for reasons other than errors in payment amounts. Within six months prior to taking legal action, a claim for refund must be filed with and rejected by the board of supervisors (RTC, §5141 and GOV, §26906.1). In these instances, the tax amount under protest may be impounded by the auditor, with BOS approval, and not apportioned. The decision to determine whether or not to impound the disputed tax amount is a question of judgment, based on such factors as:

- The basis upon which the action is filed;
- The probability of a successful recovery;
- The dollar amount of the protested taxes in question; or
- County policies and procedures governing.

The impoundment of taxes should be handled in such a manner that interest earnings on the litigated amount may also be retained and impounded.

Example

Legal Action is filed involving $200,000 in protested secured taxes, and it is decided to impound the taxes:

Account	Debit	Credit
Unapportioned Tax Fund		
Due to other funds and entities — current secured	200,000	
Due to other funds and entities — protested taxes impounded		200,000
(To record the impound of protested secured taxes)		

The subsequent apportionment of collections would be adjusted to reflect the protested taxes that were impounded. Support documentation should be retained in the event that the litigation is unsuccessful in order to distribute the impounded amount to the proper jurisdictions.

18.03 Other Taxes

County-Levied taxes for which a revenue account has not otherwise been provided are posted to the *Other Taxes* account. Following is a brief description of each:

Aircraft Tax (Revenue and Taxation Code Section 5391 as amended)

Aircraft is taxed at the same rate and in the same manner as all other personal property. Distribution of this tax is determined pursuant to Revenue and Taxation Code section 5451.

Example

a) Taxable aircraft within the county is assessed at a market value of $630,000. Aircraft taxes of $6,300 are charged off on the unsecured roll:

Account	Debit	Credit
Unapportioned Tax Fund		
Taxes receivable — current — unsecured	6,300	
Due to other funds and other governments — aircraft taxes		6,300
(To record the aircraft tax charge on the unsecured roll)		

b) $6,000 in aircraft taxes is collected:

Account	Debit	Credit
Unapportioned Tax Fund		
Cash	6,000	
Taxes receivable — current — unsecured		6,000
(To record the collection of aircraft taxes)		

18.04 In Lieu Taxes

Timber Yield Tax (Revenue and Taxation Code section 38101 et seq.)

The timber yield tax is a State tax that is authorized under subdivision (j) of Section 3 of Article XIII of the Constitution for the stated purpose of encouraging the continued use of timberlands for the production of trees for timber products (stats. 1976, Ch. 176, p. 324, in effect May 24, 1976). This yield tax is actually a payment in lieu of ad valorem property taxes.

The *Timber Yield Tax Fund* is administered by the State Board of Equalization (BOE). The in lieu tax is based on cut timber only and the rate and values are determined based on numerous criteria. Each person/company cutting timber must apply for a permit to do so. A Timber Tax Return is filed yearly and payments are made to the BOE. The payments are accumulated and, on November 30 and May 31 of each fiscal year, the Controller must transmit to the county treasurers the balance in the Timber Tax Fund on those dates. The State allocates to each county its percentage share of the *Timber Yield Fund* after reimbursement of the State's costs. BOE provides a reconciliation with the payment.

Upon receipt of the amount certified by the Controller, the auditor shall distribute to each taxing agency its share within 10 days. The amount due to each taxing agency is determined using an average timber tax dollar received for FYs 1972–73, 1973–74, and 1974–75. Adjustments to schools for their share of any area-wide monies and to colleges based on Government Code section 27423(b) are included in this average. A percentage of each entity to the full average timber tax dollar is determined and these factors are used in all subsequent years to allocate the amounts received from BOE. The value of the timber per the assessor or BOE is determined and an estimate of the FY 1972–73 to FY 1974–75 averaging years is made. The above calculation of factors is redone based on this shift of timber value.

State Highway Property Rental (Streets and Highways Code section 104.13

The Department of Transportation (DOT), under Streets and Highways Code section 104.6, is given the authority to acquire land for future needs. DOT is also authorized to lease the property acquired until needed for highway expansion. The total of the lease payments received is deposited in the *State Highway Account* in the *State Transportation Fund*. Twenty-four percent of such rent is allocated pursuant to section 104.10 of the Streets and Highways Code.

No later than the first day of November following the close of the fiscal year, DOT shall pay rents computed pursuant to section 104.6 DOT certifies to the Department of Finance the amount of such rentals attributable to each county and notifies the county of location and the rental amount of each property within the county's jurisdiction.

Upon receipt of the State's payment, the county auditor shall distribute any payment received pursuant to this section to each revenue district for which the county is the assessing and collecting agent, and to every other taxing agency within the county in which the property is situated in the amount as determined by the board of supervisors, with the following exception: one-half of the allocation for a rental property shall be allocated to the city in which the rental property is located. DOT should be notified if the revenue received is not sufficient to pay the total tax due.

Fish and Game Tax (Fish and Game Code section 1504)

The Department of Fish and Game acquires real property within counties for the specific purposes of wildlife management and preservation. The property tax revenue loss to the county is reimbursable as an in lieu tax under Fish and Game Code section 1504. This tax dollar value is determined at the time of acquisition by the State and does not increase with changes in tax rate or market value.

An annual billing is submitted (usually in September or October) to the Department of Fish and Game for payment. Payments are allocated to the entities based on the billing year's AB 8 factors.

Racehorse Tax (Revenue and Taxation Code Section 5721)

A tax in lieu of a property tax is imposed on the privilege of breeding, training, caring for, or racing racehorses (such as thoroughbreds) in the State. The annual tax is imposed accordingly to Revenue and Taxation Code section 5721. Distribution of the in lieu tax is determined pursuant to Revenue and Taxation Code section 5790.

Housing Authority in Lieu (Health and Safety Code section 34401)

The property of a housing authority is exempt from all taxes and fixed charges. An agreement may be made to make Payments in Lieu of Taxes (PILOT) to any county, city or political subdivision of the State. The amount to be paid is equal to 10 percent of shelter rents (gross rents less utilities). If the percentage specified in the cooperation agreement or the contract with HUD is less than 10%, then the lower percentage is used. Payments are distributed to each jurisdiction based on AB 8 (TRA) allocation factors.

18.05 AB 8 Allocation

The apportionment of property tax revenues to jurisdictions is comprised of an ad valorem rate for voter-approved debt and the countywide one-percent (1%) levy by tax rate area (TRA). The amounts are then totaled countywide for each debt fund and the one-percent levy. The one-percent portion is distributed to jurisdictions by percentage factors computed pursuant to the formulas contained in Section 95, et seq., of the Revenue and Taxation Code (commonly referred to as AB 8).

Prior to the passage of Proposition 13 (which added Article XIIIA to the State Constitution) in June 1978, tax rates were annually computed, adopted, and levied for the general operations and general obligation bonds of schools, cities, counties, and special districts. The individual rates were combined by TRA and the total rate computed for each TRA was used to compute individual tax bills.

With the enactment of Proposition 13, individual jurisdictions were precluded from levying a rate for operations and a countywide maximum rate of one percent was levied for all jurisdictions. The enabling legislation contained a one-year property tax distribution method which ensured that each jurisdiction that levied a rate in FY 1977–78 would receive a share of the maximum rate levied. The basis for this one-year formula for cities, counties, and special districts was the average percentage of all property taxes received in the three fiscal years prior to the FY 1978–79. The pro rata distribution for schools was based only on the FY 1977–78 property tax revenues received.

The FY 1978–79 formula used to distribute property tax revenues had several shortcomings and inequities:

- No allowance was made for newly formed special districts or the incorporation of new cities to share in the distribution of property taxes.

- Districts (and cities in particular) would not directly benefit from additional property tax revenues arising from annexations and the growth of assessed values within their boundaries.

In 1979, the Legislature enacted a new formula for the distribution of property tax revenues (Assembly Bill 8 [AB 8], Chapter 282, amended by AB 1019, Chapter 1133, of the Statutes of 1979). AB 8 and the subsequent amendment were urgency measures and effective for FY 1979–80.

AB 8 Base Year

The key feature of AB 8 was the creation of a property tax base for each jurisdiction that would increase in proportion to the growth in assessed values. The "base" also includes adjustments for the FY 1978–79 "block grant" or "bailout" amounts received by counties, cities, and special districts. In general, each jurisdiction receives the amount it received in the prior year plus its share of any growth in property tax within its boundaries.

The property tax revenue base for cities, counties, and special districts was comprised of:

- the property tax revenue received in FY 1978–79; and
- adjusted State bailout amounts.

The adjusted bailout amounts added to local districts were "shifted" from the school's property tax base on a proportionate basis. Adjustments to the FY 1978–79 bailout amounts were based on the following percentages:

Jurisdiction	Adjustment of bailout
Cities	**82.91% of the bailout received**
Special Districts	95.24% of the total bailout amount
Counties	The sum of the following:
	(1) Total amount of the bailout received (2) Plus the amount of reduction in buy-out of (AFDC) costs (3) Less the amount for the State's assumption of health care costs

After computing the base property tax amount for each jurisdiction, the next step was to allocate it to each TRA. For each jurisdiction, a percentage factor was computed for each TRA. A percentage factor was computed by dividing the assessed value of each TRA by the total assessed value of the jurisdiction.

Once the allocation of base revenue amounts to the TRAs was completed for all jurisdictions, percentage factors were computed in each TRA based on the allocated amounts.

Annually each city, county special district, and school fund is allocated an amount equal to the amount it received in the prior fiscal year plus a proportionate share of the change in property tax revenues arising from the change in assessed valuation in the TRAs it occupies, and has an allocation factor computed for it. The computations are based on the equalized roll valuation.

Provisions were also made for local districts to negotiate the exchange of property tax revenues as a result of annexations, the formation of new districts, or the incorporation of cities. A resolution by the county board of supervisors is generally required in all cases.

In FY 1992–93 and FY 1993–94, the State Legislature shifted property taxes from local agencies to schools, using newly created Education Revenue Augmentation Funds (ERAF), in effect reversing the FY 1978–79 bailouts. Counties incorporated these shifts into the AB 8 process using one of two allowable methods:

- A TRA level model, under which each ERAF was allocated base tax and increment factor, or

- A jurisdictional model, which instead added an annual shift calculation and adjustment to the AB 8 apportionment factors before finalizing amounts to be allocated.

The flow charts on the following pages depict the various steps in the AB 8 formula. The first chart excludes any adjustments pursuant to the Tax Equity Allocation (TEA) formula of Revenue and Taxation Code sections 97.35, 97.37 or 97.38. The second chart incorporates the TEA adjustments to the AB 8 formula. Listed below is a summary description of the steps:

- The valuations for both current and prior year are the equalized roll values.

- In accordance with Revenue and Taxation Code section 99, the adjustment to the prior-year valuation on a TRA level is necessary to reflect jurisdiction boundary changes that resulted in the creation, deletion, or consolidation of TRAs in the current year.

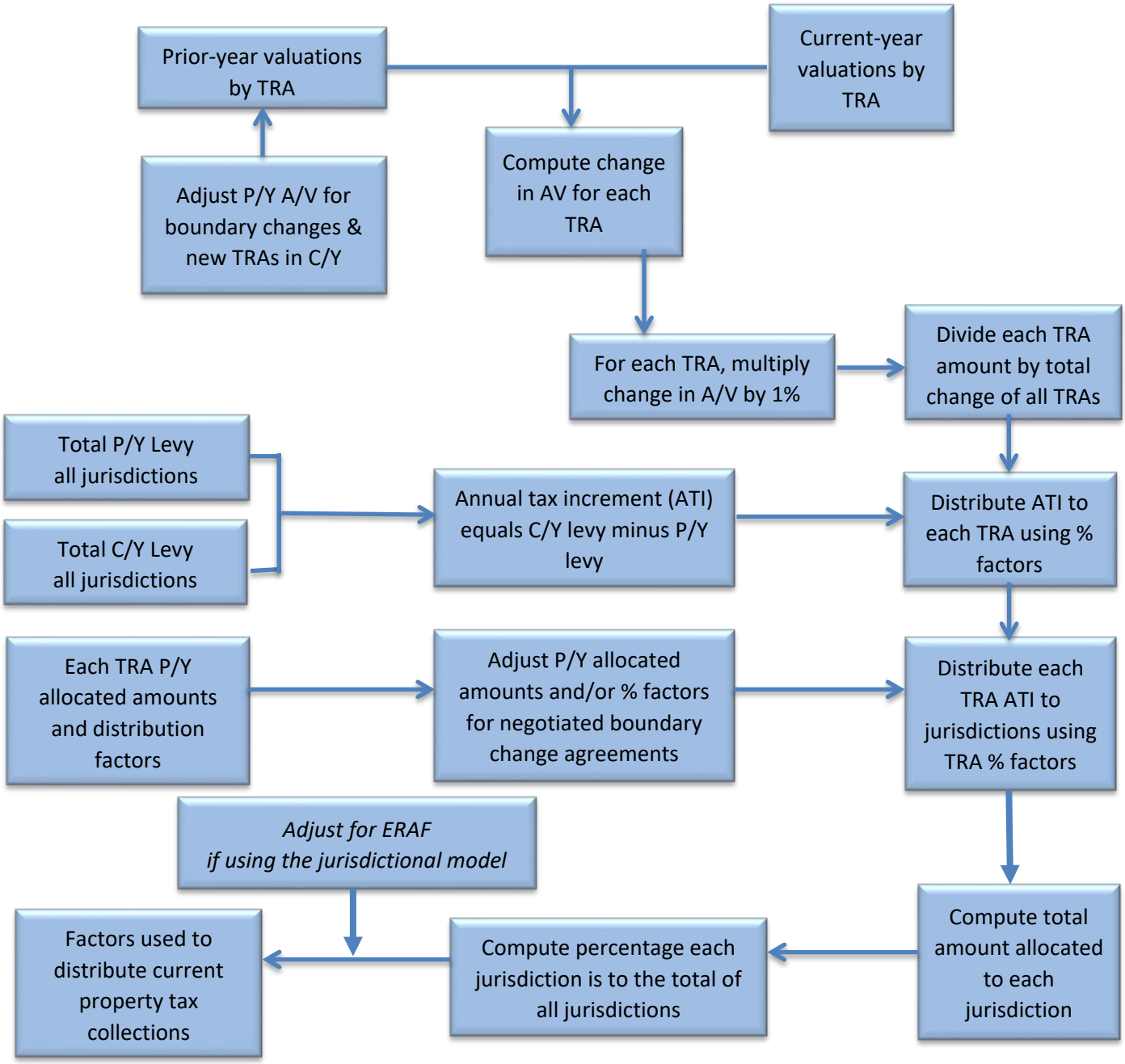
- The basic premise of the AB 8 formula is that each jurisdiction receives what it did in the prior year plus its share of the growth in valuations within its boundaries. So, the next step is to determine the Annual Tax Increment (ATI) by comparing current year taxes to prior year (as described more fully in RTC §98), and adding the appropriate share of growth to each District's prior year revenue.

- Adjustments and/or allocations for TEA (no/low property taxes), if applicable, are prepared. Specifics on calculating the additional amount due no/low property tax cities in accordance with the TEA formula were omitted since there are three formulas (RTC §97.35, §97.37, and §97.38); and finally,

- An ERAF adjustment is made, if the County implemented ERAF using the jurisdictional model. (If the County used the TRA model, the shift would already be incorporated into steps 1–4 above.)

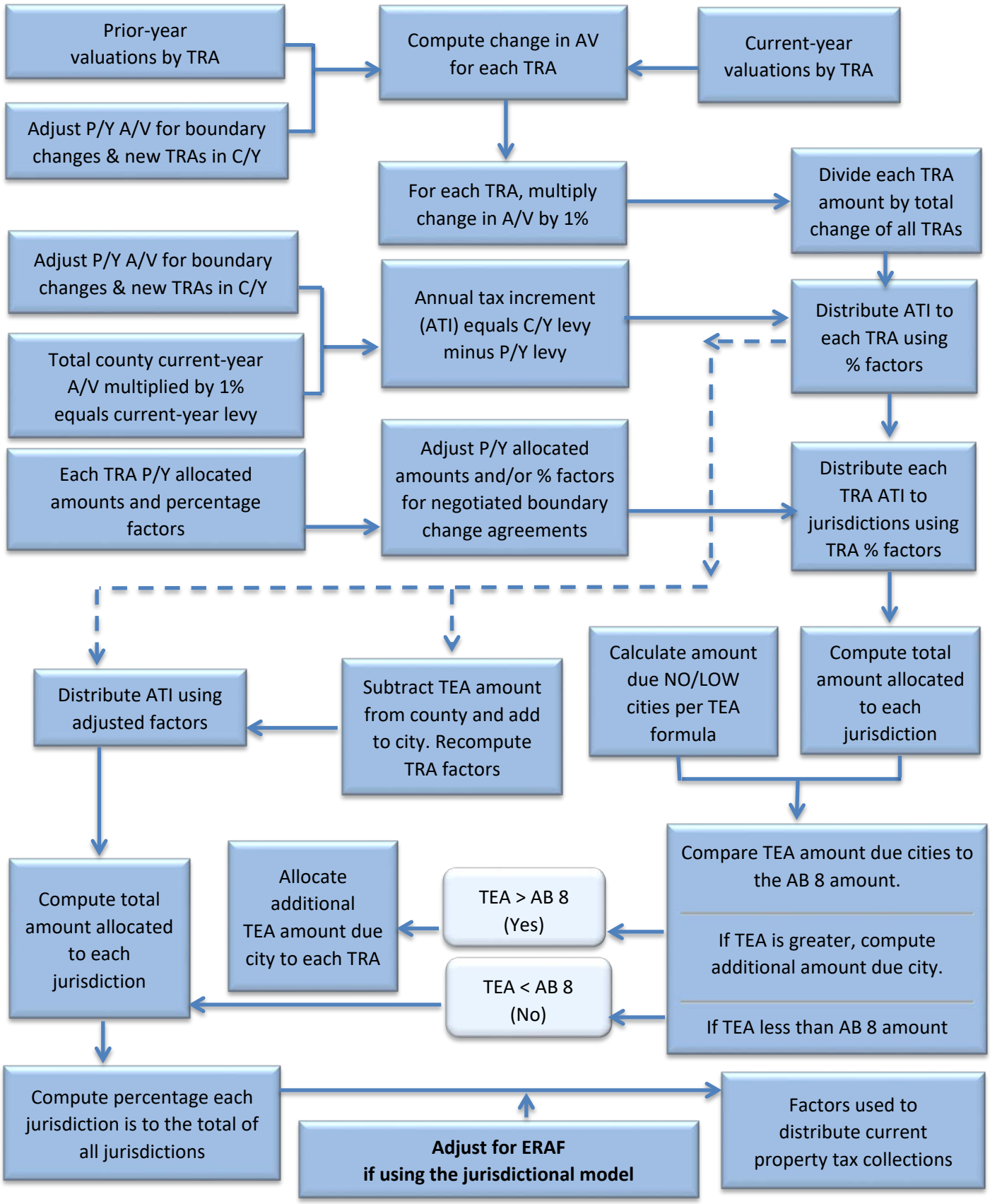
The following chart is an overview of the AB 8 formula, excluding adjustments for the Tax Equity Allocation (TEA) formula:

Overview of the AB 8 Formula
excluding adjustments for the Tax Equity Allocation (TEA) Formula



TRA —– Tax Rate Area	ATI —– Annual Tax Increment
P/Y —– Prior Year	A/V —– Assessed Valuations
C/Y —– Current Year	ERAF —– Education Revenue Augmentation Funds

Overview of the AB 8 Formula
including adjustments for the Tax Equity Allocation (TEA) Formula



18.06 Redevelopment Agencies (RDA)

The county auditor's responsibilities of accounting for local redevelopment agencies' projects is comprised of these basic components:

- Base year valuations
- Computing and distributing annual increments
- Computing legally required pass-through

Base year Valuations

When an area is chosen for a redevelopment project, a preliminary plan (HSC §33327 et seq.) is prepared by the agency. A copy of this plan is sent to the county auditor; it contains, at a minimum, the following information:

- A description of the boundaries of the proposed project area;
- A statement that a plan for the redevelopment of the area is being prepared; and
- A map indicating the boundaries of the project area.

Based on the information received, a base year valuation report is prepared (using the last equalized assessment roll) by the county auditor containing the following information:

- The total assessed valuation of all taxable property within the project area as shown on the base year assessment roll, including local secured and unsecured valuations and the State utility values reported by the State Board of Equalization;

- The identification of each taxing agency levying taxes in excess of the 1% limitation and jurisdictions receiving allocations of the 1% levy, and each jurisdiction's ad valorem tax revenues from the area within the project boundaries;

- Total property tax revenues for each jurisdiction;

- The assessed valuation of the project area for the preceding year, or, if requested by the redevelopment agency, the values for the preceding five years;

- Estimated first year increment.

Copies of the completed report are distributed to the redevelopment agency and each affected taxing jurisdiction. The redevelopment agency is responsible for reimbursement of costs incurred in preparing this report.

The assessed valuations of the local roll are reported, containing the following information:

- A detail listing of valuations by assessor's parcel number; and

- A summary of both State and local valuations by tax rate area for land, improvements, personal property, and State-assessed nonoperating nonunitary values.

The values contained in the base year valuation report remain frozen and become the basis upon which future assessed valuations are compared when computing the annual assessed values and tax increments of the project.

Computing and Distributing Annual Increments

The assessed value increment is computed by comparing the frozen base year valuation of the project by TRA to the current-year TRA valuations of the project. This comparison is done separately for the current secured and unsecured rolls and may be segregated by land, improvements, and personal property, depending on the type of debt service levied.

Generally, each redevelopment agency has at least one project that is funded by tax increment financing. The method by which the annual tax increment due an RDA is computed is governed by Health and Safety Code section 33670 et seq., fiscal agreements, and specific resolutions or policies adopted by the county (if any).

If the total current-year valuations of a project are less than the base-year values, no increment is due the project and the reduction in value is excluded from the overall increase attributable to other (if any) projects. However, if a TRA within a project has a decrease but overall the project has an increase, the reduction is included.

For each project, the tax increment due is computed on a TRA basis, as follows:

- Subtract base year assessed valuation from current year assessed valuation.
- Multiply the difference computed in Step 1 by the tax rate applicable to the TRA; the resultant amount is the TRA tax increment amount.
- Compute the total due the project by adding up TRA increment amounts.
- Once the total TRA increment due the project is computed it is compared to the annual statement of indebtedness filed with the county auditor on or before October 1. The amount actually due the RDA project is currently limited to its outstanding debt as reported on its annual statement of indebtedness.

During the fiscal year, the amount paid to each redevelopment project is deducted from the affected jurisdictions. This reduction or reverse apportionment is based on the TRA apportionment factors used for debt service and the 1% portion. The specific TRA allocation factors used in the AB 8 process are used to determine each jurisdiction's portion of the increment due the RDA.

An example of how the above calculations are made in computing the annual tax increment amount due each redevelopment project follows.

<u>Example</u>

This example is based on the following value assumptions:

	Based Year Valuations		Current Year Valuations	
TRA	**Secured**	**Unsecured**	**Secured**	**Unsecured**
001	$ 125,000	$ 50,000	$ 150,000	$ 65,000
002	75,000	-0-	250,000	-0-
003	50,000	10,000	20,000	25,000
004	-0-	5,000	-0-	-0-
Total	$ 250,000	$ 65,000	$ 420,000	$ 90,000

Using the amounts from the previous table, the annual assessed value increment used to adjust debt service rates levied in excess of the 1% levy is computed as follows:

TRA		Secured	Unsecured
001	Current year	$ 150,000	$ 65,000
	Base year	125,000	50,000
TRA	A/V increment	25,000	15,000
002	Current year	250,000	-0-
	Base year	75,000	-0-
TRA	A/V increment	175,000	-0-
003	Current year	20,000	25,000
	Base Year	50,000	10,000
TRA	A/V increment	(30,000)	15,000
004	Current year	-0-	-0-
	Base year	-0-	5,000
TRA	A/V increment	-0-	(5,000)
Total project A/V increment		$ 170,000	$ 25,000

NOTE: Even though TRA 003 current year assessed valuation is less than the base year, the negative amount is included in the total increment for the project.

Any taxing jurisdiction levying an ad valorem voter-approved tax rate would decrease its current-year assessed valuations by the above amounts if it was included in all of the above TRAs. Conversely, if it was only in one of the TRAs, the assessed valuation increment of that TRA would be used.

The next step after the current year rates are computed is to compute the annual tax increment due the RDA:

TRA	Current Secured A/V Increment	Current Secured Tax Rate	Secured Tax Increment Due	Debt Levy Amount (a)	1% Levy Amount (b)
001	25,000	1.125	$281.25	$31.25	$250.00
002	175,000	1.075	1,881.25	131.25	1,750.00
003	(30,000)	1.115	(334.50)	(34.50)	(300.00)
004	-0-	1.005	-0-	-0-	-0-
Total	$170,000		$1,828.00	$128.00.	$1,700.00

- These amounts would be reversed against the taxing jurisdiction's debt distributions during the year using the TRA's current secured apportionment factors. Tax rates levied for bonds approved by the electorate after January 1, 1989, are excluded from the above calculations.

- These amounts are reversed against the applicable jurisdictions using the appropriate TRA AB 8 allocation factors.

The unsecured tax increment is computed in the same manner as the secured, using the current year unsecured tax rates:

TRA	Current Unsecured A/V Increment	Current Unsecured Tax Rate	Unsecured Tax Increment Due	Debt Levy Amount (a)	1% Levy Amount (b)
001	15,000	1.120	$ 168.00	$ 18.00	$ 150.00
002	-0-	1.085	-0-	-0-	-0-
003	15,000	1.120	168.00	18.00	150.00
004	(5,000)	1.008	(50.40)	(0.40)	(50.00)
Total	$ 25,000		$ 285.60	$ 35.60	$ 250.00

The apportionment of the unsecured increment would be handled in the same manner as the secured, using the TRA current unsecured apportionment factors for the debt service portion. The 1% portion would be distributed using the current year AB 8 TRA allocation factors. For supplemental roll procedures regarding calculation and distribution to redevelopment agencies, refer to this manual *Section 18.08: Supplemental Property Taxes*.

The payment to the RDAs and subsequent reduction to taxing jurisdictions are handled during the year in accordance with established policies of the county. Also, the frequency of property tax collections determines when the tax increment is paid to the RDA.

Computing Legally Required Pass-Throughs

Since the inception of Proposition 13, there have been a substantial number of RDA projects adopted by cities and some counties. In view of the limited property tax revenues available, the legislature has, over the years, authorized elective 2% pass-through, negotiated pass-through and statutory pass-through methodologies so that a portion of the tax increment due the projects is returned to the other local jurisdictions serving the project areas. These are collectively referred to as pass-through and are defined in the code under Health and Safety Code section 33676, 33401, 33607.5 and 33607.7. Because of the sheer number of projects, the complexities of the requirements and variety of types of negotiated agreements, no discussion is included here except to acknowledge their existence.

18.07 Alternate Method of Tax Apportionment

Purpose (Revenue and Taxation Code section 4701)

The purpose of this chapter is to describe an alternative procedure for the distribution of property tax and/or direct assessment levies on the secured roll. This is an accrual method that recognizes taxes receivable as an expendable resource and, subsequently, simplifies the tax apportionment process. To implement the alternate method, the following sequence of events would occur:

Sequence of Events

- A resolution, indicating the board of supervisors' intention to operate under the Alternate Method of Tax Apportionment, must be adopted no later than July 15 of the fiscal year for which it is to first apply (October 15 for 1993/94) (RTC §4702).

- The *Tax Losses Reserve Fund* must be created to cover losses that may occur in the amount of tax liens as a result of special sales of tax-defaulted property (RTC §4703).

- The *Apportioned Tax Resources Fund* is established as a control for the funds to which taxes are apportioned and will be referred to in this discussion as the *Tax Resources Fund* (RTC §4705).

- The dollar value of the existing tax-defaulted property is entered on the rolls (RTC §4704).

- The dollar value of the delinquent abstracts ad valorem taxes is determined and ninety-five percent (95%) of the amount is apportioned to the countywide taxing agencies. The remaining five percent (5%) is credited to the *Tax Losses Reserve Fund*, and one hundred percent (100%) of delinquent assessments is apportioned to the levying funds (RTC §4713).

The accounting entries for implementing and administering the alternate method are illustrated in sections A through R using T-accounts.

ALTERNATE METHOD ACCOUNT ANALYSIS

APPORTIONED TAX RESOURCES FUND

Cash				Due To Others				P/Y Taxes Receivable				P/Y Special Asset Receivable				C/Y Taxes Receivable				C/Y Special Asset Receivable			
C2	3,000,000	10,000,000	A2	A2	10,000,000	10,000,000	A1	A1	9,000,000	2,700,000	C2	A1	1,000,000	300,000	C2	B1	990,000,000	520,000,000	E1	B1	10,000,000	5,800,000	E1
E1	525,800,000	550,000,000	D1	D1	550,000,000	1,000,000,000	B1	K1	99,990,000	1,847,000	F2	K1	99,000	300,000	F2			370,000,000	H1			4,100,000	H1
F2	2,147,000	400,000,000	G1	G1	400,000,000																		
H1	374,100,000																						
					960,000,000	1,010,000,000			108,990,000	4,547,000			1,099,000	600,000			999,000,000	890,000,000					
	905,047,000	960,000,000		J1	11,000													10,000	J1		10,000,000	9,900,000	
		49,989,000	L1		960,011,000	1,010,000,000			108,990,000	4,547,000			1,099,000	600,000								1,000	J1
	905,047,000	1,009,989,000		L1	49,989,000												990,000,000	890,010,000				9,901,000	
								M1	104,443,000									99,990,000	K1			99,000	K1
										8,000	N3	M1	499,000										
		104,942,000	M1		1,010,000,000	1,010,000,000				8,000	P3			2,000	N3		990,000,000	990,000,000			10,000,000	10,000,000	
N3	10,000													2,000	P3								
P3	10,000								108,990,000	4,563,000													
													1,099,000	604,000									
	905,067,000	1,009,989,000						R1	104,427,000														
												R1	495,000										
		104,922,000	R1																				

TAX LOSSES RESERVE FUND

Cash				Equity				Delinquent Penalties				Redemption Penalties			
A3	450,000					450,000	A3	Q1	352,000	200,000	C1	Q1	18,500	10,000	C1
C1	210,000					370,500	Q1			150,000	F1			8,000	F1
F1	158,000	1,000	P4	P4	1,000					2,000	N4			500	N4
N4	2,500														
	820,500	1,000			1,000	820,500			352,000	352,000			18,500	18,500	
	819,500					819,500									

SALE TRUST FUND

Cash				Disbursements/Receipts			
N1	45,000	12,500	N2	N2	12,500	45,000	N1
P1	9,000	9,000	P2	P2	9,000	9,000	P1

OTHER ENTITIES

Cash				Revenue			
A5	5,728,500					5,728,500	A5
D3	364,815,000					364,815,000	D3
G3	265,320,000					265,320,000	G3
L3	33,158,333					33,158,333	L3

GENERAL FUND

Cash				Revenue			
A4	2,821,500					2,821,500	A4
D2	179,685,000					179,685,000	D2
G2	130,680,000					130,680,000	G2
L2	16,331,667					16,33,667	L2

ASSESSMENT RESOURCES FUND

Cash				Revenue			
A6	1,000,000					1,000,000	A6
D4	5,500,000					5,500,000	D4
G4	4,000,000					4,000,000	G4
L4	499,000					499,000	L4

LEGEND: Numbers to the left of debit entries and to the right of credit entries represent the journal entry number in the text of the explanation.

Section A — Initial Apportionment of Delinquent Abstract

Example

Total taxes in the delinquent abstract are $10,000,000. The county's AB 8 tax allocation factor is 33%; 95% is apportioned to taxing jurisdictions and the remaining 5% is apportioned to the Tax Losses Reserve Fund:

A1	Account	Debit	Credit
	Tax Resources Fund		
	P/Y taxes receivable	9,000,000	
	P/Y special assessments receivable	1,000,000	
	Due to others		10,000,000
	(To record initial delinquency as a Taxes Receivable and a Fixed charges Receivable)		

The delinquent abstract amounts that have been established in the *Due to Others* account are then paid out as follows:

A2	Account	Debit	Credit
	Tax Resources Fund		
	Due to others	10,000,000	
	Cash		10,000,000
	(To record the payment of prior-year taxes to appropriate entities and the Tax Losses Reserve Fund)		

A3	Account	Debit	Credit
	Tax Losses Reserve Fund		
	Cash	450,000	
	Equity		450,000
	[To record the initial apportionment of the delinquent abstract [$9,000,000 x 5%] which represents 5% of P/Y Taxes Receivable. The Tax Losses Reserve Fund receives 5% of the delinquent taxes only. 100% of the delinquent assessments is paid to the levying funds (RTC §4713.5)]		

A4	Account	Debit	Credit
	General Fund		
	Cash	2,821,500	
	Revenue — prior secured — property taxes		2,821,500
	(To record the initial apportionment of the delinquent abstract in the General Fund [(9,000,000 x 0.95) x 0.33])		

A5	Account	Debit	Credit
	All Other Funds and Entities		
	Cash	5,728,500	
	Revenue — prior secured — property taxes		5,728,500
	(To record the initial apportionment of the delinquent abstract in all other funds and entities [(9,000,000 x 0.95)-2,821,500])		

A6	Account	Debit	Credit
	Assessment Resources Fund		
	Cash	1,000,000	
	Revenue — prior special assessments		1,000,000
	(To record the initial apportionment of the delinquent abstract for fixed charge)		

Section B — Current-Year Apportionment

When the current-year levy is determined, the full amount is apportioned to the credit of those funds on the accounts of the county auditor and county treasurer. Exactly how the apportionment is accomplished and when cash is made available in these funds varies with participating counties and depends greatly upon individual system capabilities and County policies, respectively (RTC §4705).

General practice and cash flow limitations allow for a percentage allocation on specific dates determined by each county for entities receiving taxes that do not use the county treasury as a depository. These dates usually correspond closely with the delinquent dates for secured installments. These percentage allocations and apportionment dates are at the discretion of each county auditor.

Example

The following example assumes a current-year secured levy of $1,000,000,000 ($990,000,000 taxes and $10,000,000 fixed charges):

B1	Account	Debit	Credit
Tax Resources Fund			
	C/Y taxes receivable	990,000,000	
	C/Y special assessments receivable (fixed charges)	10,000,000	
	Due to others		1,000,000,000
(To record the levy of secured taxed and special assessments)			

Section C — Receipt of Redemption Payments

Example

After apportionment to the State of the amounts prescribed by Revenue and Taxation Code section 4656.2, the amount of $3,210,000 is received from redemptions of prior-year delinquencies. $2,700,000 represents prior-year taxes, $300,000 represents prior-year fixed charges, $200,000 represents delinquent penalties, and $10,000 represents redemption penalties. (RTC §4710).

C1	Account	Debit	Credit
Tax Losses Reserve Fund			
	Cash	210,000	
	Delinquent penalties		200,000
	Redemption penalties		10,000
(To record the receipt of delinquent and redemption penalties receive on the abstract roll)			

C2	Account	Debit	Credit
Tax Resources Fund			
	Cash	3,000,000	
	P/Y tax receivable		2,700,000
	P/Y special assessments receivable		300,000
(To record redemption payments received)			

Section D — Initial Apportionment to Entities

Example

On December 10, the initial 55% of tax and fixed charges recorded in B1 is distributed to the appropriate entities:

D1	Account	Debit	Credit
Tax Resources Fund			
Due to Others		550,000,000	
	Cash		550,000,000
(To record the apportionment of 55% of taxes due to other entities [$1,000,000,000 x .55])			

D2	Account	Debit	Credit
General Fund			
Cash		179,685,000	
	Revenue — current secured property tax		179,685,000
(To record the apportionment of 55% of the annual tax [(990,000,000 x 0.55) x 0.67])			

D3	Account	Debit	Credit
All Other Entities			
Cash		364,815,000	
	Revenue — current secured property tax		364,815,000
(To record the apportionment of 55% of the annual tax [(990,000,000 x 0.55) x 0.67])			

D4	Account	Debit	Credit
Assessment Resources Fund			
Cash		5,500,000	
	Revenue — current special assessments		5,500,000
(To record the apportionment of 55% of the amounts attributed to fixed charges [10,000,000 x 0.55])			

Section E — Receipt of First Installment

Example

The first installment of current taxes is received in the amount of $525,800,000, of which $520,000,000 is current taxes and $5,800,000 is current direct assessments (RTC §4710)

E1	Account	Debit	Credit
Taxes Resources Fund			
Cash		525,800,000	
	C/Y taxes receivable		520,000,000
	C/Y special assessments receivable		5,800,000
(To record collection of the first installment of current taxes)			

Section F Additional Redemptions Received

Example

Additional redemptions are received totaling $2,305,000. This represents $1,847,000 of prior-year taxes, $300,000 of prior-year direct assessments, $150,000 in delinquent penalties, and $8,000 in redemption penalties (RTC §4710):

F1	Account	Debit	Credit
Tax Losses Reserve Fund			
Cash		158,000	
	Delinquent penalties		150,000
	Redemption penalties		8,000
(To record receipt of delinquent and redemption penalties on the abstract roll. [Interest on installment plans is treated as redemption penalties])			

F2	Account	Debit	Credit
Taxes Resources Fund			
Cash		2,147,000	
	P/Y taxes receivable		1,847,000
	P/Y special assessments receivable		300,000
(To record receipt of taxed and assessments on the abstract roll)			

Section G — Second Apportionment to Entities

Example

On April 10, an additional 40% of tax and fixed charges recorded in B1 is distributed to the appropriate entities:

G1	Account	Debit	Credit
Taxes Resources Fund			
Due to Others		400,000,000	
	Cash		400,000,000
(To record the apportionment of 40% of taxes due to other entities [$1,000,000,000 x .40])			

G2	Account	Debit	Credit
General Fund			
Cash		130,680,000	
	Revenue — current secured property tax		130,680,000
(To record apportionment of 40% of the annual tax [(990,000,0000 x 0.40) x 0.33])			

G3	Account	Debit	Credit
All Other Entities			
Cash		265,320,000	
	Revenue current secured property tax		265,320,000
(To record apportionment of 40% of the annual tax [(990,000,000 x 0.40) x 0.67])			

G4	Account	Debit	Credit
Assessments Resources Fund			
Cash		4,000,000	
	Revenue — current special assessments		4,000,000
(To record the apportionments of 40% of the amount attributed to fixed charges [10,000,000 x 0.40])			

Section H — Receipt of Second Installment

Example

The second installments of the current taxes are received in the amount of $374,100,000, representing $370,000,000 in current taxes and $4,100,000 in current direct assessments (RTC §4710):

H1	Account	Debit	Credit
Taxes Resources Fund			
Cash		374,100,000	
	C/Y taxes receivable		370,000,000
	C/Y special assessments receivable		4,100,000
(To record the collection of the second installment of current taxes)			

Section J — Adjustments to Secured Roll for Corrections and Refunds

Example

Corrections made throughout the tax year are netted and the following adjustment is made. This example uses a $10,000 decrease in tax and a $1,000 decrease in fixed charges as the net adjustment:

J1	Account	Debit	Credit
Taxes Resources Fund			
Due to Others		11,000	
	C/Y taxes receivable		10,000
	C/Y special assessments receivable		1,000
(To record net adjustments for the tax roll)			

Throughout the year, corrections and cancellations are processed on the current-year tax bills. As a result, the initial apportionment is based on a gross billing that is not the same as the actual taxes collected plus year-end delinquencies. All C/Y and P/Y refunds and corrections are adjusted through the *Apportioned Taxes Fund*. Each entity pays its portion of the refund when all corrections, cancellations, and refunds from the C/Y and P/Y secured roll are netted and apportioned in what is referred to as a reverse apportionment (RTC §4707). Prior year refunds and corrections may or may not affect the year-end buyout.

Section K — Current Roll Transfer to the Delinquent Roll

Example

After June 30, the balance of current taxes and current direct assessments unpaid is transferred to a delinquent status (RTC §4710):

K1	Account	Debit	Credit
Taxes Resources Fund			
P/Y taxes receivable		99,990,000	
P/Y special assessments receivable		99,000	
	C/Y taxes receivable		99,990,000
	C/Y special assessments receivable		99,000
(To record transfer of current taxes and special assessments to P/Y status)			

Section L — Final Apportionment Net of Adjustments

Example

After June 30, the final 5% of taxes and fixed charges, less the adjustments made in Section J (J1), is apportioned to the various entities:

L1	Account	Debit	Credit
Taxes Resources Fund			
Due to Others		49,989,000	
	Cash		49,989,000
(To record the apportionment of 5% if taxes due to other entities)			

L2	Account	Debit	Credit
General Fund			
Cash		16,331,667	
	Revenue — current secured property tax		16,331,667
(To record apportionment of 5% of the annual tax [(990,000,000 x 0.33) - (179,685,000 + 130,320,000 + 6,667)])			

L3	Account	Debit	Credit
All Other Entities			
Cash		33,158,333	
	Revenue — current secured property tax		33,158,333
(To record apportionment of 5% of the annual tax [(990,000,000 x 0.67) - (364,815,000 + 265,320,000 + 6,667)])			

L4	Account	Debit	Credit
Assessment Resources Fund			
Cash		499,000	
	Revenue — current Special Assignments		499,000
(To record the apportionment of 5% of amounts attributed to fixed charges)			

Section M — Content of Tax Resources Fund

Example

The makeup of the *Tax Resources Fund* after the above entries is as follows:

M1	Account	Debit	Credit
Tax Resources Fund			
C/Y taxes receivables		-0-	
C/Y special assessments receivable		-0-	
P/Y taxes receivable		104,443,000	
P/Y special assessments receivable		499,000	
	Cash		104,942,000
Total		104,942,000	104,942,000

The process begins again for the next year at this point.

Some additional areas that affect these special tax accounts is the sale of property at auction and the transfer to the *General Fund* when the balance of the tax losses reserve exceeds any of the options given in Section S.

Section N — Property Sold at Auction with a Surplus (RTC §4710 and §4711)

Example

A delinquent parcel sold at auction generates $45,000. The *Tax Resources Fund* is due $8,000 in *P/Y Taxes Receivable* and $2,000 in *P/Y Fixed Charges Receivable*. The *Tax Losses Reserve Fund* is due $2,000 in delinquent penalties and $500 in redemption penalties. The balance remains in the delinquent tax *Sale Trust Fund (Tax Collector's Fund)* for claim by parties of interest. The unclaimed portion is credited to the *Tax Losses Reserve Fund* a year after the date of sale. The journal entries are as follows:

N1	Account	Debit	Credit
	Sales Trust Fund		
	Cash	45,000	
	Receipts		45,000
	(To record proceeds from the sale of tax-defaulted property)		

N2	Account	Debit	Credit
	Sale Trust Fund		
	Disbursements	12,500	
	Cash		12,500
	(To record the payment to the Tax Resources Fund for prior receivables and the payments to the Tax Losses Reserve Fund for penalties and interest)		

N3	Account	Debit	Credit
	Taxes Resources Fund		
	Cash	10,000	
	P/Y taxes receivable		8,000
	P/Y special assessments receivable		2,000
	(To record the payment of prior receivables from the sale of tax-defaulted property)		

N4	Account	Debit	Credit
	Tax Losses Reserve Fund		
	Cash	2,500	
	Delinquent penalties		2,000
	Redemption penalties		500
	(To record recovery of penalties and interest on the sale of tax-defaulted property)		

Section P — Property Sold at Auction at a Loss (RTC §4711)

Example

A similar parcel, with the same taxes due, is sold at auction but generates only $9,000, leaving the *Tax Resources Fund* short $1,000:

P1	Account	Debit	Credit
	Sale Trust Fund		
	Cash	9,000	
	Receipts		9,000
	(To record proceeds from the sale of tax defaulted property)		

P2	Account	Debit	Credit
	Sale Trust Fund		
	Disbursements	9,000	
	Cash		9,000
	(To record the payment to the Tax Resources Fund for prior receivables)		

P3	Account	Debit	Credit
Taxes Resources Fund			
Cash		10,000	
	P/Y taxes receivable		8,000
	P/Y special assessments receivable		2,000
(To record the payment of prior receivables from the sale of tax-defaulted property)			

P4	Account	Debit	Credit
Tax Losses Reserve Fund			
Equity		1,000	
	Cash		1,000
(To record the loss from the sale of tax-defaulted property)			

Section Q — Delinquent and Redemption Penalties — Year-End

Example

The end-of-the-year adjustment in the *Tax Losses Reserve Fund* consists of closing the penalty and redemption interest accounts against the *Equity* account in this fund:

Q1	Account	Debit	Credit
Tax Losses Reserve Fund			
Delinquent penalties		352,000	
Redemption penalties		18,500	
	Equity		370,500
(To record the closing of penalty and interest to Equity)			

Section R — Content of Tax Resources Fund

Example

The makeup of the *Tax Resources Fund* at year-end is as follows:

R1	Account	Debit	Credit
Tax Resources Fund			
C/Y taxes receivables		-0-	
C/Y special assessments receivables		-0-	
P/Y taxes receivables		104,427,000	
P/Y special assessments receivable		495,000	
	Cash		104,922,000
		104,922,000	104,922,000

Section S — Transfer of Excess Balance in Tax Losses Reserve Fund

The *Tax Losses Reserve Fund* receives revenues from payment of delinquent penalties, redemption penalties, and redemption interest. Unclaimed proceeds from the sale of defaulted property are also a revenue to this fund. The fund is charged with the losses from the sale of defaulted property. Each fiscal year, the fund is subject to the provisions of Revenue and Taxation Code section 4703 or section 4703.2.

There are two alternatives to determine the maximum balance required in the Tax Losses Reserve Fund:

- First, Revenue and Taxation Code section 4703 requires the *Tax Losses Reserve Fund* to have a balance in an amount equivalent to 1% of the total of all taxes and assessments levied on the secured roll for that year on behalf of the entities participating in the Alternate Method of Tax Apportionment before any transfers to the general fund can occur. Amounts in excess of the 1% threshold may, for the remainder of the fiscal year, be credited to the general fund.

- Second, Revenue and Taxation Code section 4703.2 requires the *Tax Losses Reserve Fund* to have a balance in an amount equivalent to 25% of the total delinquent secured taxes and assessments of those entities participating in the Alternate Method of Tax Apportionment, as calculated at the end of the fiscal year, before any transfers to the general fund can occur. At the end of the fiscal year, amounts in excess of this threshold may be transferred to the *General Fund*.

The *Tax Losses Reserve Fund* requirements of Revenue and Taxation Code section 4703 must be used unless a county adopts a resolution by October 31 of any fiscal year electing to be governed by Revenue and Taxation Code section 4703.2. For FY 1993–94 only, the election to be governed by Revenue and Taxation Code section 4703.2 rather than section 4703 could be made no later than January 15, 1994.

18.08 Supplemental Property Taxes

Supplemental property taxation is governed by Revenue and Taxation Code section 75 et seq. A supplemental tax is the result of a reassessment of real property being done at the time property ownership is transferred or new construction is completed. This supplemental reassessment procedure became effective for FY 1983–84 forward.

Supplemental taxes can be either secured or unsecured. Or, they can be initially secured assessments but changed to unsecured if a change of ownership occurs before the bill or refund from a previous supplemental assessment is mailed.

Since supplemental taxes are just an extended form of secured and unsecured taxes, many of the procedures are similar. This section concentrates on the unique aspects of supplemental taxes.

Supplemental Billings/Refunds/Changes

Supplemental reassessments can result in either an increase or a decrease in taxable value. Usually an increase will produce a bill and a decrease will produce a negative assessment, commonly referred to as a supplemental refund. If supplemental refunds aren't made within 90 days of enrollment of the negative assessment on the supplemental roll, then Revenue and Taxation Code section 5151 interest is computed. Supplemental refunds are made from taxes collected on the supplemental roll.

Supplemental taxes are on a continuous roll. They are processed throughout the fiscal year and initiated when a transfer of ownership occurs or new construction is completed. The date of that transfer or completion is called the date of event. Taxes are calculated by using the date of event and prorating the amount due based on the number of full months remaining through the end of the fiscal year.

If the date of event occurred on or after January 1st and on or before May 31st (RTC §75.41), two supplemental bills (or refunds) are calculated. One is for the remaining portion of the current fiscal year. The other is for the entire following fiscal year, which mandates that a 100% proration factor be used. This occurs because the lien date for the next year's roll is January 1st. Any event occurring after that date will not be included on the regular roll until the year following that.

Delinquent dates are also unique on the secured supplemental roll. They are determined by the date the tax bill is mailed. If the bill is mailed from July 1st through October 31st, the delinquent dates are December 10th and April 10th. For bills mailed from November 1st through June 30th, the first installment delinquent date is the end of the month following the month in which the bill is mailed. The second installment delinquent date is the end of the fourth month following the date the first installment is delinquent.

Example

Date Mailed	1st Delinquent Date	2nd Delinquent Date
9/90	12/10/90	4/10/91
11/90	12/31/90	4/30/91

Apportionments

For FY 1983–84 supplemental collections, all 1% monies, less an administrative fee, were apportioned to the schools based on their average daily attendance (ADA) figures. In subsequent years, collections are apportioned as secured or unsecured taxes, with the following exceptions:

- The county keeps an administrative fee off the top of the collections. For FY 1983–84 and FY 1984–85 supplemental assessments, 5% was deducted. For FY 1986–87 on, administrative costs of up to 5% can be deducted. These charges must be substantiated and adopted by the county board of supervisors.

- All collections made in a Tax Rate Area (TRA) with a redevelopment agency (RDA) are apportioned to that RDA (less the 5% administrative fee). Redevelopment agencies do not receive any taxes levied for bonds approved by the electorate after January 1, 1989.

- The 1% apportionment factors (percentages) used for supplemental distributions are different from those used in AB 8.
    - The apportionment factors for K-12 schools are based on the ADA reported annually by the State Superintendent of Schools.

    - Since RDAs receive 100%, less the administration fee, of the supplemental taxes collected within their projects, a percentage factor is not calculated.

The following schedule illustrates the calculations of the Supplemental Apportionment Factors using the ADA information from the California Department of Education. The Supplemental Apportionment Factors should not be adjusted for the VLF Swap.

Redevelopment agencies are not included in the schedule because all tax increments, including growth attributable to supplemental taxes derived within a redevelopment agency's boundaries, must be given entirely to the redevelopment agency.

Jurisdiction	AB 8 Tax Apportionment	Adjusted AB 8 Factors	School Districts' Factors	Reallocation of School Districts' Factors based on ADA	Supplemental Apportionment Factors
ERAF	$ 15,576,925	0.14769982			0.14769982
County General	12,523,243	0.11874492			0.11874492
County Library	3,205,372	0.03039322			0.03039322
City of Ebony	8,716,575	0.08265024			0.08265024
City of Ivory	3,137,011	0.02974502			0.02974502
Hematite Fire District	698,958	0.00662749			0.00662749
Topaz Fire District	154,197	0.00146209			0.00146209
Ruby Mosquito District	390,545	0.00370313			0.00370313
Amber Sanitation District	352,332	0.00334080			0.00334080
County Office of Education	4.488,654	0.04256125			0.04256125
Jade Elementary School	25,377,368	0.24062725	0.24062725	0.38042076	0.38042076
Diamond Elementary School [Basic Aid]	2,500,000	0.02370491	0.02370491		
Sapphire High School	20,064,534	0.19025116	0.19025116	0.07435219	0.07435219
Onyx High School [Multi-County]	20,000	0.00018964	0.00018964		
Pearl Community College	8,257,686	0.07829907			0.07829907
TOTALS	$ 105,463,400	1.00000000	0.45477295	0.45477295	1.00000000

- Apportionments must be made within 30 calendar days after the close of the preceding month (or 4-week accounting period). This may be done biannually in counties with a population of 500,000 or less.

18.09 Unitary Allocations

NOTE: The information discussed in this section is concerning State assessed properties classified as "*unitary*." The calculations for entities of this type are performed independently of any other calculations; even if they are similar, or in some cases, identical.

Background

California Revenue and Taxation Code section 100 provides the method by which unitary properties are billed and apportioned. For these purposes, there are three types of unitary property:

- Unitary Property — A group of properties that operate as a unit as part of the primary function of the assessee;

- Operating Nonunitary — A group of properties that operate as a unit but are not a part of the primary function of the assessee; and

- Nonoperating Nonunitary — Properties that do not operate as a unit and are not part of the primary function of the assessee.

The State Board of Equalization (BOE) assesses and reports the values of all unitary properties. Counties are then responsible for billing, collecting and apportioning the taxes associated with those values. Nonoperating nonunitary values are reported as one combined value in each Tax Rate Area (TRA).

These values are then billed and apportioned in a similar manner to all other secured taxes. Unitary and operating nonunitary values for each unitary property are reported as one combined value in each county and are subject to these guidelines.

Preparation of Tax Bills

Unitary and operating nonunitary values are reported by BOE in TRA 000-001, which is a theoretical TRA established to report these values. This TRA includes one value for each assessee. Since unitary and operating nonunitary values are reported as a single value for each assessee, they cannot be associated with a particular tax rate. It is, therefore, necessary to develop a special tax rate. This tax rate consists of the 1% ad valorem tax rate and the debt ad valorem tax rate.

Computation of the 1% Unitary Tax Rate:

Revenue and Taxation Code section 100(b)(1) provides that the 1% unitary tax rate shall be determined by dividing the county's prior-year total ad valorem tax levies by the county's prior-year total ad valorem assessed value:

Computation of the 1% Unitary Tax Rate:		
Prior-Year Ad Valorem Tax Levies / Prior-Year Ad Valorem Assessed Value	=	1% Unitary Tax Rate

The result is the average 1% tax rate of all TRAs within the county. In most counties, this will be 1% as provided for by Article XIIIA of the Constitution. However, this result may be slightly different if a county is levying a negative rate in certain TRAs due to revenues exceeding the revenue limits of Article XIIIB of the Constitution. This rate is computed each year.

Computation of the Unitary Debt Tax Rate:

The unitary debt tax rate is an average of the debt rates levied throughout the county. The initial rate computed is not the prior-year average debt rate for all properties, but the prior-year average rate levied on unitary and operating nonunitary properties only. This is computed by identifying the prior-year total debt ad valorem levies for unitary and operating nonunitary properties and dividing by the prior-year unitary and operating nonunitary properties assessed values:

Computation of the Unitary Debt Tax Rate:		
P/Y Debt Levy on Unitary and Operating Nonunitary Properties / P/Y Assessed Value of Unitary and Operating Nonunitary Properties	=	Unitary Debt Tax Rate

This rate was calculated only once, for the initial year of implementation (FY 1988–89). In subsequent years, the rate is adjusted by the percentage change in the county's ad valorem debt service levy for the secured roll, excluding unitary and operating nonunitary levies. Therefore, if the county's debt service had doubled, the unitary debt rate would also double.

Implications for Debt Rate Calculations:

Prior to implementation of Revenue and Taxation Code section 100 (previously RTC §98.9), unitary values were a part of total values. The net annual debt requirements were divided by total values to determine a debt rate. This formula is:

Implications for Debt Rate Calculations:		
Total Annual Debt Service Requirements (RTC §93) / Total Property Values	=	Debt Rate

With the implementation of Revenue and Taxation Code section 100, unitary property values are no longer included in the denominator of this equation. They now generate revenue based on formulas provided in RTC section 100; therefore, the revenues from unitary property become a reduction in the total requirements in the numerator.

Billing:

The above two rates are applied to the value reported by BOE for each company in TRA 000-001. The resulting bill is a single bill to each company for all unitary and operating nonunitary properties in the county. This bill is then issued and collected like other secured tax bills. However, if the bill becomes delinquent, the Tax Collector can initiate certain procedures under Revenue and Taxation Code section 760 to enforce collection.

Allocation of Revenues

The two components of the unitary tax bill (1% tax and debt tax) are allocated differently. The 1% tax is distributed by determining a base year and building upon that base year for future allocations. The debt tax is based on debt requirements for that year.

Allocation of the 1% Unitary Tax:

Refer to section 18.11, *Allocation of Countywide Unitary and Pipeline Rights-of-Way Revenues to Jurisdictions* for Unitary/ERAF adjustment information

The allocation of the 1% unitary tax requires the determination of the allocation for the year prior to implementation (FY 1987–88) and builds upon that allocation in future years. For the base year of FY 1987–88, it was necessary to determine the amount of 1% unitary tax that each local jurisdiction received from unitary and operating nonunitary properties. This may have required an adjustment to the redevelopment project base year amounts. The amount allocated to each jurisdiction in FY 1988–89 and future years is determined as follows:

- Up to 102% of the amount of 1% unitary tax received in the prior year by each jurisdiction. If the amount of 1% unitary tax available exceeds this amount, the remainder shall be allocated using (B) below.

- Any basic unitary tax in excess of the amount allocated in (A) above is allocated to all taxing jurisdictions in the county proportionately to the amount of basic secured tax that each entity received in the prior year. For example, if the amount of basic unitary tax available after making the allocation in (A) was $100,000, this amount would be distributed as follows:

Jurisdiction	Prior-Year Secured Tax	Share of Secured Tax	Share of Excess Basic Unitary Tax
County	$ 60,000,000	30%	$ 30,000
City A	50,000,000	25%	25,000
City B	40,000,000	20%	20,000
School A	30,000,000	15%	15,000
School B	20,000,000	10%	10,000
Total	$ 200,000,000	100%	$ 100,000

Some counties may use the AB 8 factors in lieu of the above calculation. This is an acceptable substitute because it results in substantially the same distribution. Some counties may use the AB 8 factors in lieu of the above calculation. This is an acceptable substitute because it results in substantially the same distribution.

Allocation of the Unitary Debt Tax:

The allocation of unitary debt proceeds (RTC §100(d)) is a calculation that requires the following data elements:

A = Total Current Debt requirements as calculated using Revenue and Taxation Code sections 93(a) and 93(c),

B = Unitary and operating nonunitary revenue received by each debt service fund in the prior year, and

C = Total amount of property tax revenue that each debt service fund received in the prior year.

Step 1:

For each jurisdiction, the following formula is used to compute a relative debt factor of X:

$$X = A \times (B / C)$$

An examination of this formula provides a greater understanding of the result. The factor B/C provides the percentage of last year's tax revenue that was generated from unitary taxes. By multiplying this factor by the jurisdiction's total requirements (A), the formula approximates the amount of requirements that might be satisfied by current-year unitary taxes. However, this historical approach to projecting unitary taxes to an entity presumes that total unitary taxes remain constant from year to year. Since they do not, it is necessary to perform step 2.

Step 2:

The relative debt factor for each jurisdiction (X) is factored against the total of all relative debt factors to determine final debt apportionment factors, as follows:

District	Relative Debt Factor (X)	Apportionment Factor
School A Bond	50,000	.250000
School B Bond	40,000	.200000
County GO Bond	80,000	.400000
Sewer Bond	30,000	.150000
	200,000	1.000000

As indicated in step 1, the relative debt factor could be used if unitary debt revenues were always the same as the prior year ($200,000 in this example). Since these revenues will vary, it is necessary to compute the apportionment factors as shown, thus ensuring that unitary debt revenues are proportionally distributed.

When a new debt is issued, it will not have any prior-year unitary or other debt tax revenues. These missing data elements would result in the new debt service fund never receiving unitary debt revenues. Revenue and Taxation Code section 100(d)(3) therefore provides a mechanism for new debt taxing jurisdictions to enter into the above formulas. The relative debt factor (X) is approximated by dividing the total 1% unitary tax received by the jurisdiction in the prior year (RTC §100(c)) by the total property tax revenues received in the prior year.

For example, if a school district issues new debt, the relative debt factor (X) would be calculated as follows:

$$X = A \times \frac{\text{1\% Unitary Revenues Received by the School General Fund}}{\text{Total Property Tax Revenue Received by the School General Fund From All Property}}$$

While the amounts in this formula will probably be much higher than similar amounts for a bond issue only, the resulting factor should be a good proxy for the relative debt factor (X). In future years, the debt issue will have received unitary debt revenues and can be incorporated into the standard formulas in steps 1 and 2.

18.10 Pipeline Rights of Way

NOTE: The information discussed in this section is concerning State assessed properties classified as "pipeline rights-of-way." The calculations for entities of this type are performed independently of any other calculations; even if they are similar, or in some cases, identical.

Background

Revenue and Taxation Code sections 100.01 and 401.8 outline the manner in which counties will assess intercounty pipeline rights-of-way. Sacramento Municipal Utilities District (SMUD) has an exception for Pacific Gas & Electric (PG&E) pipeline which runs through 30 counties. Counties are responsible for billing, collecting, and apportioning the taxes associated with those values.

Preparation of Tax Bills

Taxing at the 1% general tax rate and debt service rates are the same as unitary, but are calculated independently. Billing and collection activities are the same as unitary. TRA 000-511 is used.

Allocation of Revenues

Allocation of the Pipeline Rights-of-Way debt service is the same as unitary but is performed independently of unitary.

Refer to section 18.11, *Allocation of Countywide Unitary and Pipeline Rights-of-Way Revenues to Jurisdictions* for Unitary/ERAF adjustment information.

18.11 Allocation of Countywide Unitary and Pipeline Rights-of-Way Revenues to Jurisdictions

Purpose

ERAF is a fund and an accounting vehicle for reallocating tax revenues among local agencies and school districts. ERAF is not a taxing jurisdiction and should not receive an apportionment of unitary or pipeline rights-of-way property tax revenues. This section (18.11) applies only to allocation of State assessed property tax revenue reported in countywide TRA 000-001 (unitary and nonunitary values) and TRA 000-511 (pipeline rights-of-way).

In counties where these revenues were previously allocated to ERAF, the revenues must be reallocated and distributed for the current year forward proportionately to all taxing jurisdictions that received revenue from unitary/pipeline rights-of-way property tax. For counties that have not removed ERAF from unitary allocation factors prior to fiscal year 2012/13, the current year for this purpose could be either 2012/13 if implementing the ERAF removal in FY 2013/14 or 2013/14 if implementing the ERAF removal in FY 2014–15.

There are two parts of the methodology for removing the ERAF allocation from the unitary/pipeline revenues allocation and for restating the unitary allocation factors. The first part of the methodology is for unitary/pipeline funds up to 102% of the prior year unitary/pipeline funds. The second part of the methodology is for unitary/pipeline funds in excess of 102% of prior year unitary revenue.

For fiscal years following the restatement, refer to the section labeled “Distribute Unitary Revenue in Subsequent Years” beginning on page 338b.

Restatement Sequence of Events

ERAF is to be distributed to the entities that received unitary/pipeline property taxes. The steps below describe the recommended methodologies of removing and redistributing ERAF.

Part I: Restate Prior Year Unitary and Pipeline Rights-of-Way Revenue

The word “unitary” applies to Unitary and Pipeline Rights-of-Way in the steps. The letters in parentheses, {i.d. (A) and (B)}, appear in the illustrations to assist cross-reference.

> **STEP 1 (A)** Determine the individual jurisdiction’s unitary ERAF reallocation factor. Divide the jurisdiction’s unitary amount by the total unitary revenue amount excluding ERAF. This will result in a calculation factor with which ERAF can be distributed.

STEP 2 (B) Multiply the jurisdiction's unitary ERAF reallocation factor by the ERAF unitary amount. This will distribute ERAF proportionately between taxing jurisdictions.

STEP 3 (C) Determine the restated unitary amount. Add the unitary ERAF reallocation amount to each jurisdiction's unitary amount. This will calculate the total unitary amount with ERAF proportionately distributed.

STEP 4 (D) Determine the restated unitary allocation factor. Divide each jurisdiction's restated unitary amount by the total restated unitary amount. This will calculate a new unitary factor.

- If the current year unitary revenue is less than 102% of prior year, then this is the unitary allocation factor which will be used in the next fiscal year to distribute unitary revenue up to 102% *(STOP — NO FURTHER STEPS ARE REQUIRED). The unitary allocation factor will remain the same in subsequent years unless the unitary revenue exceeds 102% of prior year unitary revenue.*
- If the current year unitary revenue is in excess of 102% of prior year total unitary revenue, the excess must be calculated in the following steps *(CONTINUE TO STEPS 5 THROUGH 11).*

Part II: Restate prior year unitary/pipeline revenue for amounts exceeding 102% of prior year

STEP 5 (E) *If unitary revenue exceeds 102%, the excess must be distributed by a separate factor, prior year AB 8 factors. To determine this factor first add the RDA tax increment to the total AB 8 revenues net of ERAF. This will give you each taxing jurisdiction's net AB 8 revenues including ERAF.*

STEP 6 (F) *Determine the AB 8 factor. Divide each taxing jurisdiction's AB 8 revenues by the total AB 8 revenues. This will give you a factor to distribute the unitary revenue in excess of 102%.*

STEP 7 (G) *Determine the allocated amount. Multiply the excess over 102% by the AB 8 factors. This will give you the amount allocated to each jurisdiction including ERAF.*

STEP 8 (H) *Determine* the ERAF reallocation factors. Divide the amount allocated to each taxing jurisdiction by the total amount less ERAF (amounts from Step 7(G)).

STEP 9 (I) Distribute the excess over 102%. Multiply the excess revenue over 102% by the ERAF reallocation factors. This will proportionately distribute the unitary revenues in excess of 102%, excluding ERAF from the allocation.

STEP 10 (J) Calculate each taxing jurisdiction's total unitary tax revenue up to and in excess of 102%. Add each jurisdiction's restated unitary amount to each taxing jurisdiction's excess amount. This will determine each taxing jurisdiction's unitary tax revenue.

STEP 11 (K) Recalculate a new unitary allocation factor. Because there was unitary revenue in excess of 102%, the overall distribution percentage has changed. Determine each taxing jurisdiction's new unitary allocation factor by dividing each taxing jurisdiction's total unitary tax revenue by the sum of all taxing jurisdiction's unitary tax revenue.

If current year unitary revenue is greater than 102% of prior year, then this is the restated unitary allocation factor which will be used for the next year's unitary revenue up to 102% of previous year.

Distribute Unitary Revenue in Subsequent Years

STEP 1 (A) Determine if the current year unitary revenues are in excess of 102% of the previous year. Multiply the previous year total unitary revenue by 102%. Then determine if the current year unitary revenue is in excess of the product.

STEP 2 (B) Using the restated unitary allocation factor from the previous year, distribute current year unitary revenue up to 102% of previous year.

- If unitary revenue is equal to or less than 102% of the previous year, then this concludes the distribution. The unitary allocation factor will remain the same for next year until the unitary revenue goes over 102% (STOP — NO FURTHER STEPS ARE REQUIRED).
- If unitary revenue exceeds 102% of previous year, then the excess must be distributed by a separate factor (CONTINUE TO STEPS 3 THROUGH 9).

STEP 3 (C) To determine total AB 8 revenues, add the RDA tax increment to the total AB 8 revenues exclusive of ERAF. This will give you each taxing jurisdiction's AB 8 revenues including ERAF.

STEP 4 (D) Determine the AB 8 factor. Divide each taxing jurisdiction's AB 8 revenue by the total AB 8 revenue. This will give you a factor to distribute the unitary revenue in excess of 102%.

STEP 5 (E) Determine the allocated amounts. Multiply the AB 8 factor by the excess over 102%; this will distribute the unitary revenue in excess of 102%.

STEP 6 (F) Determine the ERAF reallocation factor. Divide each taxing jurisdiction's allocated amount by the total allocated amount less the ERAF allocated amount.

STEP 7 (G) Multiply the ERAF reallocation factors by the excess over 102% to distribute the excess unitary revenue to the taxing jurisdictions.

STEP 8 (H) Determine the unitary revenue. Add the calculated excess amount to the unitary allocation amount up to 102% to determine each taxing jurisdiction's total current year unitary revenue.

STEP 9 (I) Determine the new unitary allocation factor. Divide each taxing jurisdiction's unitary revenue by the total unitary revenue. This unitary allocation factor is then carried over for next year's unitary amount up to 102%.

Restated Prior Year Unitary Revenue — No Excess of 102%

Example

- Current year unitary revenue is $25,500,000
- Prior year unitary revenue was $25,500,000
- Jurisdictional unitary amount prior to restatement is given in the implementation chart on page 338d which illustrates the application of the following four steps.

Step 1. Calculate the unitary ERAF reallocation factor: divide the jurisdiction's unitary amount by the total unitary amount excluding ERAF.

A	Unitary ERAF Reallocation Factor
	unitary amount / (total unitary amount — ERAF)
	County General
	$6,865,172 /($25,500,000-$2,951,383) = 0.3044609

Step 2. Calculate the unitary ERAF reallocation amount: multiply the jurisdiction's unitary reallocation factor by the ERAF unitary amount.

B	Unitary ERAF Reallocation Amount
	unitary reallocation factor x ERAF unitary amount
	County General
	0.3044609 x $2,951,383 = $898,581

Step 3. Calculate the restated unitary amount: add the unitary ERAF reallocation amount to the unitary amount.

C	Restated Unitary Amount
	unitary ERAF reallocation amount + unitary amount
	County General
	$898,581 + $6,865,172 = $7,763,753

Step 4. Calculate the restated unitary allocation factor: divide the jurisdiction's restated unitary amount by the total restated unitary amount.

D	New Unitary Factor
	restated unitary amount / total restated unitary amount
	County General
	$7,763,753 / $25,500,000 = 0.3044609

NO FURTHER STEPS ARE REQUIRED *if current year unitary revenue is less than or equal to 102% of prior year*. Step 4 produces the unitary allocation factor to use in distributing unitary revenue up to 102% of the prior fiscal year. The unitary allocation factor will remain the same in subsequent years unless the unitary revenue exceeds 102% of prior year unitary revenue.

CONTINUE TO STEPS 5 THROUGH 11 if the current year unitary revenue exceeds 102% of prior year unitary revenue, then the distribution factors for the excess will be calculated in steps 5 through 11.

Implementation — Restate Prior Year Unitary Revenue

The redistribution of ERAF is illustrated for the County General jurisdiction for unitary/pipeline rights-of-way revenue up to 102% of prior year unitary/pipeline rights-of-way revenue.

NO EXCESS OF 102%	
FY 2012–13 Total unitary revenue	$25,500,000
FY 2011–12 up to 102%	$25,500,000
Excess Over 102%	

JURISDICTION	UNITARY AMOUNT	RESTATED			
		UNITARY ERAF REALLOCATION FACTOR	AMOUNT	RESTATED UNITARY AMOUNT	NEW UNITARY FACTOR
		A	B	C	D
County General	$ 6,865,172	0.30446089	$898,581	$7,763,753	0.3044609
Air Pollution Control	19,025	0.0008437	2,490	21,515	0.0008437
Special Roads #3	112,079	0.0049705	14,670	126,749	0.0049705
County Library	514,613	0.0228224	67,358	581,971	0.0228224
Port Emerald	365,505	0.0162096	47,841	413,346	0.0162096
County Flood Control	72,795	0.0032284	9,528	82,323	0.0032284
Turquoise Water District	78,893	0.0034988	10,326	89,219	0.0034988
Redevelopment Agency #1	155,893	0.0069136	20,405	176,298	0.0069136
Jade Unified School District	11,193,273	0.4964062	1,465,085	12,658,358	0.4964062
White Onyx Community College	1,991,267	0.0883099	260,636	2,251,903	0.0883099
County School Service	1,180,102	0.0523359	154,463	1,334,565	0.0523359
ERAF*	2,951,383	0	(2,951,383)	0	0
Total	$ 25,500,000	1.000000**	0	$25,500,000	1.0000000

**ERAF is not a taxing jurisdiction*

***rounded*

NOTE: *Letters in columns correspond with the steps in the County General Example.*
The calculations are applicable to all jurisdictions.

Restated Prior Year Unitary Revenue — Excess of 102%

If the current year unitary revenue exceeds 102% of prior year unitary revenue, then the distribution factors for the amount exceeding 102% will be calculated using steps 5 through 11 below:

- Current year unitary revenue is $30,000,000
- Prior year unitary revenue was $25,000,000
- 102% of prior year unitary revenue is $25,500,000
- Excess over 102% is $4,500,000
- RDA tax increment, AB 8 revenues net of ERAF, and ERAF allocated amount from implementation chart

Step 5. Calculate prior year AB 8 revenues: add the AB 8 revenues net of ERAF to the RDA tax increment.

E	AB 8 Revenues
	AB 8 revenues net of ERAF + RDA tax increment
	County General
	$57,600,000 + ($840,000) = $56,760,000

Step 6. Calculate the AB 8 factor: divide the AB 8 revenues by the total AB 8 revenues.

F	AB 8 Factor
	AB 8 revenues / total AB 8 revenues
	County General
	$56,760,000 / $261,880,000 = 0.21674049

Step 7. Calculate the allocation in dollars: multiply the excess over 102% by the AB 8 factor.

G	Allocated Amount
	excess over 102% x AB 8 factor
	County General
	$4,500,000 x 0.21674049 = $975,332

Step 8. Calculate the ERAF reallocation factor: divide the allocated amount by the total allocated amount less the ERAF allocated amount.

H	ERAF Reallocation Factor
	allocated amount / (total allocated amount - ERAF allocated amount)
	County General
	$975,332 /($4,500,000 - $601,077) = 0.2501543

Step 9. Calculate the excess amount: multiply the ERAF reallocation factor by the excess over 102%

I	Excess Amount
	ERAF reallocation factor x excess over 102%
	County General
	0.2501543 x $4,500,000 = $1,125,694

Step 10. Calculate the unitary tax revenue: add excess amount to the restated unitary amount.

J	Unitary Tax Revenue
	excess amount + restated unitary amount
	County General
	$1,125,694 + $7,763,753 = $8,889,447

Step 11. Calculate the restated unitary factor for next year: divide unitary tax revenue by total unitary tax revenue.

K	Restated Unitary Factor for Next Year
	unitary tax revenue / total unitary tax revenue
	County General
	$8,889,447 / $30,000,000 = 0.29631488

Implementation: Restated Prior Year Unitary revenue

Columns A through D are the same as in the preceding implementation chart; they illustrate the redistribution of ERAF up to 102% of prior year unitary/pipeline rights-of-way revenue. Columns E through K illustrate the steps taken for amounts in excess of 102%.

EXCESS OF 102%	
FY 2012–13 total unitary revenue	$30,000,000
FY 2011–12 up to 102%	$25,500,000
Excess Over 102%	$4,500,000

Jurisdiction	Unitary Amount	RESTATED				RESTATED EXCESS OF 102% ALLOCATION							RESTATED	
		Unitary ERAF Reallocation		Restated Unitary Amount	Unitary Factor	FY 2011–12 AB 8 FACTORS				Allocated Amount	ERAF Reallocation Factor	Excess Amount	Unitary Tax Revenue	Unitary Factor for next year
		Factor	Amount			AB 8 Revenues Net of ERAF	RDA Tax Increment	AB 8 Revenues	AB 8 Factor					
		A	B	C	D			E	F	G	H	I	J	K
County General	$6,865,172	0.3044609	$898,581	$7,763,753	0.3044609	$57,600,000	($840,000)	$56,760,000	0.21674049	$975,332	0.2501543	$1,125,694	$8,889,447	0.29631488
Air Pollution Control	19,025	0.0008437	2,490	21,515	0.0008437	200,000		200,000	0.00076371	3,437	0.0008814	3,967	25,481	0.00084938
Special Roads #3	112,079	0.0049705	14,670	126,749	0.0049705	1,200,000		1,200,000	0.00458225	20,620	0.0052887	23,799	150,548	0.00501825
County Library	514,613	0.0228224	67,358	581,971	0.0228224	5,600,000	(300,000)	5,300,000	0.02023828	91,072	0.0233583	105,112	687,083	0.02290278
Port Emerald	365,505	0.0162096	47,841	413,346	0.0162096	4,000,000	(420,000)	3,580,000	0.01367038	61,517	0.0157779	71,001	484,347	0.01614488
County Flood Control	72,795	0.0032284	9,528	82,323	0.0032284	900,000		900,000	0.00343669	15,465	0.0039665	17,849	100,172	0.00333907
Turquoise Water District	78,893	0.0034988	10,326	89,219	0.0034988	1,000,000	(150,000)	850,000	0.00324576	14,606	0.0037461	16,858	106,077	0.00353591
Redevelopment Agency #1	155,893	0.0069136	20,405	176,298	0.0069136	0.0	3,000,000	3,000,000	0.01145563	51,550	0.0132217	59,498	235,795	0.00785984
Jade Unified School District	11,193,273	0.4964062	1,465,085	12,658,358	0.4964062	122,200,000	(900,000)	121,300,000	0.46318925	2,084,352	0.5345967	2,405,685	15,064,044	0.50213479
White Onyx Community	1,991,267	0.0883099	260,636	2,251,903	0.0883099	21,500,000	(240,000)	21,260,000	0.08118222	365,320	0.0936977	421,639	2,673,543	0.08911810
County School Service	1,180,102	0.0523359	154,463	1,334,565	0.0523359	12,700,000	(150,000)	12,550,000	0.04792271	215,652	0.0553107	248,898	1,583,463	0.05278211
*ERAF**	2,951,383	0.0	(2,951,383)	0.0	0.0	34,980,000	0	34,980,000	0.13357263	601,077	0	0	0	0
Total	$25,500,000	1.0000000	0.0	$25,500,000	1.0000000	$261,880,000	0.0	$261,880,000	1.00000000	$4,500,000	1.0000000	$4,500,000	30,000,000	1.00000000

**ERAF is not a taxing jurisdiction* ***rounded*

LEGEND: *Letters in columns correspond with the steps in the County General example. The calculations are applicable to all jurisdictions.*

Distribute Unitary Revenue in Subsequent Years — No Excess of 102%

In fiscal years subsequent to the fiscal year of restatement, when unitary revenue is less than or equal to 102% of the previous year then unitary revenue is to be allocated using the previous year's allocation factor. When this is true, then only steps 1 and 2 are required.

Example:

- Current year unitary revenue is $30,600,000;
- Prior year unitary revenue was $30,000,000.

Step 1. Calculate 102% of prior year: multiply prior year total unitary revenues by 102%

A	Prior Year Revenue up to 102%
	Prior year total unitary revenue x 102%
	County General
	$30,000,000 x 102% = $30,600,000

Step 2. Calculate unitary allocation dollars: multiply current year revenue up to 102% of prior year by the restated unitary factor.

B	Unitary Allocation Amount up to 102%
	Restated unitary factor x 102% of prior year
	County General
	0.30446009 x 30,600,000 = $9,316,503

IMPLEMENTATION: Distribute Unitary Revenue in Subsequent Years

NO EXCESS OF 102% IN CURRENT YEAR		
Current year unitary revenue	$ 30,600,000	
Prior year up to 102%	$ 30,600,000	A
Excess Over 102%	$ 00	
JURISDICTION	Prior Year Unitary Factor**	Unitary Allocation Amount Up To 102%
		B
County General	0.3044609	$ 9,316,503
Air Pollution Control	0.0008437	25,818
Special Roads #3	0.0049705	152,098
County Library	0.0228224	698,365
Port Emerald	0.0162096	496,015
County Flood Control	0.0032284	98,788
Turquoise Water District	0.0034988	107,064
Redevelopment Agency #1	0.0069136	211,557
Jade Unified School District	0.4964062	15,190,030
White Onyx Community College	0.0883099	2,702,284
County School Service	0.0523359	1,601,478
*ERAF	0	0
Total	1.0000000	$ 30,600,000
*ERAF is not a taxing jurisdiction	**rounded	
LEGEND: *Letters in columns correspond with the steps in the County General examples. The calculations are applicable to all jurisdictions.*		

Distribute Unitary Revenue in Subsequent Years — Excess of 102% 1st year

Each year following restatement, any unitary revenue exceeding 102% of prior year must be allocated independently of the amount up to 102%. The allocation factor to be used will depend on whether the prior year's revenue was also in excess of 102% of prior year. This set of steps illustrates the process used when prior year revenue was not in excess of 102%; if the prior year's revenue was in excess of 102%, then refer to page 338l.

Current year in excess of 102%; prior year not in excess of 102%

Example:

- Current year unitary revenue is $31,000,000
- Prior year unitary revenue was $30,000,000

Step 1.

A	Prior Year Revenue up to 102%
	prior year total unitary revenue x 102%
	County General
	$30,000,000 x 102% = $30,600,000

Step 2.

B	Unitary Allocation Amount up to 102%
	restated unitary factor x 102% of prior year
	County General
	0.3044609 x 30,600,000 = $9,316,503

Step 3.

C	AB 8 Revenues
	AB 8 revenues net of ERAF + RDA tax increment
	County General
	($896,000)+ $59,600,000 = $58,704,000

Step 4.

D	AB 8 Factor
	AB 8 revenue / total AB 8 revenue
	County General
	$58,704,000 / $271,000,000 = 0.21661993

Step 5.

E	Allocated Amount
	AB 8 factor x excess over 102%
	County General
	0.21661993 x $400,000 = $86,648

Step 6.

F	ERAF Reallocation Factor
allocated amount / (total allocated amount - ERAF allocated amount)	
County General	
$86,648 / ($400,000 - $55,793*) = 0.2517324	
**From ERAF row at bottom of implementation chart page 338k*	

Step 7.

G	Excess Amount
ERAF reallocation factor x excess over 102%	
County General	
0.2517324 x $400,000 = $100,693	

Step 8.

H	Unitary Tax Revenue
excess amount + unitary allocation amount up to 102%	
County General	
$100,693 + $9,316,503 = $9,417,196	

Step 9.

I	Unitary Factor
Unitary tax revenue / total unitary tax revenue	
County General	
$9,417,196 / $31,000,000 = 0.30378050	

IMPLEMENTATION: Distribute Unitary Revenue in Subsequent Years

EXCESS OF 102% IN CURRENT YEAR
NO EXCESS OF 102% IN PRIOR YEAR

Current year total unitary revenue	$ 31,000,000	
Prior year up to 102%	$ 30,600,000	A
Excess over 102%	$ 400,000	

Jurisdiction	Prior Year Unitary Factors**	Unitary Allocation Amount up to 102%	ALLOCATION OF EXCESS 102%							Unitary Tax Revenue**	Unitary Factor**
			FY 2012–13 AB 8 FACTORS								
			AB 8 Revenues Net of ERAF	RDA Tax Increment	AB 8 Revenues	AB 8 Factors**	Allocated Amount**	ERAF Reallocation Factors**	Excess Amount		
		B			C	D	E	F	G	H	I
County General	0.3044609	$9,316,503	$59,600,000	($896,000)	$58,704,000	0.21661993	$86,648	.2517324	$100,693	$9,417,196	0.30378050
Air Pollution Control	0.0008437	25,818	250,000		250,000	0.00092251	369	0.0010720	429	26,247	0.00084667
Special Roads #3	0.0049705	152,098	1,300,000		1,300,000	0.00479705	1,919	0.0055746	2,230	154,328	0.00497833
County Library	0.0228224	698,365	6,000,000	(320,000)	5,680,000	0.02095941	8,384	0.0243568	9,743	708,108	0.02284219
Port Emerald	0.0162096	496,015	4,100,000	(448,000)	3,652,000	0.01347601	5,390	0.0156604	6,264	502,279	0.01620256
County Flood Control	0.0032284	98,788	950,000		950,000	0.00350554	1,402	0.0040738	1,630	100,417	0.00323926
Turquoise Water District	0.0034988	107,064	1,300,000	(160,000)	1,140,000	0.00420664	1,683	0.0048885	1,955	109,019	0.00351675
Redevelopment Agency #1	0.0069136	211,557	0	3,200,000	3,200,000	0.01180812	4,723	0.0137221	5,489	217,046	0.00700149
Jade Unified School District	0.4964062	15,190,030	124,200,000	(960,000)	123,240,000	0.45476015	181,904	0.5284734	211,389	15,401,419	0.49681998
White Onyx Community College	0.0883099	2,702,284	22,500,000	(256,000)	22,244,000	0.08208118	32,832	0.0953859	38,154	2,740,438	0.08840124
County School Service	0.0523359	1,601,478	13,000,000	(160,000)	12,840,000	0.04738007	18,952	0.0550600	22,024	1,623,502	0.05237103
*ERAF	0	0	37,800,000		37,800,000	0.13948339	55,793	0	0	0	0
Total	1.0000000	$30,600,000	$271,000,000	0	$271,000,000	1.00000000	$400,000	1.0000000	$400,000	$31,000,000	1.00000000

**ERAF is not a taxing jurisdiction* ***rounded*

LEGEND: *Letters in columns correspond with the steps in the County General example. The calculations are applicable to all jurisdictions.*

Distribute Unitary Revenue in Subsequent Years — Excess of 102% 2+ years

Each year following restatement, any unitary revenue exceeding 102% of prior year must be allocated independently of the amount up to 102%. The allocation factor to be used will depend on whether the prior year's revenue was also in excess of 102% of prior year. This set of steps illustrates the process used when the two successive prior years' revenue exceeded 102%. If the prior year's revenue was not in excess of 102%, then refer to page 338i.

Current year in excess of 102%; prior year also in excess of 102%

Example:

- Current year unitary revenue is $31,000,000
- Prior year unitary revenue was $30,000,000

Step 1.

A	Prior Year unitary Revenue Up To 102%
	prior year total unitary revenue x 102%
	County General
	$30,000,000 x 102% = $30,600,000

Step 2.

B	Unitary Allocation Amount Up To 102%
	Prior year unitary factor x prior year unitary revenue up to 102%
	County General
	0.2963149 x 30,600,000 = $9,067,235

Step 3.

C	AB 8 Revenues
	RDA tax increment + AB 8 revenues net of ERAF
	County General
	($896,000) + $59,600,000 = $58,704,000

Step 4.

D	AB 8 Factor
	AB 8 revenue / total AB revenue
	County General
	$58,704,000 / $271,000,000 = 0.21661993

Step 5.

E	Allocated Amount
	AB 8 factor x Excess over 102%
	County General
	0.21661993 x $400,000 = $86,648

Step 6.

F	ERAF Reallocation Factor
	Allocated Amount / (Total Allocated Amount - ERAF Allocated Amount)
	County General
	$86,648 / ($400,000 - $55,793 = 0.2517324

Step 7.

G	Excess Amount
	ERAF reallocation factor x excess over 102%
	County General
	0.25187324 x $400,000 = $100,693

Step 8.

H	Unitary Tax Revenue
	excess amount + unitary allocation amount up to 102%
	County General
	$100,693 + $9,067,235 = $9,167,928

Step 9.

I	Unitary Factor
	unitary tax revenue / total tax revenue
	County General
	$9,167,928 / $31,000,000 = 0.29573962

IMPLEMENTATION: Distribute Unitary Revenue in Subsequent Years

EXCESS OF 102% IN CURRENT YEAR

EXCESS OF 102% IN PRIOR YEAR

Current year total unitary revenue	$	31,000,000	
Prior Year up to 102%	$	30,600,000	A
Excess Over 102%	$	400,000	

Jurisdiction	Prior Year Unitary Factor** *(column K on page 328*	Unitary Allocation Amount up to 102%	Allocation of excess over 102%							Unitary Tax Revenue**	Unitary Factor**
			Prior Year AB 8 Factors								
			AB 8 Revenues net of ERAF	RDA Tax Increment	AB 8 Revenues	AB 8 Factor	Allocated Amount	ERAF Reallocation Factor**	Excess Amount		
		B			C	D	E	F	G	H	I
County General	0.2963149	$9,067,235	$59,600,000	$(896,000)	$58,704,000	0.21661993	$86,648	0.2517324	$100,693	$9,167,928	0.29573962
Air Pollution Control	0.0008494	25,991	250,000	0	250,000	0.00092251	369	0.0010720	429	26,420	0.00085225
Special Roads #3	0.0050183	153,559	1,300,000	0	1,300,000	0.00479705	1,919	0.0055746	2,230	155,788	0.00502543
County Library	0.0229028	700,825	6,000,000	(320,000)	5,680,000	0.02095941	8,384	0.0243568	9,743	710,568	0.02292154
Port Emerald	0.0161449	494,033	4,100,000	(448,000)	3,652,000	0.01347601	5,390	0.0156604	6,264	500,297	0.01613863
County Flood Control	0.0033391	102,176	950,000	0	950,000	0.00350554	1,402	0.0040738	1,630	103,805	0.00334855
Turquoise Water District	0.0035359	108,199	1,300,000	(160,000)	1,140,000	0.00420664	1,683	0.0048885	1,955	110,154	0.00355337
Redevelopment Agency #1	0.0078598	240,511	0	3,200,000	3,200,000	0.01180812	4,723	0.0137221	5,489	246,000	0.00793549
Jade Unified School District	0.5021348	15,365,325	124,200,000	(960,000)	123,240,000	0.45476015	181,904	0.5284734	211,389	15,576,714	0.50247464
White Onyx Community College	0.0891181	2,727,014	22,500,000	(256,000)	22,244,000	0.08208118	32,832	0.0953859	38,154	2,765,168	0.08919897
County School Service	0.0527821	1,615,132	13,000,000	(160,000)	12,840,000	0.04738007	18,952	0.0550600	22,024	1,637,156	0.05281150
**ERAF*	0	0	37,800,000	0	37,800,000	0.13948339	55,793	0	0	0	0
Total	1.00000010	$30,600,000	$271,000,000	0	$271,000,000	1.00000000	$400,000	1.0000000	$400,000	$31,000,000	1.0000000

ERAF is not a taxing jurisdiction* * rounded*

LEGEND: *Letters in columns correspond with the steps in the County General example. The calculations are applicable to all jurisdictions.*

IMPLEMENTATION: Distribute Unitary Revenue in Subsequent Years — New Entity Added

Illustration of unitary revenue distribution for a newly created entity where current year revenue exceeds 102% of prior year.

EXCESS OF 102% IN CURRENT YEAR

EXCESS OF 102% IN PRIOR YEAR

Current year total unitary	$	31,000,000	
Prior year up to 102%	$	30,600,000	A
Excess over 102%	$	400,000	

This chart illustrates the distribution of unitary revenue to the newly created **Blue Oak Fire Protection District**. *AB 8 Revenues* and *RDA Tax Increment* dollars were moved to the new entity from *County General.* The current and prior year total revenue amounts and the *Prior Year Unitary Factors* used here are the same as in the preceding chart (page 300**Error! Bookmark not defined.**) to enhance comparability.

JURISDICTION	Prior Year Unitary Factor** *(column K on page 338)*	Unitary Allocation Amount up to 102%	Allocation of Excess over 102%							Unitary Tax Revenue**	Unitary Factor**
			FY 2012–13 AB 8 Factors								
			AB 8 Revenues Net of ERAF	RDA Tax Increment	AB 8 Revenues	AB 8 Factor**	Allocated Amount**	ERAF Reallocation Factor**	Excess Amount		
		B			C	D	E	F	G	H	I
County General	0.2963148	$9,067,232	$58,600,000	(870,000)	$57,730,000	0.2130258	$85,210	0.2475557	$99,022	$9,166,255	0.2956857
Air Pollution Control	0.0008494	25,992	250,000	0	$250,000	0.0009225	369	0.0010720	429	26,420	0.0008523
Special Roads #3	0.0050183	153,560	1,300,000	0	$1,300,000	0.0047970	1,919	0.0055746	2,230	155,790	0.0050255
County Library	0.0229028	700,826	6,000,000	(320,000)	$5,680,000	0.0209594	8,384	0.0243568	9,743	710,568	0.0229216
Port Emerald	0.0161449	494,034	4,100,000	(448,000)	$3,652,000	0.0134760	5,390	0.0156604	6,264	500,298	0.0161386
County Flood Control	0.0033391	102,176	950,000	0	$950,000	0.0035055	1,402	0.0040738	1,630	103,806	0.0033486
Turquoise Water District	0.0035359	108,199	1,300,000	(160,000)	$1,140,000	0.0042066	1,683	0.0048885	1,955	110,154	0.0035534
Redevelopment Agency #1	0.0078598	240,510	0	3,200,000	$3,200,000	0.0118081	4,723	0.0137221	5,489	245,999	0.0079354
Jade Unified School District	0.5021348	15,365,325	124,200,000	(960,000)	$123,240,000	0.4547601	181,904	0.5284734	211,389	15,576,714	0.5024747
White Onyx Community College	0.0891181	2,727,014	22,500,000	(256,000)	$22,244,000	0.0820812	32,832	0.0953859	38,154	2,765,168	0.0891990
County School Service	0.0527821	1,615,132	13,000,000	(160,000)	$12,840,000	0.0473801	18,952	0.0550600	22,024	1,637,156	0.0528115
**Blue Oak Fire*			1,000,000	(26,000)	$974,000	0.0035941	1,438	0.0041767	1,671	1,671	0.0000539
**ERAF	0.0000000		37,800,000	0	$37,800,000	0.1394834	55,793				0.0000000
Total	1.0000000	$30,600,000	$271,000,000	0	$271,000,000	1.0000000	$400,000	1.0000000	$400,000	$31,000,000	1.0000000

**ERAF is not a taxing jurisdiction* ***rounded*

LEGEND: *Letters in columns correspond with the steps in the County General example. The calculations are applicable to all jurisdictions.*

18.12 Qualified Railroad Property

NOTE: The information discussed in this section is concerning State assessed properties classified as "qualified railroad property". The calculations for entities of this type are performed independent of any other calculations; even if they are similar, or in some cases, identical.

Background

Revenue and Taxation Code section 100.11 outlines the manner in which qualified railroad property will be assessed. Counties are responsible for billing, collecting, and apportioning the taxes associated with those values. Most railroad property continues to be reported in each TRA and is also billed and apportioned similarly to other secured taxes. Since these transactions are similar to other secured values, they will not be discussed further.

Preparation of Tax Bills

Taxing at the 1% general tax rate and debt service rates are the same as unitary, but are calculated independently. Billing and collection activities are the same as unitary. TRA 000-002 is used.

Allocation of Revenues

Allocation of the Qualified Railroad Property debt service is similar to unitary, but is performed independently of unitary.

Allocation of the 1% general tax is similar to unitary, but qualified railroad property has its own separate allocation schedule with its own base year of FY 2007–08. The FY 2007–08 base year used the 1% general tax revenue from the FY 2006–07 assessed values from each affected taxing entity's share (including ERAF but excluding RDAs) within the affected local TRAs listed on the BOE's letter dated January 1, 2006.

Beginning FY 2008–09, any general tax revenues exceeding 102% of the prior year are allocated to all affected taxing entities) based upon the prior years secured property taxes (similar to unitary revenues exceeding 102%, but performed independently of unitary).

18.13 Qualified Public Utility Property

NOTE: This section was removed and is under construction for implementation of Revenue and Tax Code section 100.95 as it applies to Qualified Public Utility Property.

18.14 Property Tax In Lieu of Motor Vehicle License Fee (VLF Swap)

Background

Enacted in FY 2004–05, Revenue and Taxation Code section 97.70 permanently provides additional property tax revenues to cities and counties in lieu of the discretionary Motor Vehicle License Fee (VLF) revenue these entities previously received.

This is commonly referred to as the VLF Swap. To ensure that no cities and counties are financially impacted, a dollar for dollar amount of funds will be replaced to each county and city in FY 2004–05 only, including a one-time true-up in FY 2005–06, as determined by the State Controller's Office. For future years, the growth of the in Lieu VLF will correspond to the annual local growth of each city and county increases in assessed valuation of taxable property, as calculated by the County Auditor (RTC §97.70(c)(1)(B)(i)). If the ERAF in any county is insufficient to satisfy the VLF swap, any additional amounts required will be drawn from the non-basic aid schools share of property tax, which will then be replenished by the State General Fund.

The Vehicle License Fee Adjustment Amount (VLF adjustment), as defined in Revenue and Taxation Code section 97.70(c)(1), will be funded by means of a reduction to the ERAF amount available for allocation to all school districts, community college districts, and county office of education in accordance with Revenue and Taxation Code section 97.70(a)(1)(A).

If the *ERAF fund* is insufficient to fund the VLF adjustment amount, the County auditor shall reduce the amount of ad valorem property tax revenue that is otherwise required to be allocated to non-basic-aid K-12 districts and community college districts in the county for that fiscal year by an amount equal to the difference between the VLF adjustment amount and the amount of ad valorem property tax revenue that is otherwise required to be allocated to the ERAF in accordance with Revenue and Taxation Code section 97.70(a)(1)(B).

It is recommended that the VLF Swap be done at the jurisdictional level (outside of the AB 8 process) because it is an exchange of discretionary vehicle license fees for Property Tax in Lieu of Vehicle License Fee (VLF). Although these in lieu taxes are classified as property taxes, they are not secured property taxes or unsecured property taxes in the traditional sense, but are originated from each county's *ERAF fund*.

Each county will establish the *Vehicle License Fee Property Tax Compensation Fund* (VLF Compensation Fund) to deposit property tax revenues equal to the determined VLF Adjustment amounts (RTC §97.70(a)(2)). In addition, a revenue account called the Property Tax in Lieu of Vehicle License Fee will be created for each county and city to record the allocation of revenues from the *VLF Compensation Fund*.

Calculations

The FY 2004–05 VLF Adjustment amounts, as determined by the State Controller, were the resulting difference between the estimated total amount of revenue that would have been deposited to the credit of the *Motor Vehicle License Fee* Account in the Transportation Tax Fund and the estimated total amount of revenue that is required to be distributed from the *Motor Vehicle License Fee* Account in the *Transportation Tax Fund* under Revenue and Taxation Code section 11005 [VLF Adjustment Amount, Revenue and Taxation Code section 97.70(c)(1)(A)].

FY 2005–06 included a one-time true-up calculated by the State Controller. For the FY 2005–06 and each fiscal year thereafter, the VLF Adjustment amount is calculated as follows (RTC §97.70(c)(1)(B)(i)): (Current year VLF Adjustment amount) = (Prior Year VLF Adjustment amount) multiplied by (1 + percent increase in locally assessed values on taxable properties) with the following notes and exceptions:

- The percent increase in locally assessed values on taxable properties is the percentage change from the prior fiscal year in gross taxable locally assessed valuation within the jurisdiction of the entity, as reflected in the equalized assessment for those fiscal years (RTC §97.70(c)(1)(B)(i)(IIb)).

- Locally assessed rolls includes the Assessors "601" (secured, unsecured, HOPTR — RTC §601 through 623), Boats, Airplanes, and the public utility roll as produced by the State Board of Equalization. However, the Unitary Roll is not to be included.

- An adjustment due to city annexations (RTC §97.70(c)(II)(i)(II)), where for the first fiscal year for which a change in a city's jurisdictional boundaries first applies, the percentage change in gross taxable assessed valuation from the prior fiscal year to the current fiscal year shall be calculated solely on the basis of the city's previous jurisdictional boundaries, without regard to the change in that city's jurisdictional boundaries. For each following fiscal year, the percentage change in gross taxable assessed valuation from the prior fiscal year to the current fiscal year shall be calculated on the basis of the city's current jurisdictional boundaries.

Method of Allocations

Secured and Unsecured Tax Rolls and Homeowners Exemption: Transfer the FY 2004–05 VLF Adjustment amounts as determined by the State Controller from the *ERAF* to the *VLF Compensation Fund*. Record the allocations from the *VLF Compensation Fund* to the newly created revenue account Property Tax in Lieu of Vehicle License Fee.

Timing and Entry of Allocations

Distribute the 1st half of the VLF Adjustment amount on or before January 31st and the 2nd half of the VLF Adjustment amount on or before May 31st of each fiscal year RTC §97.70(b)(2)

Account	Debit	Credit
Educational Revenue Augmentation Fund		
Due to ERAF	9,500,000	
Due to VLF Compensation fund		9,500,000
Due to VLF Compensation	9,500,000	
Cash		9,500,000
VLF Compensation Fund		
Cash	9,500,000	
Due to City of Zinfandel		50,000
Due to City of Shiraz		1,050,000
Due to City of Merlot		2,400,000
Due to County of Wine		6,000,000
Due to City of Zinfandel	50,000	
Due to City of Shiraz	1,050,000	
Due to City of Merlot	2,400,000	
Due to County of Wine	6,000,000	
Property tax in Lieu of VLF — City of Zinfandel		50,000
Property tax in Lieu of VLF — City of Shiraz		1,050,000
Property tax in Lieu of VLF — City of Merlot		2,400,000
Property tax in Lieu of VLF — County of Wine		6,000,000

18.15 Homeowners Property Tax Reimbursement (HOPTR)

A homeowner who resides principally on his/her property as of January 1st is entitled to a maximum of $7,000 value reduction (RTC §218). The tax loss resulting from the reduction is reimbursed by the State. Property tax loss reimbursement claim instructions are supplied yearly by the State. This claim must be filed on or before December 1st. The claim for reimbursement includes the following:

1. (A) Current secured and unsecured homeowners exempted value times total tax rate by TRA.

   (B) Supplemental roll homeowners exempted value times the tax rate, times prorated dates (if applicable) by TRA.

2. For any prior-year homeowner adjustment that has not previously been claimed, take the exempted value times the rate by TRA. This must be reported by the appropriate year of loss.

Once the amount by TRA has been determined, it is applied against the TRA allocation percentage. This will provide an amount relative to 1%, to be applied against current-year AB 8 factors, and the amount for all debt service funds.

A summary showing total amount by fund type (schools, special districts, cities and counties) must be sent with claim.

Payment is received from the State on or before the following dates and must be distributed within ten days:

Date	%
November 30th	**15%**
December 30th	35%
April 30th	35%
May 31st	15%

18.16 Miscellaneous

Setting Tax Rates

The county auditor is responsible for calculating the several tax rates levied for voter-approved indebtedness for the board of supervisors' action. On or before October 3rd of each year, the board shall adopt, by resolution, the rates of taxes for the secured roll.

Each rate shall produce the amount to be raised on the secured roll after due allowance for delinquency, anticipated changes to the roll, disputed tax revenues anticipated to be impounded pursuant to Government Code section 26906.1, redevelopment reductions pursuant to Health and Safety Code section 33620, changes to fund balance classifications, and other available financing sources. Other available financing sources may include unitary debt rate allocations, interest earnings, delinquent taxes, and available fund balance, etc. (Government Code sections 29100–06).

The allowance for delinquencies may be determined by using the prior-year actual delinquency percentage (April 10 or June 30), or another method deemed appropriate.

An example of how the calculations are made in computing the tax rate necessary to service a particular debt service fund is shown in the following example:

Setting Tax Rates		Utility & Secured	Unsecured	
Net Valuation (Less All Exemptions)		$34,108,197	$1,025,871	
Less Delinquency Allowance:				
Secured 3.14%		(1,070.997)		
Unsecured 5.00%			(51,294)	
Less Redevelopment Agency or Other				
Adjusted Net Assessed Valuation		33,037,200	974,577	
Add HOPTR Exemption		1,676,258	0	
ADJUSTED VALUATION FOR RATE COMPUTATION		34,713,458	974,577	
Current-Year Requirements				$20,900
Less Other Available Financing				(16,318)
AMOUNT TO BE RAISED THROUGH TAX RATE				$4,582
UNSECURED ROLL FUNDING:		HOPTR Revenue	Property Tax Revenue	
Unsecured Tax Rate				
[(prior year secured rate: 974,577 X .0016)]				
Unsecured Property Tax			$156	
Unsecured HOPTR Exemption Revenue			-0-	
AMOUNT TO BE RAISED ON SECURED ROLL:				
Total Requirements	$4,582			
Less Unsecured Roll Funding	(156)			
Balance Required	$4,426			
SECUERD TAX RATE (4,426 ÷ 34,713,458) = .000128				
HOPTR Exemption Revenue (1,676,258 X .000128)		$214		
Secured Property Tax (4,426 - 214)			4,212	
TOTALS		$214	$4,368	$4,582

Summary Chart of Tax Apportionments

The following chart of tax apportionments was developed to provide an overview of apportioning taxes. It is not intended to be a complete list of items apportioned. For additional detail, please refer to the codes as noted in the comments section of the chart

Tax Type	Tax Rates	AB 8 Apportionment Factors	Penalty Distribution**	Comments
Current Roll:				
Secured/Utility	CY	CY	General Fund	RTC §4653.8 (Costs)
Unitary	CY	CY	General Fund	Unique levy & distribution RTC §100, §100.11 (previously RTC §98.9–98.10)
Unsecured	PY	CY	General Fund	RTC §4655.2–4655.4
Supplemental	PY or AYR	PY or AYR	General Fund	Admin Fee RTC §75.6 Other distr. RTC §75.70–75.72
Fixed charges	N/A	N/A	General Fund	
Prior Roll:				
Secured (Redemption)	PY	PY	Follows Taxes	RTC §4656.2–4656.7**
Unsecured	PY	PY	General Fund	RTC §4658.2–4658.4
Supplemental Except FY 1983–84 FY 1983–84	PY or AYR N/A	PY or AYR N/A	Follows Taxes Follows Taxes	Admin Fee RTC §75.60. Other dist. RTC §75.70–75.72 Apportioned based on ADA RTC §75.70
Fixed Charges	N/A	N/A	Follows Assessments	RTC §4656.3
Miscellaneous				
Change of Ownership Statement Penalty	N/A	N/A	General Fund	RTC §4653.7
Timber	N/A	N/A		RTC §38905.1
Racehorse	N/A	N/A		1/3 ea. cities, general fund, schools RTC §5790
Homeowners				RTC §218
Tax-Defaulted Land Sales	PY or AYR	PY or AYR	Refer to RTC Codes	
Airplane	N/A	N/A		1/3 each: cities, county general fund, schools; RTC §5451–5456
State Highway Prop Rental	N/A	N/A		SHC §104.10
Fish & Game Tax	AYR	AYR		FGC §1504
Interest on Unapportioned taxes	N/A	N/A		Distr. based on taxes paid to each jurisdiction

CY = Current Year — All costs are distributed to the General Fund for use by the Tax Collector
PY = Prior Year — All costs are distributed to the General Fund for use by the Tax Collector
AYR = Applicable Year Rate
N/A = Not applicable
**= Except alternate method of tax apportionment. Penalties collected for amounts under the alternate method are deposited into the Tax Losses Reserve Fund.

Mobilehome Tax Exclusion

Residential mobile homes on rental spaces within a mobile home park are excluded from the debt service rates of any water district. Water district is defined as any district with a primary function of: irrigation, reclamation, or drainage of land; or distribution of water primarily for domestic, municipal, agricultural, industrial, recreation, fish and wildlife enhancement, flood control, or power production purposes. (RE: Water Code section 20220, Chapter 56, 1987 Statutes.)

Suspension of Proposition 1A — State Borrowing

On November 2, 2004, the voters of California amended the State Constitution by passing Prop 1A which added Section 25.5 to Article XIII. Prop 1A prohibits the State legislature from "modifying the manner in which ad valorem property tax revenues are allocated to local agencies" as prescribed by the State Constitution under subdivision (a) of Section 1 of Article XIIIA. However, the provisions of Prop 1A can be suspended based on the following conditions:

- Proclamation by the Governor declaring State's fiscal hardship and the suspension of the protection to local agencies of their rightful claim to all allocable property tax revenues due to them.
- Enactment by State Legislature by two-thirds votes for an urgency statute to suspend Prop 1A protection to local agencies.
- Loan amount shall not exceed 8% of the total property tax revenues allocated to all local agencies within each county for the fiscal year immediately preceding the fiscal year when suspension of Prop 1A was approved.
- Loan from the suspension of Prop 1A must be repaid within three years following the year of the loan plus interest.
- Loan from the suspension must be paid back before another suspension can occur.
- The suspension can occur no more than twice within ten consecutive fiscal years.

For implementation details including accounting procedures please refer to the Uniform Guidelines for ABx4 14 and ABx4 15 prepared by the Accounting Standards Committee of the California State Association of County Auditors in 2009.

18.17 Schedule of Events — County Auditor Calendar

MONTH OF JULY		
Statutory Authority	**Description**	**Date**
RTC §616, §617	Local Roll Received from Assessor	July 1
RTC §2616	Receive Tax Collector's Statement of All Moneys Collected During Preceding Reporting Period	Not less than once every month
RTC §4108	Receive Tax Collectors Itemized Report of Collections	July 5
GOV §16111	SCO/FAM 35 Statement of Supplemental Revenue for Multi-County Districts	July 10
RTC §755	Preliminary State Assessed From State Board of Equalization	July 15
RTC §756	Final State Assessed Values Received From State Board of Equalization	July 31
RTC §75.70	Distribute Supplemental Roll Revenues	Monthly

MONTH OF AUGUST		
Statutory Authority	**Description**	**Date**
RTC §2616	Receive Tax Collector's Statement of All Moneys Collected During Preceding Reporting Period	Not less than once every month
RTC §4108	Receive Tax Collector's Itemized Report of Collections	August 5
RTC §1647, §1648, §1649	R 822, Report of AV & Supplemental Taxes	August 15
EDC §41760.2	J 29 B & C Report of Actual Taxes Collected for School Districts for the Prior Fiscal Year	August 15
EDC §84207	CCFS 329, Tax Revenues for Community Colleges	August 15
RTC §2052	Equalized Roll Date	August 20
Various	Fixed Charges Due Auditor	August 10
RTC §2922	Last day Unsecured Taxes Can Be Paid Without Penalty	August 31
RTC §75.70	Distribute Supplemental Roll Revenues	Monthly
MONTH OF SEPTEMBER		
Statutory Authority	**Description**	**Date**
RTC §2616	Receive Tax Collector's Statement of All Moneys Collected During Preceding Reporting Period	Not less than once every month
RTC §4108	Receive Tax Collector's Itemized Report of Collections	September 5
EDC §41760.2	J226, Bond, Interest & Redemption Funds for Schools	September 15
RTC §2601	Auditor Delivers Extended Roll to Tax Collector	O/B 4th Monday
RTC §75.70	Distribute Supplemental Roll Revenues	Monthly

MONTH OF OCTOBER		
Statutory Authority	**Description**	**Date**
RTC §2237.2	LGFA 139, Report of Rates Levied in Excess of 1%	October 1
GOV §29100	Board of Supervisors Adopts Secured Tax Rates	October 3
HSC §33675	Statement of Indebtedness Due From Redevelopment Agencies	O/B October 1
RTC §2616	Receive Tax Collector's Statement of All Moneys Collected During Preceding Reporting Period	Not less than once every month
RTC §4108	Receive Tax Collector's Itemized Report of Collections	October 5
GOV §16111	SCO/FAM 35 Stmt. Of Supplemental Rev. for Multi County Districts	October 10
RTC §2601	Deliver Tax Bills to Tax Collector	O/B October 16
RTC §75.70	Distribute Supplemental Roll Revenues	Monthly

MONTH OF NOVEMBER		
Statutory Authority	**Description**	**Date**
SHC §104.10	Receive and Distribute Highway Property Taxes	November 1
RTC §2616	Receive Tax Collector's Statement of All Moneys Collected During Preceding Reporting Period	Not less than once every month
RTC §4108	Receive Tax Collector's Itemized Report of Collections	November 5
ECD §41760.2	J29B & J29C, Est. Taxes for School Districts for Current Year	November 15
EDC §84207	CCFS 329, Est. Taxes for Community Colleges	November 15
GOV §16120	Receive & Distribute 15% Homeowner Exemption	November 30
RTC §38905.1	Receive & Distribute Timber Yield Allocation	November 30
RTC §75.70	Distribute Supplemental Roll Revenues	Monthly

MONTH OF DECEMBER		
Statutory Authority	**Description**	**Date**
RTC §2616	Receive Tax Collector's Statement of All Moneys Collected During Preceding Reporting Period	Not less than once every month
GOV §29100.6	File Homeowner's Exemption Claim	December 1
GOV §29109	LGFA 4, etc., Annual Report of Property Taxes Levied	December 1
RTC §4108	Receive Tax Collector's Itemized Report of Collections	December 5
RTC §2618	Last Day Current Secured First Installment Can be Paid Without Penalty	December 10
GOV §16120	Receive & Distribute 35% Homeowner Exemption	December 31
HSC §33080	LGFA 80, Annual Report of Financial Transactions of RDAs	December 31
RTC §75.70	Distribute Supplement Roll Revenues	Monthly

MONTH OF JANUARY		
Statutory Authority	**Description**	**Date**
RTC §2616	Receive Tax Collector's Statement of All Moneys Collected During Preceding Reporting Period	Not less than once every month
RTC §4108	Receive Tax Collector's Itemized Report of Collections	January 5
GOV §30101	LGFA 225, Redemption Fees Semi-Annual Settlement	January 15
All Districts Covered by EDC §16000–16344	CAM 314 AV of School Districts for State School Building Loan Repayment	January 28
RTC §75.70	Distribute Supplemental Roll Revenues	Monthly

MONTH OF FEBRUARY		
Statutory Authority	**Description**	**Date**
RTC §2616	Receive Tax Collector's Statement of All Moneys Collected During Preceding Reporting Period	Not less than once every month
RTC §4108	Receive Tax Collector's Itemized Report of Collections	February 5
GOV §16111	SCO/FAM 35, Statement of Supplemental Revenue for Multi-County Districts	February 10
RTC §75.70	Distribute Supplemental Roll Revenues	Monthly

MONTH OF MARCH		
Statutory Authority	**Description**	**Date**
RTC §2616	Receive Tax Collector's Statement of All Moneys Collected During Preceding Reporting Period	Not less than once a month
RTC §4108	Receive Tax Collector's Itemized Report of Collections	March 5
N/A	Receive Tax Rate Area Chart From the State Board of Equalization	March 21
RTC §75.70	Distribute Supplemental Roll Revenues	Monthly

MONTH OF APRIL		
Statutory Authority	**Description**	**Date**
RTC §2616	Receive Tax Collector's Statement of All Moneys Collected During Preceding Reporting Period	Not less than once a month
RTC §4108	Receive Tax Collector's Itemized Report of Collections	April 5
RTC §2618	Last Day Current Secured Second Installment Can Be Paid Without Penalty	April 10
EDC §41760.2	J29B & J29C, Est. Taxes for School Districts for Current Year	April 15
EDC §84207	CCFS 329, Revised Estimated Taxes for Community Colleges	April 15
GOV §16120	Receive & Distribute 35% Homeowner Exemption	April 30
RTC §75.70	Distribute Supplemental Roll Revenues	Monthly

MONTH OF MAY		
Statutory Authority	**Description**	**Date**
RTC §2227	Dept. of Finance Report of Population CPI 1% Change	May 1
RTC §2616	Receive Tax Collector's Statement of All Moneys Collected During Preceding Reporting Period	Not less than once every month
RTC §4108	Receive Tax Collector's Itemized Report of Collections	May 5
GOV §16120	Receive & Distribute 15% Homeowner Exemption	May 31
RTC §38905.1	Receive & Distribute Timber Yield Allocation	May 31
RTC §75.70	Distribute Supplemental Roll Revenues	Monthly

MONTH OF JUNE		
Statutory Authority	**Description**	**Date**
RTC §2616	Receive Tax Collector's Statement of All Moneys Collected During Preceding Reporting Period	Not less than once every month
RTC §4108	Receive Tax Collector's Itemized Report of Collections	June 5
GOV §30101	LGFA 225, Redemption Fees Semi-Annual Settlement	June 15
GOV §29484	Received & Apportion U.S. Forest Reserve Allocation	June 30
GOV §16144	Payment Due From State for Open Space	O/B June 30
RTC §75.70	Distribute Supplemental Roll Revenues	Monthly

18.18 Glossary of Property Tax Terminology

Refer to *Appendix C* for Property Tax Terminology

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CHAPTER 19 PUBLIC ASSISTANCE PROGRAM

Public Assistance Program

19.01 Introduction

This chapter deals primarily with the effect of public assistance transactions upon county operating funds and accounts.

Public assistance programs originate in federal and state laws. Most are regulated and supervised by the State Department of Social Services and are financed in varying degree with federal, state, and county money. Counties administer public assistance programs at the local level.

Payments and disbursements under these programs are made by the counties, who then file claims with the Department of Social Services as a basis for reimbursement. Claims are subject to routine desk review and periodically detailed examination by state and federal auditors. The counties are held financially liable for disallowed claims and are responsible for any deviations and irregularities from public assistance program policies prescribed in state manuals. This causes initial recording and accounting of public assistance to be somewhat tentative, because it is subjected to adjustments upon the various funds involved.

NOTE: In the exercise of its supervisory capacity, the State of California, through various agencies (California Department of Social Services, etc.), has published manuals containing regulations for different programs. Reference must be made to these manuals for specific information. The State also publishes amendments, updates, and proposed changes in regulations.

19.02 County Operating Funds

It is recommended that the General Fund be used to account for public assistance expenditures and other activities.

19.03 Public Assistance Disbursement Fund

Public assistance disbursements are charged against the General Fund by a journal entry, and an equal amount of cash is transferred to the Public Assistance Disbursement Fund to finance disbursements. The use of this clearing fund is recommended, although optional, and is used only to account and control public assistance disbursements by means of Electronic Benefit Transfer (EBT), warrants, and direct deposit.

19.04 Public Assistance Advance Fund

The county may deposit advances in a Public Assistance Advance Fund until such time as the money is earned as revenue through the expenditure and claiming process. The remittance advance from the State shows all the program categories included in the advance. For control purposes, the county uses and maintains a subsidiary ledger and analysis of each program category in the fund. The analysis must be reconciled with the Statement of Cash Advance — AA190 report, which is mailed monthly to each county by the California Department of Social Services. When revenues are earned through the expenditure claiming process, advances are credited to the revenue accounts for each corresponding program.

19.05 Principal Aids

Aid in the form of cash grants is given to families with dependent children and other eligible individuals. Cash grants may be given to claimants in the form of warrants, direct deposit, or EBT.

19.06 General Relief

Welfare and Institutions Code section 17000 requires the county to support and relieve all indigent legal residents. These provisions are for local programs, regulated by the county board of supervisors rather than the State. Aid may be in the form of warrants, checks, direct deposit, or EBT.

19.07 Administration Cost

Costs of administering assistance programs are shared by the federal, state and county governments. Administrative costs are divided between social services, eligibility, and grants.

19.08 Public Assistance Advances

Prior to and during each month, the State of California advances to each county a sum of money equal to the estimated federal and state shares of administrative and assistance expenditures to be made during that month. Amounts are transferred from the Advances Fund to the General Fund as necessary to make Financial Aid Payments. This may be done either at the time warrants are issued or after preparation of a claim, depending on the county's policy.

19.09 Administrative Advances

The advances for administration programs for a specific quarter are determined based on historical data for actual expenditures in that quarter. Counties are required to submit a claim for actual expenditures incurred each quarter 30 days after the end of the quarter. Counties can also submit an adjustment to a specific quarter nine months after the end of the original claiming quarter. The State audits the quarterly claims and adjusts for prior period over- or under-funding based on the prior estimated advances for a specific quarter computed to the audited actual expenditures for the respective quarter. All administrative advances are timed for release approximately mid-month.

19.10 Assistance Advances

Advances for assistance programs are generally received by the county on or before the day the recipient's grant is to be mailed.

While the monthly assistance estimate is determined from caseload, average grant, seasonal, and economic factors, the allocation to each county is based upon the relationship between the latest available month's expenditures and the current estimated need. Each month, prior estimates are adjusted to actual, and the current estimates are adjusted for the difference.

19.11 Supplemental Advances

Supplemental administration and assistance cash advances are made if the estimated expenditure analysis reveals that insufficient funds were provided and Federal or State funds are available.

19.12 Statement of Cash Advances

The Statement of Cash Advance — AA190 report, is itemized by the month's estimates/advances, adjustments, and supplements for the quarter by program and by fund. The statement is released by the Department of Social Services on a monthly basis during the first week of the month for administrative programs and the third week of the month for assistance programs.

19.13 Repayments and Cancelled Warrants

Repayments of public assistance program aid general relief, warrants cancelled for non-presentation within the established period, and EBT expungements may be accounted for as revenue. On the State claim form, cancellations, expungements, and repayments are a reduction of total payments. If public assistance program aid general relief, warrants cancelled for non-presentation within the established period, and EBT expungements are accounted for as revenue, then a reconciliation between the county's records and the claims submitted is required.

19.14 Adjusted Claims

County claims for reimbursement may be adjusted by the State as a result of desk review or field audit. If, as illustrated in Section 19.16, revenue had been recorded in the General Fund at the time the claim was submitted, then an adjusting entry must be made in the amount of the change. If a claim under a program not financed through advances is disallowed, and the original claim has already been reimbursed, then repayment by the county is a revenue reduction.

19.15 Accounting Considerations

Administration and assistance advances originating from the State are held in the public assistance advances fund. Public assistance disbursements may be issued through a separate clearing fund with a separate warrant series or in the general fund using separate accounts. The general fund accounts for all public assistance administration and assistance expenditures. Recognition of revenues should not be delayed pending completion of routine requirements, such as the filing of claims for allowable costs under a reimbursement program; they should be recognized throughout the claim reimbursement process.

Funds received before time requirements are met, but after all other eligibility requirements have been met, should be reported as a deferred outflow of resources by the provider and a deferred inflow of resources by the recipient. The advances are not available for the county's current operations and obligations until such time as the revenues are recognized in the general fund books. Interest earned by the public assistance advances fund is credited to the general fund.

19.16 Transaction and Illustrative Journal Entries

a) July advances are received from the State:

Account	Sub	Debit	Credit
Public Assistance Advance Fund			
Cash		$ 322,500	
Deferred Inflows of Resources			$ 322,500
Assistance — Federal	$ 185,000		
Assistance — State	135,000		
Administration — Federal	2,000		
Administration — State	500		

b) An analysis of the county public assistance disbursements for July indicated a Federal liability of $184,800, a State liability of $134,750 and a County liability of $65,450:

Account	Sub	Debit	Credit
General Fund			
Expenditures		$ 385,000	
Cash			$ 385,000
Support and Care of Persons — County	$ 65,450		
Support and Care of Persons — State	134,750		
Support and Care of Persons — Federal	184,800		
(To record the July public assistance expenditures and to transfer cash in that amount to the Public Assistance Disbursement Fund)			

If a separate public assistance disbursement fund is not used, the following journal entry would have been made:

Account	Sub	Debit	Credit
General Fund			
Expenditures		$ 385,000	
Warrants Payable			$ 385,000
Public Assistance — Aid Programs — County	$ 65,450		
Public Assistance — Aid Programs — State	134,750		
Public Assistance — Aid Programs — Federal	184,800		

Account	Sub	Debit	Credit
Public Assistance Disbursement Fund			
Expenditures		$ 385,000	
Warrants Payable			$ 385,000
(To record the transfer of cash from the General Fund and to record the issuance of public assistance warrants)			

c) At this point, revenue is recognized in the General Fund. Cash is transferred from the Public Assistance Advances Fund to the General Fund in an amount equal to the Federal and State liability:

Account	Sub	Debit	Credit
Public Assistance Disbursement Fund			
Deferred Inflows of Resources		$ 319,550	
Cash			$ 319,550
Assistance — State	$ 134,750		
Assistance — Federal	184,800		

Account	Sub	Debit	Credit
General Fund			
Cash		$ 319,550	
Revenue			$ 319,550
State for Public Assistance Programs	$ 134,750		
Federal for Public Assistance Programs	184,800		

d) County public assistance administration expenditures analysis for the first quarter is shown below. A claim has been prepared and mailed to the State:

Program/Functions	Total Expenditures	Federal Funds	State Funds	County Funds
CalWORKs	$ 1,306	$ 640	$ 333	$ 333
Foster Care	75	31	22	22
Title XX Social Services	1,067	802	9	256
Staff Development	10	7	1	2
Non-assistance Food Stamp	423	211	106	106
WIN Social Services	59	53	---	6
Child Support Enforcement	49	37	---	12
Child Support Enforcement	36	---	27	9
Total	$ 3,025	$ 1,781	$ 498	$ 746

Account	Sub	Debit	Credit
Public Assistance Disbursement Fund			
Deferred Inflows of Resources		$ 2,279	
Cash			$ 2,279
Administration — Federal	$ 1,744		
Administration — State	471		
Child Support Enforcement — Federal	37		
Child Support Enforcement — State	27		
(To transfer the Federal and State shares of the administrative cost to the General Fund)			

Account	Sub	Debit	Credit
General Fund			
Cash		$ 2,279	
Revenues			$ 2,279
Federal for Public Assistance Administration	$ 1,744		
State for Public Assistance Administration	471		
Federal for Public Assistance — Child Support	37		
State for Public Assistance — Child Support	27		
(To recognize revenue transferred from Public Assistance Advance Fund for the Federal and State shared of the administrative cost)			

e) On August 29, the audited claim for Public Assistance — Administration was received. A letter attached to the reviewed claim stated that there was a $210 Federal disallowance and a $90 State disallowance:

Account	Sub	Debit	Credit
General Fund			
Revenue		$ 300	
Cash			$ 300
Federal	$ 210		
State	90		
(To record the Federal and State July claim adjustments and to transfer cash back to the Public Assistance Advance Fund. Refer to Section 19.17 for the original entry)			

Account	Sub	Debit	Credit
Public Assistance Disbursement Fund			
Cash		$ 300	
Deferred Inflows of Resources			$ 300
Administration — Federal	$ 210		
Administration — State	90		
(To record the transfer of cash from the General Fund in the amount of the Federal and State July claim adjustments)			

Medi-Cal Program and Affordable Care Act (ACA)

19.17 Introduction

In March 2010, the Patient Protection and Affordable Care Act (ACA) was established. Under the ACA, millions of Californians gained access to affordable health coverage beginning in January 2014 through the health insurance marketplace called Covered California. Through Covered California, the State's Medi-Cal program expanded to cover low-income Californians. The federal government will pay 100% of the cost of the expansion from 2014 to 2016, gradually reducing the federal share to 90 percent of the cost by 2020. The Medi-Cal program falls under the provisions of Title XIX of the Social Security Act and administered by the State Department of Health Care Services (DHCS). Medi-Cal's goal is to provide, within prescribed limits, basic health and medical care, and related services to the medically indigent and medically needy individuals, recipients of public assistance programs, the aged, the blind, and other individuals.

In comparison, the federal Medicare program falls under provisions of Title XVIII of the Social Security Act and is administered by the United States Federal Department of Health and Human Services. Different parts of Medicare cover different services.

Original Medicare is administered directly by the federal government and has two parts: (a) Hospital Insurance; and (b) Medical Insurance. Outpatient Prescription Drug Insurance is provided only through private insurance companies that have contracts with the government and is never provided directly by the government.

The Medicare Advantage Plans allow private health insurance companies to provide Medicare benefits. These plans must offer at least the same benefits as Original Medicare, but with different rules.

19.18 Program Description

Medi-Cal offers free or low-cost health coverage to California residents who meet eligibility requirements. Most applicants who apply through Covered California and enroll in Medi-Cal will receive care through managed health plans.

Beginning January 1, 2014, California expanded Medi-Cal eligibility for low-income adults. Applying through Covered California will automatically determine an applicant's Medi-Cal eligibility. An applicant may also apply for Medi-Cal directly through their respective County Welfare Department.

Eligibility

California residents can apply for Medi-Cal benefits regardless of sex, race, religion, color, national origin, sexual orientation, marital status, age, disability, or veteran status.

The ACA simplified financial requirements for Medi-Cal program eligibility. Under the simplifications, "property," such as a car, is no longer counted. It is recommended that California residents previously determined to be ineligible reapply through Covered California.

Patient Share

For many individuals who enroll in Medi-Cal, there is no premium, no co-payment, and no out-of-pocket cost. Some households will see affordable costs, such as a low monthly premium. For some children covered by Medi-Cal, the premiums are $13 per child, up to a family maximum of $39. Generally, individuals enrolled in Medi-Cal will get the same health benefits available through Covered California at a lower cost.

Financing and Payment

In accordance with Government Code sections 17560 and 17561, eligible claimants may submit claims to the State Controller's Office (SCO) for reimbursement of costs incurred for the Medi-Cal Beneficiary Probate program.

On January 29, 2010, the Commission on State Mandates amended the Parameters and Guidelines clarifying documentation requirements and records retention required by the SCO.

Medical Providers of Medical and Health Care

Eligible recipients are issued a Benefits Identification Card (BIC). Once the BIC is received, the individual can choose a Medi-Cal managed care plan in their respective county.

Fiscal Intermediaries

The Department of Health Services (DHCS) website, http://www.medi-cal.ca.gov/contact.asp, identifies the contact information for the current Fiscal Intermediary (FI) which processes all Medi-Cal claims. Providers send their billing information to the FI and are reimbursed from the State Health Care Deposit Fund within prescribed limitations.

Legal Provisions

Provisions of the program are in Chapters 7 and 8 of the Welfare and Institutions Code, and in Title 22 of the California Administrative Code.

19.19 Billings

For basic billing information, providers should call the Telephone Service Center at (800) 541-5555. For complicated billing issues contact the Correspondence Specialist Unit in writing at the FI address.

The Out-of-State Provider Unit addresses the billing needs of non-California providers. California Code of Regulations (CCR), Title 22, Chapter 3, Article 1.3, Section 51006 allows reimbursement for medically necessary emergency services provided by out-of-state providers to California Medicaid (Medi-Cal) recipients who are temporarily in another state. However, all providers must be enrolled in the Medi-Cal program before they can receive reimbursement.

The Small Provider Billing Unit (SPBU) is a free, full-service billing assistance and training program provided by the DHCS and its Fiscal Intermediary. SPBU Claim Specialists and Regional Onsite Field Representatives work directly with providers in a structured program to assist in completing and submitting Medi-Cal claims.

For more information, call (916) 636-1275 or (800) 541-5555, ext. 1275

19.20 Health Plans

Medi-Cal managed care offers a selection of 21 health plans. Health plan options vary depending upon the county in which individuals live. Most counties offer commercial plans which also operate in Covered California, including Anthem Blue Cross, Kaiser, Health Net, and Molina. Other plans are public plans administered by the community. Every county's Medi-Cal plans provide the same high-quality care at the same low or no cost to Californians, no matter where they live.

19.21 Program Limitation

Any county, as defined in Government Code section 17515 that incurs increased costs as a result of Medi-Cal is eligible to claim reimbursement. Claims filed more than one year after filing date will not be accepted.

When filed within one year of the initial filing deadline, claims are assessed a late penalty of 10% of the total amount of the initial claim without limitation pursuant to Government Code section 17561, subdivision (d)(3). When filed within one year of the annual filing deadline, claims are assessed a late penalty of 10% of the claim amount with a $10,000 maximum penalty, pursuant to Government Code section 17568.

19.22 Outreach and Enrollment Grants for Targeted Populations

Homeless individuals are one of the target populations for $25 million ($12.5 million in the California Endowment funds plus $12.5 million in federal funds) in grants to counties under AB82 trailer bill language enacted as a part of the FY2013–14 budget and continuing through June 30, 2018 or as extended. The DHCS has released guidance to the counties about these funds.

19.23 Accounting

Carriers and providers of Medi-Cal benefits are required to use uniform accounting and cost-reporting systems developed and adopted by the DHCS. If any other provision of law provides for uniform accounting and cost-reporting systems for hospitals, the DHCS must adopt these systems.

Carriers and providers of Medi-Cal benefits must provide cost information to the DHCS as is necessary to conduct studies to determine payment for services, including but not limited to copies of any Medicare cost reports and settlements, and any Medicare audit reports.

Noncompliance with Welfare and Institutions Code section 14161 will result in suspension from participation under Chapter 7 of the Welfare and Institutions Code.

The DHCS must conduct such studies as necessary to determine payments for services provided under Chapter 7 of the Welfare and Institutions Code.

Child Support Enforcement Program

19.24 Introduction

Established by State legislation in 1999, the California Department of Child Support Services (DCSS) is designated as the only State entity responsible for administering the Title IV-D State plan for securing child and spousal support, medical support, and determining paternity.

Child support services are available to the general public through a network of 51 county and regional child support agencies. These local child support agencies work with parents and guardians to help children and families receive court-ordered financial and medical support. Services provided include locating a parent, establishing paternity, establishing, modifying, and enforcing court orders for child support, and establishing, modifying, and enforcing orders for health coverage.

To provide these services, the DCSS and local child support agencies work with the courts, county health and human services entities, employers, and various state and federal agencies. In the case of children receiving public assistance, collected child support is used to offset aid paid for those children, and a proportionate share is returned to the federal, state, and county governments, according to their participation in the aid payment.

Within the past decade, child support professionals have developed a range of innovative strategies designed to engage both parents and intervene early to help parents meet their responsibilities and obtain reliable support for families. Today, the DCSS and its partner agencies are continuously adopting new technologies and techniques to keep pace with the rapidly changing needs of child support customers.

CHAPTER 20 RETIREMENT SYSTEM AND OTHER POST EMPLOYMENT BENEFITS (OPEB) REPORTING

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CHAPTER 20 RETIREMENT SYSTEM AND OTHER POST EMPLOYMENT BENEFITS (OPEB) REPORTING

Introduction

20.01 Objectives of this Chapter

Although the Government Code specifies the organization, administration, and operating guidelines for pension plans, standards concerning the accounting and financial reporting of governmental pension plans are established by the Government Accounting Standards Board (GASB). The purpose of this chapter is to clarify GASB pension accounting and financial reporting pronouncements and explain the applicability of these standards to the State's government retirement systems.

20.02 Applicability of This Chapter

Counties operating their retirement systems under Government Code section 28020, County Employees Retirement Law of 1937 (CERL), California Public Employee's Pension Reform Act of 2013, or other Government Code section applicable to county retirement systems should conform as much as practical to provisions of this chapter.

Local governments, municipalities, special districts, subdivisions, etc. that contract for retirement benefits under any of the County Systems referenced in the above paragraph and publish financial statements that contain information regarding their pension liabilities should also conform as much as possible to the provisions of this chapter.

20.03 County Employees Retirement Law of 1937 (CERL)

The County Employees Retirement Law of 1937 (Title 3, Division 4, Part 3, Chapters 3 and 3.9, Section 31450 et seq. of the California Government Code) governs the establishment and administration of county employee retirement systems for counties that establish retirement plans, and for cities or special districts within a county's boundaries that choose to participate in that county's employee retirement system.

The provisions of the CERL currently in effect may be found online at the California Legislative Information website: http://leginfo.legislature.ca.gov

20.04 Generally Accepted Accounting Principles Governmental Pension Plans and Employers

The Governmental Accounting Standards Board (GASB) has issued the following statements pertaining to governmental pension plans:

- GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* establishes accounting and financial reporting standards on pension plans for governmental employers.

- GASB Statement No. 67, *Financial Reporting for Pension Plans — an amendment of GASB Statement No. 25*, improves financial reporting for governmental pension plans.

- GASB Statement No. 68*, Accounting and Financial Reporting for Pensions — an amendment of GASB Statement No. 27*, improves accounting and financial reporting on pension plans for governmental employers.

- GASB Statement No. 71*, Pension Transition for Contributions Made Subsequent to the Measurement Date — an amendment of GASB Statement No. 68*, improves accounting and financial reporting associated with contributions to pension plans for governmental employers.

Governmental pension plan accounting and financial reporting standards established in these authoritative pronouncements are incorporated into the various sections of this chapter. However, pension plans and employers should refer to the original text of these statements when determining the definitions, accounting, and reporting of the pension plans' financial position.

20.05 Administration Expenses

Under Government Code section 31580, "The board of supervisors shall appropriate annually from the proper county funds the amount necessary to defray the entire expense of administration of the retirement system based upon budget estimates prepared by the treasurer."

Alternately, under Government Code section 31580.2:

- In counties in which the board of retirement, or both the board of retirement and the board of investment, have appointed personnel pursuant to Section 31522.1, 31522.5, or 31522.7, the respective board or boards shall annually adopt a budget covering the entire expense of administration of the retirement system which expense shall be charged against the earnings of the retirement fund. The expense incurred in any year may not exceed the greater of either of the following:
    - Twenty-one hundredths of 1 percent of the accrued actuarial liability of the retirement system.
    - Two million dollars ($2,000,000), as adjusted annually by the amount of the annual cost-of-living adjustment computed in accordance with Article 16.5 (commencing with Section 31870).
- Expenditures for computer software, computer hardware, and computer technology consulting services in support of these computer products shall not be considered a cost of administration of the retirement system for purposes of this section.

Valuation of Investments — Pension Plans

20.06 Permissible Investments

Government Code section 31594 allows the board of the retirement system to invest in any form or type of investment deemed prudent by the board, pursuant to the requirements of Government Code section 31595.

Government Code section 31595 states the fiduciary duties of the board and its officers with respect to the system.

20.07 Valuation Basis

According to GASB Statement No. 67, *Accounting and Financial Reporting for Pensions — an amendment of GASB Statement No. 27*, whether pension plan investments are equity or debt securities, real estate, investment derivative instruments, or other investments, they should be reported at their fair value at the end of the pension plan's reporting period.

20.08 Net Appreciation (Depreciation) in the Fair Value of Investments

The net appreciation (depreciation) in the fair value of investments should include realized and unrealized gains and losses on investments that were both bought and sold during the year (realized gains and losses on investments held more than one year are reported as a change in the fair value in the prior year). Realized and unrealized gains and losses should not be separately displayed in the financial statements.

Financial Statements — Pension Plans and Employers

20.09 Required Statements

Retirement systems operating under CERL are required to submit financial statements under Government Code sections 31597 et seq., as follows:

- Government Code section 31597: "Before June 30th of each year the retirement board shall file in the office of the county auditor and with the board of supervisors a sworn statement that shall exhibit the financial condition of the retirement system at the close of the preceding December 31st and its financial transactions for the year ending on that day. *(Amended by Stats. 2003, Ch. 520, Sec. 4. Effective January 1, 2004.)"*

- Government Code section 31597.1: "Before December 31st of each year, the retirement board shall file in the office of the county auditor and with the board of supervisors a sworn statement that shall exhibit the financial condition of the retirement system at the close of the preceding June 30th and its financial transactions for the fiscal year ending that day.

  This section is not operative in any county until the board of supervisors, by resolution adopted by a majority vote, makes the provisions of this section applicable in the county. After the filing of the first fiscal year accounting under this section, the provisions of section 31597 do not apply in the county. *(Amended by Stats. 2003, Ch. 520, Sec. 5. Effective January 1, 2004.)"*

- Government Code section 31597.2: "In those counties in which the retirement board has authorized the treasurer to control and hold the assets of the retirement system pursuant to subdivision (a) of Section 31595.1, the treasurer shall be responsible for filing the statement required by Section 31597 or Section 31597.1, as applicable. *(Added by Stats. 1995, Ch. 584, Sec. 11. Effective January 1, 1996.)"*

- Government Code section 31598: 'The annual statement shall be prepared in accordance with generally accepted accounting principle on the basis of pronouncements of the Government Accounting Standards Board or its successor organization. *(Repealed and added by Stats. 1996, Ch. 680, Sec. 11. Effective January 1, 1997.)'*

The following statements are required according to generally accepted governmental accounting principles (GAAP):

- Statement of Fiduciary Net Position, which includes information about assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position, as applicable, as of the end of the pension plan's reporting period; and

- Statement of Changes in Fiduciary Net Position, which includes information about the additions to, deductions from, and net increase (or decrease) in fiduciary net position for the pension plan's reporting period.

20.10 Chart of Accounts and Explanations of Accounts

The following tables illustrate the accounts that should be maintained to meet the reporting requirements of Government Code sections 7501 through 7504 and GASB Statement No.67, *Financial Reporting for Pension Plans — an amendment of GASB Statement No. 25*. It is recommended that these accounts be used in the preparation of the aforementioned financial statements.

Statement of Fiduciary Net Position	Explanation of Account
ASSETS	Pension plan assets should be subdivided into (a) the major categories of assets held (for example, cash and cash equivalents, receivables, investments, and assets used in pension plan operations) and (b) the principal components of the receivables and investments categories.
Cash & Cash Equivalents	Currency on hand, short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) near enough to maturity that they present insignificant risk of changes in value.
Receivables	Pension plan receivables are generally short term and consist of contributions due as of the end of the reporting period from employers, non-employer contributing entities and plan members, and interest and dividends on investments.
Contributions	Amounts recognized as receivables for contributions should include only those due pursuant to legal requirements. Contributions that are payable to the pension plan more than one year after the end of the reporting period (for example, pursuant to installment contracts) should be recognized in full in the period the receivable arises. If a receivable is recognized at its discounted present value, interest should be accrued using the effective interest method, unless use of the straight-line method would not produce significantly different results.
Member Contributions	The amount charged each year to a member (including personal and stakeholder pensions) to cover the cost to the provider of investing and administering the member's plan.
Employer Contributions	Contributions an employer makes to his or her employee's employer-sponsored retirement plan not included in employer's salary expense.
Investments	
Accrued Interest	Interest that has accumulated between the most recent payment and the sale of a bond or other fixed-income security.
Dividends	A distribution of a portion of a company's earnings on stocks or other investments.
Real Estate Mortgage Loans	The current portion a debt instrument, secured by the collateral of specified real estate property, that the borrower is obliged to pay back with a predetermined set of payments.
Hedge Funds	
Other Receivables	Receivables that cannot be properly classified under the categories listed above.
Sales of Securities	The sale of a financial instrument that represents an ownership position in a publicly-traded corporation (stock), a creditor relationship with governmental body or with a corporation (bond), or rights to ownership as represented by an option.
Real Estate Income	Income from property bought or developed to earn income through renting, leasing, or price appreciation.
Miscellaneous	Receivables not specifically described above. In each case, these accounts are to be analyzed and managed according to the control procedures that are most applicable to the particular receivable.
Investments (at Fair Value)	Purchases and sales of investments should be recorded on a trade-date basis. Pension plan investments, whether equity or debt securities, real estate, investment derivative instruments, or other investments (excluding allocated insurance contracts), should be reported at their fair value at the end of the pension plan's reporting period.
Short-Term Investments	Any investments that a company has made that will expire within one year, including time certificates of deposits, banker acceptances, and commercial and finance paper.
Global Debt Securities	
U.S Government Securities	Include preferred stock that either is required to be redeemed by the issuing entity or is redeemable at the option of the investor, and a collateralized mortgage obligation or other instrument that is issued in equity form, but is accounted for as a non-equity instrument.
Domestic Corporate Bonds	A bond issued in a domestic market by a foreign entity, in the domestic market's currency.
Municipal Bonds	A debt security issued by a state, municipality, or county to finance its capital expenditures.
International Bonds	Debt securities issued by foreign companies or governments and sold domestically.
Global Equity Securities	
Domestic Stocks	The stocks of American companies traded on the various stock exchanges.
International Stocks	The stocks of companies based outside of the U.S.

Statement of Fiduciary Net Position	Explanation of Account
ASSETS (continued)	
Securities Lending Collateral	
Private Equity	Equity securities and debt in operating companies that are not publicly traded on a stock exchange.
Real Estate Equity	The difference between the current market value of the property and the amount the owner still owes on the mortgage of real estate property such as land and buildings.
Other Investments	Investments that cannot be properly classified under the investment categories listed above.
Capital Assets (Net of Accumulated Depreciation)	
Equipment And Furniture	Tangible property of a more or less permanent nature, other than land or buildings and improvements thereon.
Accumulated Depreciation — Equipment and Furniture	A valuation account to record the accumulation of periodic credits made to record the expiration of the estimated service life of capital assets.
Buildings and Improvements	A capital asset account reflecting the acquisition cost of permanent structures owned or held and improvements thereon.
Accumulated Depreciation — Buildings and Improvements	A valuation account to record the accumulation of periodic credits made to record the expiration of the estimated service life of capital assets.
Land	A capital asset account that reflects the cost of land owned or held.
Other Assets	Those assets that cannot be reasonably categorized under the asset classification discussed above (e.g., long-term receivables).
Deferred Outflows of Resources	Certain defined transactions that do not qualify for treatment as either assets or liabilities related to future periods.
LIABILITIES	Pension plan liabilities generally consist of benefits due to plan members (including refunds of plan member contributions), and accrued investment and administrative expenses. Pension plan liabilities for benefits should be recognized when the benefits are currently due-and-payable in accordance with the benefit terms. Excluding allocated insurance contracts.
Accounts Payable **Investment Purchase Payable** **Securities Lending Obligation** **Benefits Payable**	
Other Liabilities	Those liabilities that cannot be reasonably categorized under liability classifications discussed above (e.g., long-term liabilities)
Refunds Payable	
Actuarial Services Fee	Fee for actuarial services including the analysis of rates of disability, morbidity, mortality, retirement, survivorship and other contingencies.
Custodian Services Fee	Fees to a financial institution that holds customers' securities for safekeeping so as to minimize the risk of their theft or loss.
Investment Counselor Fee	As defined by the Investment Advisors Act of 1940, any person or group that makes investment recommendations or conducts securities analysis in return for a fee, whether through direct management of client assets or via written publications.
Administrative Fee Expenses	A fee charged by an insurer or other authorized agency to cover expenses related to record keeping and/or other administrative costs.
Deferred Inflows of Resources	Certain transactions related to future periods that do not qualify for treatment as either assets or liabilities.

Statement of Changes in Fiduciary Net Position	Explanation of Account
ADDITIONS	The additions section of the Statement of Changes in Fiduciary Net Position should include separate display of the following, if applicable: (a) Contributions from employers; (b) Contributions from non-employer contributing entities (for example, state government contributions to a local government pension plan); (c) Contributions from plan members, including those transmitted by the employers; and (d) Net investment income, including separate display of (1) investment income, and (2) investment expense, including investment management and custodial fees and all other significant investment-related costs.
Contributions	
Employer Contributions	
Safety	Employer contributions paid into the system to fund basic, cost-of-living, and other retirement benefits (detail by safety employers).
Miscellaneous	Employer contributions paid into the system to fund basic, cost-of-living, and other retirement benefits that are not qualified as safety.
Combined	Employer contributions paid into the system to fund basic, cost-of-living, and other retirement benefits that cannot be properly divided into safety and miscellaneous members.
Member Contributions	
Safety	Member contributions paid into the system to fund basic, cost-of-living, and other retirement benefits (detail by safety members).
Miscellaneous	Member contributions paid into the system to fund basic, cost-of-living, and other retirement benefits that are not qualified as safety.
Combined	Member contributions paid into the system to fund basic, cost-of-living, and other retirement benefits that cannot be properly divided into and safety and miscellaneous members.
Other Contributions	
Safety	Contributions paid into the system to fund basic, cost-of-living, and other retirement benefits made by other contributors not including employer(s) or members.
Miscellaneous	Contributions paid into the system to fund basic, cost-of-living, and other retirement benefits made by other contributors not including employer(s) or members that are not qualified as safety.
Combined	Contributions paid into the system to fund basic, cost-of-living, and other retirement benefits made by other contributors not including employer(s) or members that cannot be properly divided into safety and miscellaneous members.
Investments Income (Loss)	Contributions include (a) the net increase (decrease) in the fair value of pension plan investments, and (b) interest income, dividend income, and other income not included in (a). Components (a) and (b) of investment income may be separately displayed or combined and reported as one amount.
Securities Lending Income	
Interest Income	Monies earned on cash deposits, bonds, and other investments. Includes amortization of premiums and discounts on debt securities and interest income on leases.
Bonds	A debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate.
Short-Term Investments	Investments that a company has made that will expire within one year.
Dividends Income	Earnings and distributions from stock.
Net Appreciation (Depreciation) in Fair Value of Investments	The sum of: 1. Realized gains and losses on investments both bought and sold during the year, measured as the difference between the proceeds of sale and the original cost; 2. Realized gains and losses on investments bought in prior years and sold during this year, measured as the difference between the proceeds of sale and the fair value of the investment at the beginning of the year; and 3. Unrealized gains and losses for the year on investments held at year-end, measured as the difference between fair value of the investment at year-end, and either the original cost (if purchased during the year) or the fair value of the investment at the beginning of the year (if purchased in a prior year).

Statement of Changes in Fiduciary Net Position	Explanation of Account
ADDITIONS (continued)	
Other Investment Income	Investment income that cannot be reasonably categorized under the investment income classification discussed above.
(Investment Expenses)	Investment-related costs should be reported as investment expense if they are separable from (a) investment income, and (b) the administrative expense of the pension plan.
(Cost of Lending Securities)	
Other Income	Those revenues that cannot be reasonably categorized under classifications discussed above.
DEDUCTIONS	The deductions section of the Statement of Changes in Fiduciary Net Position should separately display, at a minimum, (a) benefit payments to plan members (including refunds of plan member contributions) and (b) total administrative expense.
Benefit Payments	
Service Retirement	Pension, annuity, cost-of-living, and lump sum payments due to service retirement.
Safety	Pension and annuity payments due to service retirement. Includes survivor continuance benefits (detail by safety members).
Miscellaneous	Pension and annuity payments due to service retirement. Includes survivor continuance benefits that are not qualified as safety.
Combined	Pension and annuity payments due to service retirement. Includes survivor continuance benefits that cannot be properly divided into safety and misc. members.
Disability	Payments including cost-of-living allowances to members retired due to total and permanent disability, or payments due to partial and temporary disability.
Safety	Payments to members retired due to total and permanent disability, or payments due to partial and temporary disability (detail by safety members).
Miscellaneous	Payments including cost-of-living allowances to members retired due to total and permanent disability, or payments due to partial and temporary disability that are not qualified as safety.
Combined	Payments including cost-of-living allowances to members retired due to total and permanent disability, or payments due to partial and temporary disability that cannot be properly divided into safety and miscellaneous members.
Other	
Safety	Payments made to safety members from employer contributions prior to normal or early retirement age, death benefits, life insurance premium payments, and other ancillary benefit payments.
Miscellaneous	Payments made to miscellaneous members from employer contributions prior to normal or early retirement age, death benefits, life insurance premium payments, and other ancillary benefit payments.
Combined	Payments made to members from employer contributions prior to normal or early retirement age, death benefits, life insurance premium payments, and other ancillary benefit payments that cannot be properly divided into safety and miscellaneous members.
Member Refunds	
Safety	A refund of contributions, including interest, to a member upon separation from service, or to the beneficiary upon the member's death (detail by safety members).
Miscellaneous	A refund of contributions, including interest, to a member upon separation from service, or to the beneficiary upon the member's death that are not qualified as safety.
Combined	A refund of contributions, including interest, to a member upon separation from service, or to the beneficiary upon the member's death (detail by general and safety members) that cannot be properly divided into safety and miscellaneous members.
Member Withdrawals	
Safety	Report member withdrawals (detail by safety members).
Miscellaneous	Report member withdrawals that are not qualified as safety.
Combined	Member withdrawals that cannot be properly divided into safety and miscellaneous members.
Administration Expenses	
General	Administrative and management cost pertaining to the retirement system.
Professional Services	Investment counseling actuarial services, audit services, and other professional fees.
Other Expenses	

Financial Reporting for Pension Plans — GASB 25, GASB 27, GASB 50

20.11 Pensions Not Administered through Trusts or Equivalent Arrangements

This section will be updated when GASB's new pronouncements become effective in 2017.

Until the new pronouncements are effective, the following GASB pronouncements are still in effect for Pension Plans not meeting the GASB Statements 67 and 68 criteria:

- GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans;*
- GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers; and*
- GASB Statement No. 50, *Pension Disclosures — an amendment of GASB Statements No. 25 and No. 27.*

Financial Reporting for Pension Plans — GASB 67

20.12 Effective Date

The GASB 67 reporting requirements became effective for fiscal years beginning after June 15, 2013. The GASB requires a 10-year history of actuarially determined contributions, actual contributions, covered payroll, relationships, and differences between them (GASB 67, paragraph 32c). If a full 10-year history is not available, the statements should contain as much historical information as possible until 10 years of information is achieved. The schedules should not include information that is not measured in conformity with GASB 67.

20.13 Financial Reporting Framework

The financial reporting framework for a local government defined benefit pension plan is extensively discussed in GASB Statement No. 67 and the GASB implementation guides. GASB Statement No. 67 applies to state and local government pension plans that provide retirement income and other postemployment benefits paid through a pension plan, such as death benefits, life insurance, and disability benefits. Pensions, as used in this statement, do not include postemployment healthcare or termination benefits.

NOTE: OPEB, as defined in this statement, are postemployment benefits provided separately from a pension plan.

20.14 Financial Statements

GASB Statement No. 67 requires defined benefit pension plans to present two financial statements:

- A Statement of Fiduciary Net Position.
- A Statement of Changes in Fiduciary Net Position.

The Statement of Fiduciary Net Position presents the following items as of the end of the pension plan's reporting period:

- Assets such as cash, cash equivalents, receivables from employers and employees, investments and assets used in the plan's operations;
- Deferred outflows of resources;
- Liabilities such as benefit payments due to members;
- Deferred inflows of resources; and
- Fiduciary net position, defined as assets, plus deferred outflow of resources, minus liabilities, minus deferred inflows of resources.

The Statement of Changes in Fiduciary Net Position presents the following items for the plan's reporting period:

- Additions such as contributions from employers, nonemployer contributing entities, and plan members and net investment income;
- Deductions such as benefit payments and administrative expenses; and
- Net increase or decrease in fiduciary net position, which equals the difference between additions and deductions.

20.15 Notes to Financial Statements

The following should be disclosed in the notes to the financial statements, as applicable. Not all plans will have to report all items below, and some plans may have more to report depending on the plan's complexity.

- Plan Description
  - Name of the pension plan
  - Authority under which benefit terms are established
  - Membership (active, inactive, and retiree)
  - Benefits provided
  - Brief description of contribution requirements
- Summary of Significant Accounting Policies
  - Reporting entity
  - Basis of accounting
  - Investments
  - Capital Assets
  - Management estimates
  - Implementation of new accounting pronouncements
- Receivables — terms any long term contracts for contributions to the pension plan
- Cash and Investments
  - Investment policy
  - Description of how fair value is determined, including methods and significant assumptions used
  - Rate of Return
  - Interest rate risk
  - Credit risk
  - Concentration of credit risk, including identification of investments in a single organization representing more than 5% of the pension plan's fiduciary net position
  - Custodial credit risk
  - Foreign currency risk
  - Commitments to alternative investments
- Contributions
  - Description identifying the authority under which contribution requirements of employers, non-employer contributing entities, and plan members are established
  - Brief description of rates (in dollars or as a percentage of payroll)
- Reserves
  - Description of the reserve policy
  - Authority under which the policy was established
  - Purpose for and conditions under which the reserve is required or permitted to be used
  - Balances of the reserves

- Deferred Retirement Option Program (DROP)
  - Description of the terms
  - Balance of amounts held
- Net Pension Liability
  - Components of net pension liability
  - Actuarial Assumptions — date of valuation total pension liability is based on and explanation of the roll forward
  - Basis for post-retirement and pre-retirement mortality rates with periods of projected benefit payments
  - Long term expected rate of return
  - Discount rate and the municipal bond rate used, if applicable, and the source of that rate
  - Sensitivity of net pension liability to changes in the discount rate
- Money-weighted rate of return on pension plan investments

20.16 Required Supplementary Information (RSI)

The following information is required to be presented in schedules of Required Supplementary Information (RSI). Information for each year should be measured as of the pension plan's most recent fiscal year-end. Information about cost-sharing pension plans should be presented for the pension plan as a whole.

1) A 10-year schedule of changes in net pension liability that separately presents for each year:

   a) The beginning balances of the total pension liability, the pension plan's fiduciary net position, and the net pension liability.

   b) The effects of the following on items in (a) during the year, as applicable:

      - Service cost;
      - Interest on the total pension liability;
      - Changes of benefit terms;
      - Differences between expected and actual experience in the measurement of the total pension liability;
      - Changes of assumptions or other inputs;
      - Contributions from the employer;
      - Contributions from non-employer contributing entities;
      - Contributions from employees;
      - Pension plan net investment income;
      - Benefit payments, including refunds of employee contributions;
      - Pension plan administrative expense; and
      - Other changes, separately identified if individually significant.

   c) The ending balances of the total pension liability, the pension plan's fiduciary net position, and the net pension liability.

   d) If the employer has a special funding situation:

      i) The nonemployer contributing entities' total proportionate share of the collective net pension liability; and

      ii) The employer's proportionate share of the collective net pension liability.

2) A 10-year schedule presenting the following for each year:

- Total pension liability;
- Pension plan's fiduciary net position;
- Net pension liability (or collective net pension liability where there is a special funding situation);
- Pension plan's fiduciary net position as a percentage of the total pension liability;
- Covered payroll;
- Net pension liability as a percentage of covered payroll (or employer's proportionate share of collective net pension liability where there is a special funding situation);
- Nonemployer contributing entities' total proportionate share of collective net pension liability where there is a special funding situation; and
- Employer's proportionate share of the collective net pension liability where there is a special funding situation.

3) A 10-year schedule presenting the information indicated below for each year, if an actuarially-determined contribution is calculated. The schedule must identify whether the information relates to the employers, non-employer contributing entities, or both.

3. Actuarially-determined contributions of employers or non-employer contributing entities, excluding those associated with payables that arose in a prior year or those associated with separately financed specific liabilities of the individual employer to the pension plan.
4. For cost-sharing pension plans, the contractually required contribution of employers or non-employer contributing entities, if different from the above.
5. Amount of contributions recognized during the fiscal year by the pension plan in relation to the actuarially determined contribution.
6. Difference between the actuarially determined contribution and the amount of contributions recognized by the pension plan in relation to the actuarially determined contribution.
7. Covered payroll.
8. Amounts of contributions recognized by the pension plan in relation to the actuarially determined contribution as a percentage of covered payroll.

4) A 10-year schedule presenting for each fiscal year the annual money-weighted rate of return on pension plan investments calculated as required by GASB.

20.17 Notes to Required Supplementary Information

The following are required to be presented in the notes to the Required Supplementary Information (RSI):

- Key methods and assumptions used in calculating the actuarially-determined contributions reported according to RSI as previously described in Section 20.16(c).
- Factors that significantly affect trends in the RSI amounts reported according to Section 20.16 such as:
  - Changes of assumptions.
  - Changes of benefit terms.
  - Changes in size or composition of the population covered by the benefit terms.

20.18 Measurement of the Net Pension Liability

The *Net Pension Liability* (NPL) is the liability of employers to employees for benefits provided through a defined benefit pension plan. It is calculated as the *Total Pension Liability* less the *Plan Fiduciary Net Position*. The net pension liability is measured as of the pension plan's most recent fiscal year-end.

The *Total Pension Liability* (TPL) is the portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service in conformity with the requirements of GASB 67 & 68. The TPL is the actuarial liability calculated under the entry age actuarial cost method.

The *Plan Fiduciary Net Position* is the fair or market value of assets.

Timing and Frequency of Actuarial Valuations

The total pension liability should be determined by (a) an actuarial valuation as of the pension plan's most recent fiscal year-end, or (b) the use of update procedures to roll forward to the pension plan's most recent fiscal year-end amounts from an actuarial valuation as of a date no more than 24 months earlier than the pension's fiscal year-end.

If updated procedures are used and significant changes occur between the actuarial valuation date and the pension plan's most recent fiscal year-end, then professional judgment should be used to determine the extent of procedures needed to roll forward the measurement from actuarial valuation to the pension plan's fiscal year-end, and consideration should be given to whether a new actuarial valuation is needed.

However, the date of the actuarial valuation that is used to determine the employer's net pension liability at the measurement date can vary from period to period, provided that it is within 30 months plus 1 day of the employer's fiscal year-end.

Selection of Assumptions

The selection of all assumptions used in determining the total pension liability should be made in conformity with Actuarial Standards of Practice issued by the Actuarial Standards Board. Assumptions integral to the measurement of an employer's pension liability include the long-term expected rate of return on pension plan investments, which plays a potentially significant role in the determination of the discount rate. Significant assumptions used to measure the Total Pension Liability include inflation, salary increases, ad hoc postemployment benefit changes, and mortality rates.

Projection of Benefit Payments

Projected benefit payments should include all benefits to be provided to current active and inactive plan members through the pension plan, in accordance with the benefit terms and any additional legal agreements to provide benefits that are in force at the pension plan's fiscal year-end.

Projected benefit payments should include the effect of projected benefit changes including:

- Automatic cost-of-living adjustments (COLAs);
- Projected ad hoc postemployment benefit changes, including ad hoc COLAs, to the extent that they are considered to be substantively automatic;
- Projected salary changes; and
- Projected service credits.

Benefit payments to be provided by means of an allocated insurance contract that is excluded from pension plan assets should be excluded from projected benefit payments.

Discount Rate

The discount rate should be the single rate that reflects the following:

1) The long-term expected rate of return on pension plan investments that are expected to be used to finance the payment of benefits, to the extent that:

    a) The pension plan's fiduciary net position is projected to be sufficient to make projected benefit payments; and
    b) Pension plan assets are expected to be invested using a strategy to achieve that return.

2) A yield or index rate for 20-year, tax exempt general obligation municipal bonds with an average rating AA/Aa or higher, to the extent that the conditions in (1) above are not met.

The long-term expected real rates of return by asset class should be net of inflation and investment expenses, but without reduction for pension plan administrative expense, calculated by arithmetic or geometric method. Depending on the plan's actuarial policies, testing may be necessary to determine whether a blended discount rate must be used.

Attribution of the Actuarial Present Value of Projected Benefit Payments to Periods

The entry age actuarial cost method should be used to attribute the actuarial present value of projected benefit payments of each plan member to periods in conformity with the following:

- Attribution should be made on an individual plan-member-by member basis.
- Each plan member's service costs should be level as a percentage of that member's projected pay. For purposes of this calculation, if a member does not have projected pay, the projected inflation rate should be used in place of the projected rate of change in salary.
- The beginning of the attribution period should be the first period in which the member's service accrues pensions under the benefit terms, notwithstanding vesting or other similar terms.
- The service costs of all pensions should be attributed through all assumed exit ages, through retirement.
- In pension plans for which the benefit terms include a Deferred Retirement Option Program (DROP), for purpose of this GASB 67 Statement, the date of entry into the DROP should be considered to be the plan member's retirement date.
- Each plan member's service costs should be determined based on the same benefit terms reflected in that member's actuarial present value of projected benefit payments.

Examples of events that might result in a plan member's exit from active service are the termination of employment, disability, retirement, or death. Assumptions about events that result in exit from active employment are expressed as the probability of the occurrence of the triggering event based on, for example, the plan member's age or number of years of service. These probabilities are applied to all projected ages/years of service for a plan member, resulting in multiple exit ages for each plan member.

Financial Reporting For Pension Plans by Employers — GASB 68

20.19 Effective Date and Transition

GASB Statement 68 states, in part:

"The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014.

To the extent practical, in the first period that this Statement is applied, changes made to comply with this Statement should be reported as an adjustment of prior periods, and financial statements presented for the periods affected should be restated. At the beginning of the period in which the provisions of Statement 68 are adopted, there may be circumstances in which it is not practical for a government to determine the amounts of all applicable deferred inflows of resources and deferred outflows of resources related to pensions. In such circumstances, the government should recognize a beginning deferred outflow of resources only for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability but before the start of the government's fiscal year. Additionally, in those circumstances, no beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions should be recognized. If restatement of all prior periods presented is not practical, the cumulative effect of applying this Statement, if any, should be reported as a restatement of beginning net position for the earliest period restated. In the period this Statement is first applied, the financial statements should disclose the nature of any restatement and its effect, including whether the restatement of beginning balances included deferred inflows of resources or deferred outflows of resources, as applicable. Also, the reason for not restating prior periods presented should be explained.

The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

20.20 Financial Reporting Framework

GASB 68 provides information at the employer level regarding the nature of the pension obligation and the ability of the state or local government employer to satisfy that obligation; specifically, the individual employer's share of the Plan's assets, liabilities including net pension liability, deferred inflows and outflows, and fiduciary net position.

The financial reporting framework for a local government's pension obligation is discussed extensively in GASB 68 and GASB implementation guides. GASB 68 applies to the financial statements of all state and local government employers whose employees are provided with pensions through plans that are not administered through certain trusts, defined in GASB 68, and for state and local governmental nonemployer contributors that have a legal obligation for direct contributions to these plans.

20.21 Types of Defined Benefit Pension Plans and Employers

Within the reporting scope, Governmental employers must define what type of defined benefit plan to which they belong. Generally, defined benefit plans are classified according to the number of employers within the plan and whether plan assets are shared across employers (if applicable). Note that a primary government and its component units are considered to be one employer (i.e. a County plan that includes, say a Community Services Agency).

The following are types of defined benefit plans and the characteristics that define them:

- Single Employer Defined Benefit Plan — A plan which provides pensions to the employees of only one employer
- Multiple Employer Defined Benefit Plan — A plan which provides pensions to the employees of more than one employer. Additionally, there are two subtypes of multiple employer plans which are defined by how assets are reported and shared:
  i) Agent Multiple Employer Defined Benefit Plan — A plan in which the assets are pooled for investment purposes but separate accounts are maintained for each individual employer so only assets of a particular employer are available to pay benefits to employees of only that employer; and
  ii) Cost Sharing Multiple Employer Defined Benefit Plan — A plan in which the assets are pooled for investment purposes, but are available to pay benefits to employees of any employer within the plan.

20.22 Special Funding Situations

A special funding situation is a circumstance whereby a non-employer entity is legally responsible for making contributions to a pension plan providing benefits to employees of another employer or employers if and only if at least one of the two following conditions exist:

- Payments are dependent upon or related to required contributions to the plan or accrual of the benefits themselves. Examples would be a statute that requires a contribution based on some percentage of covered employee payroll, or a statute that requires a contribution that is some proportion of the total required employer contribution. Examples of contributions that are not dependent upon or related to the pension would be a situation where a non-employer is required to make contributions to the plan based on a specified percentage of a revenue source or a contribution that exceeds some ending fund balance (unrelated to pensions); or
- The non-employer entity is the only entity that has a legal obligation to make payments to the plan.

Special situation funding does not include circumstances in which resources are provided to the employer, regardless of the purpose for which those resources are provided. Accounting requirements for these types of situations are different and are explained in more detail in GASB 68.

20.23 Measurement of the Net Pension Liability

A liability should be recognized for the net pension liability. The net pension liability should be measured as the portion of the actuarial present value of projected benefit payments that is attributed to past periods of employee service in conformity with the requirements of total pension liability, net of the pension plan's fiduciary net position. The pension plan's fiduciary net position should be determined using the same valuation methods used by the pension plan for purposes of preparing its financial statements. The net pension liability should be measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year end, consistently applied from period to period.

Whether pensions are provided through single-employer, agent, or cost-sharin**g** pension plans, both liabilities for net pension liabilities associated with different pension plans, and assets for net pension assets associated with different pension plans, may be displayed in the aggregate in the financial statements. Aggregated pension liabilities should be displayed separately from aggregated pension assets.

GASB Statement 67 includes similar measurement requirements for Net Pension Liability. Please refer to Section 20.18, Measurement of the Net Pension Liability (Financial Reporting by Pension Plans — GASB 67) for the following items:

- Timing and Frequency of Actuarial Valuations
- Selection of Assumptions
- Projection of Benefit Payments
- Discount Rate
- Attribution of the Actuarial Present Value of Projected Benefit Payments to Periods

20.24 Single and Agent Employers; Economic Resources Measurement and Accrual Basis of Accounting, NOT in a special funding situation

Changes in Net Pension Liability

GASB Statement 68 states, in part:

"Changes in the net pension liability should be recognized in pension expense in the current reporting period except as indicated below:

a) Each of the following should be recognized in pension expense, beginning in the current reporting period, using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees) determined as of the beginning of the measurement period.

    (1) Differences between expected and actual experience with regard to economic or demographic factors (differences between expected and actual experience) in the measurement of the total pension liability.
    (2) Changes of assumptions about future economic or demographic factors or of other inputs (changes of assumptions or other inputs).

    The portion of (1) and (2) not recognized in pension expense should be reported as deferred outflows of resources or deferred inflows of resources related to pensions.

b) The difference between projected and actual earnings on pension plan investments should be recognized in pension expense using a systematic and rational method over a closed five-year period, beginning in the current reporting period. The amount not recognized in pension expense should be reported as deferred outflows of resources or deferred inflows of resources related to pensions. Deferred outflows of resources and deferred inflows of resources arising from differences between projected and actual pension plan investment earnings in different measurement periods should be aggregated and reported as a net deferred outflow of resources related to pensions or a net deferred inflow of resources related to pensions.

c) Contributions to the pension plan from the employer should not be recognized in pension expense.

d) Contributions to the pension plan from non-employer contributing entities that are not in a special funding situation should be recognized as revenue.

Contributions to the pension plan from the employer subsequent to the measurement date of the net pension liability and before the end of the reporting period should be reported as a deferred outflow of resources related to pensions."

The balances of *deferred outflow of resources* and *deferred inflows of resources* arising from differences between expected and actual experience and changes of assumptions in different periods should *not* be reported net. In contrast, *deferred outflows of resources* and *deferred inflows of resources* arising from differences between projected and actual earnings on pension plan Investments in different periods be aggregated and reported as net deferred outflows of resources related to pensions if the net balance is a debit and reported as *net deferred inflows of resources* related to pensions if the net balance is a credit.

20.25 Single and Agent Employers; Financial Resources Measurement and Modified Accrual Basis

In financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, a net pension liability should be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources.

Pension expenditures should be recognized equal to the total of:

- Amounts paid by the employer to the pension plan and;
- The change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. Net pension liabilities are normally expected to be liquidated with expendable available financial resources to the extent that benefit payments have matured — that is, benefit payments are due and payable, and the pension plan's fiduciary net position is sufficient for payment of those benefits.

20.26 Cost-Sharing Employers; Economic Resources Measurement Focus and Accrual Basis, *Not* in a Special Funding Situation

Proportionate Share of the Collective Net Pension Liability

GASB Statement 68 states, in part:

"A liability should be recognized for the employer's proportionate share of the collective net pension liability, measured as of a date (measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from period to period. The employer's proportionate share of the collective net pension liability should be measured by:

a. Determining the employer's portion — a measure of the proportionate relationship of (1) the employer (and, to the extent associated with the employer, non-employer contributing entities, if any, that provide support for the employer but that are not in a special funding situation) to (2) all employers and all non-employer contributing entities. The basis for the employer's proportion should be consistent with the manner in which contributions to the pension plan, excluding those to separately finance specific liabilities of an individual employer to the pension plan, are determined. The use of the employer's projected long-term contribution effort to the pension plan (including that of non-employer contributing entities that provide support for the employer but that are not in a special funding situation) as compared to the total projected long-term contribution effort of all employers and all non-employer contributing entities to determine the employer's proportion is encouraged.

b. Multiplying the collective net pension liability by the employer's proportion calculated in (a).

To the extent that different contribution rates are assessed based on separate relationships that constitute the collective net pension liability (for example, separate rates are calculated based on an internal allocation of liabilities and assets for different classes or groups of employees), the determination of the employer's proportionate share of the collective net pension liability should be made in a manner that reflects those separate relationships.

The employer's proportion should be established as of the measurement date, unless the employer's proportion is actuarially determined, in which case a proportion established at the date of the actuarial valuation used to determine the collective net pension liability may be used.

Whether pensions are provided through cost-sharing, single-employer, or agent pension plans, liabilities for net pension liabilities associated with different pension plans may be displayed in the aggregate, and assets for net pension assets associated with different pension plans may be displayed in the aggregate in the financial statements. Aggregated pension liabilities should be displayed separately from aggregated pension assets."

Aggregated pension liabilities should be displayed separately from *aggregated pension assets*.

Proportionate Share of Deferred Outflows/Inflows of Resources Related to Pensions

GASB Statement 68 states, in part:

"Pension expense, as well as *deferred outflows of resources* and *deferred inflows of resources* related to pensions, should be recognized for the employer's proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions. The employer's proportionate shares should be determined using the employer's proportion of the collective net pension liability."

Change in Proportion

GASB Statement 68 states, in part:

If there is a change in the employer's proportion of the collective net pension liability since the prior measurement date, the net effect of that change on the employer's proportionate shares of the collective net pension liability and collective deferred outflows of resources and deferred inflows of resources related to pensions, determined as of the beginning of the measurement period, should be recognized in the employer's pension expense, beginning in the current reporting period, using a systematic and rational method over a closed period. For this purpose, the length of the expense recognition period should be equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees) determined as of the beginning of the measurement period. The amount not recognized in the employer's pension expense should be reported as a deferred outflow of resources or deferred inflow of resources related to pensions."

Contributions during the Measurement Period

GASB Statement 68 states, in part:

"For contributions to the pension plan, other than those to separately finance specific liabilities of an individual employer or non-employer contributing entity to the pension plan, the difference during the measurement period between (a) the total amount of such contributions from the employer (and amounts associated with the employer from non-employer contributing entities that are not in a special funding situation) and (b) the amount of the employer's proportionate share of the total of such contributions from all employers and all non-employer contributing entities should be recognized in the employer's pension expense, beginning in the current reporting period, using a systematic and rational method over a closed period. For this purpose, the length of the expense recognition period should be equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active employees and inactive employees) determined as of the beginning of the measurement period. The amount not recognized in the employer's pension expense should be reported as a deferred outflow of resources or deferred inflow of resources related to pensions.

For contributions to the pension plan to separately finance specific liabilities of the individual employer to the pension plan, the difference during the measurement period between (a) the amount of such contributions from the employer (and amounts associated with the employer from non-employer contributing entities that are not in a special funding situation) and (b) the amount of the employer's proportionate share of the total of the contributions in (a), determined using the employer's proportion of the collective net pension liability, should be recognized in the employer's pension expense."

Employer Contributions Subsequent to Measurement Date

Contributions to the pension plan from the employer subsequent to the measurement date of the collective net pension liability and before the end of the employer's reporting period should be reported as a deferred outflow of resources related to pensions. In addition to the deferred inflows and outflows of resources arising from the calculation of pension expense, employers will also report a deferred outflow of resources for contributions to the pension system that occur after the measurement date.

Under new GASB standards, employer contributions to pension systems are no longer considered a component of administrative expenses. These contributions are now treated as a payment of an outstanding liability, the net pension liability created through the employment arrangement.

20.27 Financial Resources Measurement Focus and Modified Accrual Basis— All Cost-Sharing Employers

In financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, an employer's proportionate share of the collective net pension liability should be recognized to the extent that the liability is normally expected to be liquidated with expendable available financial resources. Pension expenditures should be recognized equal to the total of:

- Amounts paid by the employer to the pension plan; and
- The change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. Net pension liabilities are normally expected to be liquidated with expendable available financial resources to the extent that benefit payments have matured, as benefit payments are due and payable, and the pension plan's fiduciary net position is sufficient for payment of those benefits.

Special Funding Situations

In GASB 68, special funding situations are defined, in part, as "circumstances in which a nonemployer entity is legally responsible for making contributions *directly* to a pension plan that is used to provide pensions to the employees of another entity or entities *and* either of the following conditions exists:

(a) The amount of contributions for which the non-employer entity is legally responsible is *not* dependent upon one or more events unrelated to pensions.
(b) The non-employer is the only entity with a legal obligation to make contributions directly to a pension plan.

Special funding situations do not include circumstances in which resources are provided to the employer, regardless of the purpose for which those resources are provided."

(See Section 20.14 for more information on Special Funding Situations)

GASB 68 states, in part:

"This Statement requires an employer that has a special funding situation for defined benefit pensions to recognize a pension liability and deferred outflows of resources and deferred inflows of resources related to pensions with adjustments for the involvement of non-employer contributing entities. The employer is required to recognize its proportionate share of the collective pension expense, as well as additional pension expense and revenue for the pension support of the non-employer contributing entities. This Statement requires the employer to disclose in notes to financial statements information about the amount of support provided by non-employer contributing entities and to present similar information about the involvement of those entities in 10-year schedules of required supplementary information.

The approach required by this Statement for measurement and recognition of liabilities, deferred outflows of resources and deferred inflows of resources, and expense by a governmental non-employer contributing entity in a special funding situation for defined benefit pensions is similar to the approach required for cost-sharing employers.

The information that should be disclosed in notes to financial statements and presented in required supplementary information of a governmental non-employer contributing entity in a special funding situation depends on the proportion of the collective net pension liability that it recognizes. If the governmental non-employer contributing entity recognizes a substantial proportion of the collective net pension liability, it should disclose in notes to financial statements a description of the pensions, including the types of benefits provided and the employees covered, and the discount rate and assumptions made in the measurement of the net pension liability. The governmental non-employer contributing entity also should present schedules of required supplementary information similar to those required of a cost-sharing employer. Reduced note disclosures and required supplementary information are required for governmental non-employer contributing entities that recognize a less-than-substantial portion of the collective net pension liability."

Employer Calculation of Pension Expense

	Change in NPL subject to immediate recognition
Plus (+)	Annual amount of service life amortization
Plus (+)	Annual amount of amortized investment returns
Equals (=)	Total Pension Expense

An employer will have a net pension liability (NPL) at the beginning and end of the measurement period based on the measurement date they choose to use. The beginning balance represents the value as of the previous year's measurement date and the ending balance represents the value as of the current year's measurement date. The difference between these two values is the change in NPL.

In general, pension expense represents the change in the NPL from one measurement date to the next. Because the NPL can increase or decrease from one year to the next depending on such things as investment return, it is possible to have a pension expense one year and pension revenue or "negative pension expense" the next.

Although pension expense generally represents the change in NPL, GASB recognizes that certain elements of the total pension liability and plan net position have a longer-term perspective than can be represented in the current period. To reduce the volatility of the annual pension expense/revenue, these elements are amortized over periods of specific duration.

Elements subject to amortization include:

- Actuarial gains and losses representing difference between actual and projected member experience;
- Changes in actuarial assumptions;
- Differences between actual and projected investment gains and losses;
- The effect of a change in employer's total pension liability from one measurement date to the next; and
- The difference between an employer's contributions during the measurement period and the employer's proportionate share of total contributions.

With the exception of differences between actual and projected investment gains and losses, each of these elements is amortized over the average expected remaining service lives of all plan members, determined as of the beginning of the measurement period. Differences between projected and actual investment gains and losses are amortized over a closed five-year period. The use of closed periods means that there will be multiple tiers of annual values subject to amortization.

Annual amounts subject to amortization are deducted from the change in NPL to determine the portion of the NPL that will be immediately recognized as pension expense in the current year.

Amounts subject to amortization that are not recognized in the current year's pension expense are reported as *deferred inflow of resources* or *deferred outflow of resources*. Each year thereafter, a portion of these balances equal to the annual amortization amount of each tier is recognized in the pension expense of that year until the value of the tier is fully expensed.

Average Expected Remaining Service Lives

In general, the average expected remaining service lives of inactive members as defined by GASB is zero, as these members are no longer working and accruing benefits. The average expected remaining service lives of active members is determined by the actuary based on actuarial assumptions regarding exit age probabilities. Depending on the relative size of the active and inactive populations, the aggregate average is likely to be between five and ten years. It will take between five and ten years to fully recognize the pension expense associated with each year's deferred amounts subject to a closed period amortization schedule.

Expense recognition of amounts subject to amortization begins in the current measurement period and continues in equal amounts each year until the end of the average expected remaining service lives period for that tier. Amounts subject to amortization have an expense recognition period equal to the average expected remaining service lives determined as of the beginning of the measurement period.

It is possible for the average expected remaining service lives to change from one year to the next based on member demographics such as significant attrition of active members anticipating a change in retirement benefits. However, the annual amortization amount for elements subject to amortization in a given measurement period is based on the average expected remaining service lives for that period.

20.28 Notes to Financial Statements

The total (aggregate for all pensions, whether provided through single-employer, agent, or cost-sharing pension plans) of the employer's pension liabilities, pension assets, *deferred outflow of resources* and *deferred inflow of resources* related to pensions, and pension expense/expenditures for the period associated with net pension liabilities should be disclosed if the total amounts are not otherwise identifiable from information presented in the financial statements.

Single and Agent Employers

Under circumstances in which the employees of a primary government and its component units are provided with pensions through the same single-employer or agent pension plan, the note disclosures in the reporting entity's financial statements should separately identify amounts associated with the primary government (including its blended component units) and those associated with its discretely presented component units.

Cost-Sharing Employers, Governmental Non-Employer Contributing Entities that Recognize a Substantial Proportion of Collective Net Pension Liability

Information should be disclosed for benefits provided through each cost-sharing pension plan in which the employer participates. Disclosures related to more than one pension plan should be combined in a manner that avoids unnecessary duplication.

Governmental Non-Employer Contributing Entities that Recognize a Less than Substantial Proportion of the Collective Net Pension Liability

If the governmental non-employer contributing entity recognizes more than one collective net pension liability, information may be presented in the aggregate for all such liabilities.

Defined Contribution Plans — No Special Funding Situation

In financial statements prepared using the current financial resources measurement focus and modified accrual basis of accounting, pension expenditures should be recognized equal to the total of (a) amounts paid by the employer to the pension plan and (b) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable financial resources. A liability for defined contribution pensions should be recognized to the extent that the liability is normally expected to be liquidated with expendable available financial resources. Liabilities for defined contribution pensions are normally expected to be liquidated with expendable available financial resources to the extent that contributions are due and payable pursuant to legal requirements, including contractual arrangements.

Pension liabilities and assets for pensions provided through different pension plans may each be displayed in the aggregate in the financial statements. Aggregated pension liabilities should be displayed separately from aggregated pension assets.

Defined Contribution Plans — Special Funding Situation

The employer should disclose (a) the proportion of the total pension expense for pensions provided through the pension plan that is represented by the employer's expense and (b) the amount of revenue recognized as a result of the support provided by non-employer contributing entities.

NOTE: Please refer to GASB Statement No. 68 for further explanation of the note requirements.

20.29 Notes to Financial Statement GASB 68 Note Disclosures

Refer to the chart on the following pages.

NOTES TO FINANCIAL STATEMENT GASB 68 NOTE DISCLOSURES	DEFINED BENEFIT PLANS				DEFINED CONTRIBUTIONS PLANS	
	Single & Agent Employers	Cost Sharing Employers	Governmental Nonemployer Contributing Entities Recognizing Substantial Portion of Collective Net Pension Liability	Governmental Nonemployer Contributing Entities Recognizing Less Than Substantial Portion of Collective Net Pension Liability	No Special Funding	Special Funding Situations
Pension Plan Description						
Name of the Plan	X	X	X	X	X	X
Identification of Type of Plan	X	X	X	X	X	X
Description of Benefits and Authority Establishing Benefits	X	X	X		X	X
Contribution Requirements and Authority Establishing the Rates	X	X		X	X	X
Pension Expense Recognized					X	X
Amount of Forfeitures in Pension Expense Recognized					X	X
Liability Outstanding at the End of the Period					X	X
Number Outstanding at the End of the Period	X					
Whether the Plan Issues Stand Alone Financial Report	X	X	X			
Net Pension Liability						
Assumptions and Other Inputs						
Significant Assumptions and Sources	X	X	X			
Dates of experience Studies on which the Assumptions are Based	X	X	X			
Discount Rate Applied	X	X	X			
Assumptions about Projected Cash Flows Into and Out of the Plan	X	X	X			
Long Term Expected Rate of Return	X	X	X			
Municipal Bond Rate if Incorporated	X	X	X			
Periods of Projected Benefit Payments	X	X	X			
Asset Allocation of the Pension Plans Portfolio	X	X	X			
Sensitivity of Net Pension Liability to Changes in Discount Rate (+1% and -1%)	X	X	X			
Pension Plan's Fiduciary Net Position						
Assets						
Deferred Outflows of Resources						
Liabilities						
Deferred Inflows of Resources						
Fiduciary Net Position						
Changes in Net Pension Liability						
Beginning Total Pension Liability, Pension Plans Fiduciary Net Position and Net Pension Liability	X					
Service Cost	X					
Interest	X					
Changes in Benefit Terms	X					
Differences Between Expected and Actual Experience	X					
Changes in Assumptions	X					
Contributions from the Employer	X					
Contributions from Non-Employer Contributing Entitles	X					
Contributions from Employees	X					
Pension Plan Net Investment Income (Loss)	X					

NOTES TO FINANCIAL STATEMENT GASB 68 NOTE DISCLOSURES	DEFINED BENEFIT PLANS				DEFINED CONTRIBUTIONS PLANS	
	Single & Agent Employers	Cost Sharing Employers	Governmental Nonemployer Contributing Entities Recognizing Substantial Portion of Collective Net Pension Liability	Governmental Nonemployer Contributing Entities Recognizing Less Than Substantial Portion of Collective Net Pension Liability	No Special Funding	Special Funding Situations
Changes in Net Pension Liability (continued)						
Benefit Payment Including Refunds	X					
Pension Plan Administrative Costs	X					
Other Changes	X					
Ending Balances of Total Pension Liability, Pension Plans Fiduciary Net Position and Net Pension Liability	X					
Special Funding Situation						
Non-employer Contribution Entitles' Total Proportionate Share of Collective Net Pension Liability	X					
Employer's Proportionate Share of the Collective Net Pension Liability	X					
Additional Disclosures if Applicable						
Measurement Date of Net Pension Liability	X	X	X			
Date of Actuarial Valuation Used	X	X	X			
Employer's Proportion of the Collective Net Pension Liability	X	X		X		
Basis on How the proportion was Determined	X	X	X	X		
Special Funding Situation						
Portion of Non-Employer Contributing Entities Total proportionate Share of Collective Net Pension Liability Associated with the Employer		X	X			
Total of Employer's Proportionate Share of the Collective Net Pension Liability		X				
Change in Proportion from Prior Measurement Date	X	X			X	
Brief Description of Changes in Assumptions Affecting Changes in Total Pension Liability Since Prior Measurement Date	X	X	X			
Brief Description of Changes in Benefit Terms Affecting Changes in Total Pension Liability Since Prior Measurement Date	X	X	X			
Amount of Benefit Payments Attributed to Purchase of Allocated Insurance Contracts Including Obligation to Transfer Payments from the Employer to One or More Insurance Companies	X					
Brief Description of Nature of Changes Between Measurement Date and the Reporting Date that are Expected to have a Significant Effect on the Net Pension Liability	X	X	X			
Pension Expense Recognized by the Employer	X	X	X	X		
Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources						
Difference Between Expected and Actual Experience	X	X	X			
Changes of Assumptions	X	X	X			
Net Difference Between Projected and Actual Investment Earnings	X	X	X			
If Special Funding Situation — Changes in Proportion and Differences Between Contributions and Proportionate Share of Contributions	X	X	X			
Subsequent Contributions to the Measurement Date	X	X	X			

NOTES TO FINANCIAL STATEMENT GASB 68 NOTE DISCLOSURES	DEFINED BENEFIT PLANS				DEFINED CONTRIBUTIONS PLANS	
	Single & Agent Employers	Cost Sharing Employers	Governmental Nonemployer Contributing Entities Recognizing Substantial Portion of Collective Net Pension Liability	Governmental Nonemployer Contributing Entities Recognizing Less Than Substantial Portion of Collective Net Pension Liability	No Special Funding	Special Funding Situations
Five Year Schedule						
Employer's Balances of Deferred Outflows of Resources and Deferred Inflows of Resources to be Recognized in the Pension Expense	X	X	X			
Special Funding Situations						
NO — Balance of Deferred Outflows to be Recognized as a Reduction of the Net Pension Liability	X					
YES — Balance of Deferred Outflows to be Included as a Reduction of the Collective net Pension Liability	X			X		
Revenue Recognized for Support by Non-Employer Contributing Entities	X	X				

20.30 Required Supplementary Information (RSI)

GASB 68 states, in part:

'The following information must be presented in schedules of Required Supplementary Information (RSI) for each single-employer and agent pension plan through which pensions are provided. Information should be determined as of the measurement date of the net pension liability and may be presented in a single schedule. The information should be determined as of the employer's most recent fiscal year-end. If a primary government and one or more of its component units provide pensions through the same single-employer or agent pension plan, required supplementary information in the reporting entity's financial statements should present information for the reporting entity as a whole.

1) A 10-year schedule of changes in net pension liability that separately presents for each year:

a) The beginning and ending balances of the total pension liability, the pension plan's fiduciary net position, and the net pension liability; and
b) The effects of the following on items in (a) during the year, as applicable:

- Service cost;
- Interest on the total pension liability;
- Changes of benefit terms;
- Differences between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability;
- Changes of assumptions about future economic or demographic factors or of other inputs;
- Contributions from employers;
- Contributions from non-employer contributing entities;
- Contributions from plan members;
- Pension plan net investment income;
- Benefit payments, including refunds of plan member contributions;
- Pension plan administrative expense; and
- Other changes, separately identified if individually significant.

2) A 10-year schedule presenting the following for each year:

- Total pension liability;
- Pension plan's fiduciary net position;
- Net pension liability;
- Pension plan's fiduciary net position as a percentage of the total pension liability;
- Covered payroll; and
- Net pension liability as a percentage of covered payroll.

3) A 10-year schedule presenting for each year the information indicated below, if an actuarially determined contribution is calculated:

   - Actuarially determined contributions of the employer;
   - Amount of contributions recognized during the fiscal year by the pension plan in relation to the actuarially determined contribution of the employer. For purposes of this schedule, contributions should include only amounts recognized as additions to the pension plan's fiduciary net position during the employer's fiscal year resulting from actual contributions and from contributions recognized by the pension plan as current receivables;
   - Difference between the actuarially determined contributions of the employer and the amount of contributions recognized by the pension plan in relation to the actuarially determined contribution.
   - Covered payroll; and
   - Amounts of contributions recognized by the pension plan in relation to the actuarially determined contribution of the employer as a percentage of covered payroll.

4) A 10-year schedule presenting for each year the information indicated below, if an actuarially determined contribution is not calculated and the contribution requirements of the employer are statutorily or contractually established:

   - Statutorily or contractually required employer contribution. For purposes of this schedule, statutorily or contractually required contributions should exclude amounts, if any, to separately finance specific liabilities of the individual employer to the pension plan;
   - Amount of contributions recognized during the fiscal year by the pension plan in relation to the actuarially determined contribution of the employer. For purposes of this schedule, contributions should include only amounts recognized as additions to the pension plan's fiduciary net position during the employer's fiscal year resulting from actual contributions and from contributions recognized by the pension plan as current receivables;
   - Difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution;
   - Covered payroll; and
   - Amounts of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of covered payroll.

The following information is required to be presented in schedules of Required Supplementary Information (RSI) for each cost-sharing pension plan through which pensions are provided. Information should be determined as of the measurement date of the collective net pension liability and should be determined as of the employer's most recent fiscal year-end.

- A 10-year schedule presenting the following for each year:

  - Employer's proportion (percentage) of the collective net pension liability;
  - Employer's proportionate share (amount) of the collective net pension liability;
  - Employer's covered payroll; and
  - Employer's proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered payroll.

- A 10-year schedule presenting for each year the information indicated below, if an actuarially determined contribution is not calculated and the contribution requirements of the employer are statutorily or contractually established:
  - Employer's proportion (percentage) of the collective net pension liability;
  - Statutorily or contractually required employer contribution. For purposes of this schedule, statutorily or contractually required contributions should exclude amounts, if any, to separately finance specific liabilities of the individual employer to the pension plan;
  - Amount of contributions recognized during the fiscal year by the pension plan in relation to the actuarially determined contribution of the employer. For purposes of this schedule, contributions should include only amounts recognized as additions to the pension plan's fiduciary net position during the employer's fiscal year resulting from actual contributions and from contributions recognized by the pension plan as current receivables;
  - Difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution;
  - Employer's covered payroll; and
  - Amounts of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of covered payroll.

The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, that information should be presented for as many years as are available.'

For special funding situations involving non-employer contributing entities, please refer to the detailed specifics for these situations found in GASB 68.

See Section 20.32, Illustrations — Financial Statements, Notes and Required Supplementary Information.

20.31 Note to Required Schedules

The following are required to be presented in the notes to the Required Supplementary Information (RSI):

- For single-employer and agent pension plans through which pensions are provided, key methods and assumptions used in calculating the actuarially determined contributions reported per Section 20.15(c).
- Factors that significantly affect trends in the amounts reported per Section 20.17 such as:
  - Changes of assumptions
  - Changes of benefit terms
  - Changes in size or composition of the population covered by the benefit terms

20.32 Illustrations — Financial Statements, Notes, and Required Supplementary Information

COUNTY EMPLOYEE'S RETIREMENT ASSOCIATION STATEMENT OF FIDUCIARY NET POSITION Fiscal Year Ended December 31, 20X1 and 20X2		
ASSETS	**20X1**	**20X2**
Cash & Cash Equivalents		
Receivables		
Contributions		
Member Contributions		
Employer Contributions		
Investments		
Accrued Interest		
Dividends		
Real Estate Mortgage Loans		
Hedge Funds		
Other Receivables		
Sales of Securities		
Real Estate Income		
Miscellaneous		
Investments (at Fair Value)		
Short-Term Investments		
Global Debt Securities		
U.S Government Securities		
Domestic Corporate Bonds		
Municipal Bonds		
International Bonds		
Global Equity Securities		
Domestic Stocks		
International Stocks		
Securities Lending Collateral		
Private Equity		
Real Estate Equity		
Other Investments		
Capital Assets (Net of Accumulated Depreciation)		
Equipment and Furniture		
Accumulated Depreciation — Equipment and Furniture		
Buildings and Improvements		
Accumulated Depreciation — Buildings and Improvements		
Land		
Other Assets		
Total Assets	$	$
Deferred Outflows of Resources		
LIABILITIES	**20X1**	**20X2**
Accounts Payable		
Investment Purchase Payable		
Securities Lending Obligation		
Benefits Payable		
Other Liabilities		
Refunds Payable		
Actuarial Services Fee		
Custodian Services Fee		
Investment Counselor Fee		
Administrative Fee Expenses		
Total Liabilities	$	$
Deferred Inflows of Resources		
Net Position Held in Trust for Pension Benefits	$	$

COUNTY EMPLOYEE'S RETIREMENT ASSOCIATION STATEMENT OF FIDUCIARY NET POSITION Fiscal Year Ended December 31, 20X1 and 20X2		
ADDITIONS	**20X1**	**20X2**
Contributions		
Employer Contributions		
Safety		
Miscellaneous		
Combined		
Member Contributions		
Safety		
Miscellaneous		
Combined		
Other Contributions		
Safety		
Miscellaneous		
Combined		
Investments Income (Loss)		
Securities Lending Income		
Interest Income		
Bonds		
Short-Term Investments		
Dividends Income		
Net Appreciation (Depreciation) in Fair Value of Investments		
Other Investment Income		
(Investment Expenses)		
(Cost of Lending Securities)		
Other Income		
Total Additions	$	$
DEDUCTIONS	**20X1**	**20X2**
Benefit Payments		
Service Retirement		
Safety		
Miscellaneous		
Combined		
Disability		
Safety		
Miscellaneous		
Combined		
Other		
Safety		
Miscellaneous		
Combined		
Member Refunds		
Safety		
Miscellaneous		
Combined		
Member Withdrawals		
Safety		
Miscellaneous		
Combined		
Administration Expenses		
General		
Professional Services		
Other Expenses		
Total Deductions	$	$
Net Increase (Decrease) in Plan Fiduciary Net Position	$	$
Net Position Held in Trust for Pension Benefits Beginning of Year		
Net Position Held in Trust for Pension Benefits End of Year	$	$

County Employee's Retirement Association
Notes to the Financial Statements
For the years ended December 31, 20X2 and 20X1
(Dollar Amounts in Thousands)

These Notes are recommended and are generally required by the Statements of the Governmental Accounting Standards Board.

Note 1: Plan Description

Plan Administration — The County Employees Retirement Association (CERA) administers the County Employees Pension Plan (CEPP), a single-employer defined benefit pension plan that provides pensions for all permanent full-time general and public safety employees of the County.

Plan Membership — At December 31, 20X2, plan membership consisted of the following:

Inactive plan members of beneficiaries currently receiving benefits	**$X,XXX**
Inactive plan members entitled to, but not yet receiving benefits	**X,XXX**
Active plan members	**X,XXX**
	$XX,XXX

Benefit Provided — CEPP provides retirement, disability, and death benefits

Contributions — The Board establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The County is required to contribute the difference between the actuarially determined rate and the contribution rate of plan members. For the year ended December 31, 20X2, the average active member contribution rate was XX% of annual pay, and the County's average contribution rate was XX.XX% of annual payroll.

Note 2: Summary of Significant Accounting Policies

Investments— Method used to value investments. Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Real estate assets are reported at fair value utilizing an income approach to valuation. By contrast, an independent appraisal is obtained once every year to determine the fair market value of the real estate assets.

Investment Policy — The pension plan's policy in regard to the allocation of the invested assets. Is established and may be amended by the CERA Board by a majority vote of its members. It is the policy of the CERA Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The pension plan's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset allocations over short time spans. The following was the Board's adopted asset allocation policy as of December 31, 20X2:

Asset Class	Target Allocation
Domestic Equity	XX%
International Equity	XX
Fixed Income	XX
Real Estate	X
Cash	X
Total	100%

County Employee's Retirement Association
Notes to the Financial Statements (Continued)
For the years ended December 31, 20X2 and 20X1
(Dollar Amounts in Thousands)

Net Pension Liability — The components of the net pension liability at December 31, 20X2, were as follows:

Total pension liability	**$X,XXX,XXX**
Plan fiduciary net position	(X,XXX,XXX)
Net pension liability	$X,XXX,XXX

Plan fiduciary net position as a percentage of the total pension liability	**XX.XX%**

Actuarial Assumptions — The total pension liability was determined by an actuarial valuation as of December 31, 20X2, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	**X.X%**
Salary increases	X.X%, average, including inflation
Investment rate of return	X.XX%, net of pension plan investment expense, including inflation
Mortality Assumptions	X.X%

Discount Rate — Sensitivity of the net pension liability to changes in the discount rate. The following present the net pension liability of the County, calculated using the discount rate of X.XX%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1% point lower (X.XX%) or 1% point higher (X.XX%) than the current rate:

	1% Decrease	**Current Rate**	**1% Increase**
Net Pension Liability	$X,XXX,XXX	$X,XXX,XXX	$X,XXX,XXX

Actuarial Valuation — The information presented was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

- Valuation date
- Actuarial cost method
- Amortization method
- Remaining amortization period
- Asset valuation method
- Actuarial assumptions
- Investment rate of return
- Project salary increases
- Cost of living adjustments (Includes inflation at 0.00%)

County Employee's Retirement Association
Notes to the Financial Statements (Continued)
For the years ended December 31, 20X2 and 20X1
(Dollar Amounts in Thousands)

Deferred Outflows/Inflows of Resources — CERA may enter into transactions that result in the consumption or acquisition of net assets in one period that are applicable to the future periods. Those consumptions or acquisitions are identified as *deferred outflows of resources* and *deferred inflows of resources*, respectively, and distinguished from assets and liabilities.

Funding Policy — Pension Plan — The plan classifies contributions as being employer-made due to a collective bargaining agreement. The pension periodically remits plan contributions to the administered trust in amounts authorized by the Board of Directors.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of net position. Actual results could differ from those estimates.

Note 3: Cash and Cash Equivalents

Cash and cash equivalents represent short term funds in operating accounts and deposits held in a pooled account. Short term investments are expected to be utilized within 30 days and are reported at fair value.

Note 4: Receivables

Pension plan receivables generally are short term and consist of interest and dividends on investments, and contributions due as of the end of the reporting period from employers, non-employer contributing entities, and plan members. Amounts recognized as receivables for contributions should include only those due pursuant to legal requirements.

Note 5: Investments

The pension may invest, in accordance with state statutes, in any form or type of investment deemed prudent. The Board may invest, or delegate the authority to invest, the assets of the fund through the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction.

Note 6: Capital Assets

Capital assets consist of furniture, equipment, tangible assets (including computer software), and building and improvements for the portion of a headquarters building used for plan administration. Capital assets are defined as assets with an initial, individual cost of more than $25,000 and estimated useful life in excess of one year. Such assets are recorded at cost. Capital assets are depreciated using the straight-line depreciation method over their estimated useful lives.

Note 7: Deferred Outflows/Inflows of Resources

Deferred outflows/inflows of resources are detailed below:

	CY 20X2	PY 20X1
Deferred Outflow of Resources:	$	$
Accumulated decrease in fair value of hedging derivatives	$	$
Deferred Inflows of Resources:	$	$
Accumulated increase in fair value of hedging derivatives	$	$

County Employee's Retirement Association
Notes to the Financial Statements (Continued)
For the years ended December 31, 20X2 and 20X1
(Dollar Amounts in Thousands)

Note 8: Commitments and Contingencies

At December 31, 2012, the pension was involved in various litigation matters. In management's opinion, and after consultation with legal counsel, the outcome of these matters is not expected to have a materially adverse effect on the financial position.

Required Supplementary Information:

- Schedule of changes in the net pension liability and related ratios;
- Schedule of employer's contributions; and
- Schedule of investment returns.

Methods and assumptions used in calculations of actuarially determined contributions. The actuarially determined contribution rates in the schedule of contributions are calculated as December 31, two years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial Cost Method	Entry Age
Amortization method	Level percentage of closed payroll
Remaining amortization period	XX years
Asset valuation method	X-year smoothed market
Inflation	X.X%
Salary increases	X.X%, average, including inflation
Investment rate of return	X.XX%, net of pension plan investment expense, including inflation

Schedules of Required Supplementary Information
Schedule of Changes in the Employer's Net Pension Liability and Related Ratios
(Dollar Amounts in Thousands)

Total Pension Liability	20X2
Service Cost	$ 72,924
Interest	219,455
Changes of benefit terms	---
Difference between expected and actual experience	(37,539)
Changes of assumptions	---
Benefit payments, including refunds of member contributions	(119,434)
Net change in total pension liability	135,406
Total pension liability — beginning	2,853,455
Total pension liability — ending (a)	$ 2,988,891
Plan Fiduciary Net Position	
Contributions — employer	$ 79,713
Contributions — member	31,451
Net investment income	196,154
Benefit payments, including refunds of member contributions	(119,434)
Administrative expense	(3,373)
Other	8
Net change in plan fiduciary net position	184,519
Plan fiduciary net position — beginning	2,052,589
Plan fiduciary net position — ending (b)	$ 2,237,108
Employer's net pension liability — ending (a-b)	$ 751,753
Plan fiduciary net position as percentage of the total pension liability	74.85%
Covered payroll	$ 449,293
Employer's net pension liability as a percentage of covered payroll	167.32%

Schedule of Employer Contributions
(Dollar Amounts in Thousands)

	20X2
Actuarially-determined contribution	$ 79,713
Contributions in relation to the actuarially-determined contribution	79,713
Contribution deficiency (excess)	$ ---
Covered payroll	$ 449,293
Contributions as a percentage of covered payroll	17.74%

Notes to Schedule:

- Valuation date
- Actuarially-determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported
- Methods and assumptions used to determine contribution rates
- Actuarial cost method
- Amortization method
- Remaining amortization period
- Asset valuation method
- Inflation
- Salary increases
- Investment rate of return
- Retirement Age
- Mortality

Schedule of Investment Returns

	20X2
Annual Money-weighted rate or return, net of investment expense	9.58%

Other Post-Employment Benefits Reporting

20.33 Objectives of This Section

The purpose of this section is to clarify GASB Other Post-Employment Benefits (OPEB) accounting and financial reporting pronouncements and explain the applicability of these standards to Local Government Financial Statements.

20.34 Applicability of This Section

This section is relevant to any Local Government that provides other post-employment benefits as part of the total compensation offered to attract and retain the services of qualified employees.

20.35 Generally Accepted Accounting Principles for Local Government Other Post-Employment Benefits Plans, and Employers

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* establishes uniform financial reporting standards for OPEB plans and supersedes the interim guidance included in GASB Statement No. 26, *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans.*

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* amends the GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, requirement that a defined benefit OPEB plan obtain an actuarial valuation. The amendment permits the requirement to be satisfied for an agent multiple-employer OPEB plan by reporting an aggregation of results of actuarial valuations of the individual-employer OPEB plans, or measurements resulting from use of the alternative measurement method for eligible individual-employer OPEB plans.

In addition, Statement No. 57 clarified that when actuarially-determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers, those measures should be determined as of a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan's financial reporting requirements.

GASB Statement No. 57 also amended Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, improves the relevance and usefulness of financial reporting by (a) requiring systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and (b) providing information about actuarial accrued liabilities associated with OPEB, and whether and to what extent, progress is being made in funding the plan.

20.36 Frequency of Actuarial Valuation

With regard to plan reporting, GASB Statement No. 43 requires that a defined benefit OPEB plan obtain an actuarial valuation at least biennially for plans with a total membership of 200 or more and at least triennially for plans with a total membership of fewer than 200. The Statement also permitted a defined benefit OPEB plan with fewer than 100 total plan members to use the alternative measurement method to produce OPEB measures at least triennially. In addition, it established further requirements regarding the actuarial valuation date.

With regard to reporting by employers, GASB Statement No. 45 requires that a sole or agent employer obtain an actuarial valuation at least biennially for OPEB plans with a total membership of 200 or more, or at least triennially for plans with fewer than 200. Statement No. 45 also permitted the following employers to use the alternative measurement method:

- Sole employers in an OPEB plan with fewer than 100 total plan members; and
- Agent employers with fewer than 100 total plan members as long as the employer's use of the alternative measurement method did not conflict with a requirement that the agent multiple-employer OPEB plan obtain an actuarial valuation for accounting purposes.

20.37 The Schedule of Employer Contributions

Amortization parameters (OPEB Plans):

- Maximum Amortization Period — the maximum acceptable amortization period for the total unfunded actuarial liability is thirty years. The total unfunded actuarial liability may be amortized as one amount, or components of the total may be separately amortized.

- Minimum Amortization Period — the maximum acceptable amortization period for the total unfunded actuarial liability is 10 years and is not required when a plan is closed to new entrants and all or almost all of the plan members have retired.

- Amortization Method — the total unfunded actuarial liability may be determined in level dollar amounts or as a level percentage of projected payroll of active plan members; however, projected decreases in that number should be included if no new members are permitted to enter the plan.

20.38 Financial Reporting Framework

The financial reporting framework under GAAP for local governmental employers that provide or participate in OPEB plans is extensively discussed in GASB Statements No. 57, No. 43, and No. 45.

The requirements established in the GASB Statements No. 57, No. 43, and No. 45 apply whether:

- The plan is included as a pension trust fund in the financial reporting entity of the employer, or;
- The OPEB plan's financial report is included in a separate financial report issued by the plan or by the public employee retirement system that administers the plan and is also included as an OPEB trust fund in the financial reporting entity of the sponsor or employer.

20.39 Financial Statements

The following statements are required by GASB Statements No. 67 and GASB Statement No. 68:

- Statement of Fiduciary Net Position
- Statement of Changes in Fiduciary Net Position
- Notes to the Financial Statements
- Single-Employer Pension Plan Required Supplementary Information (RSI)
- Cost-Sharing Pension Plan Required Supplementary Information (RSI)
- Agent Pension Plans 10-Year Schedule (RSI)
- Notes to the Required Schedules
- Schedule in changes in the net pension liability (RSI)
- Measurement of the Net Pension Liability

CHAPTER 21 DEFERRED COMPENSATION PLANS

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CHAPTER 21 DEFERRED COMPENSATION PLANS

General

21.01 Nature and Purpose

The chapter as written is intended to apply to deferred compensation plans under Internal Revenue Code section 457; however, the accounting procedures prescribed also apply to other deferred compensation plans.

21.02 Nature of Internal Revenue Code Section 457 Plan

Plans of deferred compensation described in Internal Revenue Code section 457 are available for certain state and local governments and nongovernmental entities that are tax exempt under Internal Revenue Code section 501. They can be either eligible plans under Internal Revenue Code section 457(b) or ineligible plans under Internal Revenue Code section 457(f). Plans eligible under section 457(b) allow employees of sponsoring organizations to defer income taxation on retirement savings into future years. Ineligible plans may trigger different tax treatment under section 457(f).

Counties can establish either eligible or ineligible plans, and are subject to the specific requirements and deferral limitation of section 457 of the Internal Revenue Code of 1986, the Small Business Job Protection Act of 1996, the Taxpayer Relief Act of 1997, the Economic Growth and Tax Relief Reconciliation Act of 2001, the Job Creation and Worker Assistance Act of 2002, and other legislation.

21.03 Internal Revenue Code Section 457(b) Governmental Plans

NOTE: For the most current Internal Revenue Service (IRS) guidelines related to Internal Revenue Code section 457 (b) Governmental plans, please visit the IRS website.

Internal Revenue Code section 457(b) Governmental plan is as follows:

State or local governments and organizations that are tax-exempt under Internal Revenue Code section 501(c) can establish section 457(b) plans.

Employers or employees (through salary reductions) may contribute up to the Internal Revenue Code section 402(g) limit ($17,500 in 2013 and 2014; $18,000 in 2015, 2016 and 2017) on behalf of participants under the plan.

A governmental IRC section 457(b) plan may be amended to allow designated Roth contributions and in-plan rollovers to designated Roth accounts starting in 2010.

County Role — Employer:

- Arrange for employees to make salary reduction contributions
- No model form to establish this plan

Contributors to the Plan:

- Employee salary reduction contributions
- Employer contributions are permissible but not required

Maximum Annual Contribution Employer & Employee:

- $18,000 in 2015, 2016 and most 2017 plans
- Additional salary reduction contribution of up to $6,000 (2015, 2016 and most 2017 plans)

Special 457 Catch-Up Contributions:

- 3 years prior to the year of normal retirement age
- Limited to lesser of:
  - $36,000 (twice the basic annual limit) in 2015, 2016, and 2017; or
  - The basic annual limit plus underutilized basic annual limit in prior years (only allowed if not utilizing the age 50 or over catch-up).

21.04 Social Security, Medicare, and Federal Unemployment Tax Act (FUTA)

The County government employers must aggregate and deposit Social Security and Medicare taxes associated with Internal Revenue Code section 457(b) plan (including the employer's share of Social Security and Medicare taxes specified under U.S. Code Title 26, Subtitle C, §3111) with all other Social Security and Medicare taxes withheld and paid on behalf of its employee (U.S. Code Title 26, Subtitle A, §31.6302-1) and must report these taxes on Form 941.

County government employers subject to Federal Unemployment Tax Act (FUTA) must aggregate and deposit FUTA amounts associated with Internal Revenue Code section 457(b) plan with all other FUTA amounts paid on behalf of its employees in accordance with U.S.C., Title 26, Subtitle A, §31.6302(c)-3 and must report these payments on Form 940.

Further information regarding the reporting, payment, and deposit of employment taxes such as social security, Medicare, FUTA, and withheld income tax can be found *in Internal Revenue Service Publication 15, Circular E, Employer's Tax Guide*; *Publication 15-A, Employer's Supplemental Tax Guide*; and *Publication 963, Federal-State Reference Guide: Social Security Coverage and FICA Reporting by State and Local Government Employers*.

21.05 Other Operating Funds

Existence of a deferred compensation plan has no effect on the budget and expenditures of the operating funds that finance employee salaries. Both continue to be recorded at the gross amount. Salary reduction and elective deferred compensations both constitute pre-tax contributions that are generally a percentage of the employee's compensation and deducted from the payroll.

401(k), 403(b), or SIMPLE IRA plans may permit elective deferral contributions. Those contributions should be recorded as retirement expenditures of the operating funds that finance employee salaries.

Investments

21.06 Results Not Guaranteed

The county places moneys received from deferred compensation contributions in the types of investments authorized by the plan. There is no guarantee that any particular rate of earnings will be realized, or that there will even be any gain. The employee assumes all investment risks.

21.07 Investment Methods

The county may decide to invest deferred compensation amounts itself or it may elect to enter into a financial services contract which designates a third party to invest the deferred compensation amounts.

If the county decides to invest the amounts itself, the amounts may be invested only by the board or the treasurer (with approval of the board). If the plan so provides, a participant advisory committee may provide investment advice and guidance.

The board of supervisors has general authority to contract for special services, including financial services. Investment and trustee services associated with deferred compensation may be contracted out if:

- The terms and conditions are set forth in the contract;
- The deferred compensation is deposited with a corporation or association authorized to conduct the business of a trust company in this state;
- The deferred compensation is invested only in the manner set forth in the written agreement; and
- The agreement provides that deferred compensation and any increment will be returned to the board if the contractor fails to comply with terms and conditions of the agreement.

While the county may contract with one or more fiscal agents for investment, depository, disbursement and accounting services, control and responsibility cannot be delegated.

21.08 Valuation of Investments

Counties that report Internal Revenue Code section 457 plans should apply the valuation provisions of GASB Statement 31*, Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, to plan investments listed in subparagraphs 2a through 2e of that statement. All other plan investments should be reported at fair value. If it is impractical to obtain investment valuation information from the plan administrator as of the county's balance sheet date, the most recent report of the administrator should be used, adjusted for interim contributions and withdrawals. This valuation approach is required even if the plan participant's share is determined by some other valuation method. Investment income should also be reported as required by GASB Statement 31.

Accounting

21.09 Accounting Considerations

The Internal Revenue Code requires that money originating from the deferral of compensation by employees be "held in trust for the exclusive benefit of the participants and their beneficiaries." GASB Statement No. 32*, Accounting and Financial Reporting for Internal Revenue Code section 457 Deferred Compensation Plans — a rescission of GASB Statement No. 2 and an amendment of GASB Statement No. 31*, provides guidance for determining when such assets should be reported in the county's financial statements.

Plans requiring reporting in financial statements in counties that are NOT based on GASB 32 guidance, according to county option, should use an agency fund to account for payroll deductions and third-party administrator payments.

Plans requiring reporting in financial statements in counties based on GASB 32 guidance would follow the provision set forth in GASB Statement No. 67*, Financial Reporting for Pension Plans — an amendment of GASB Statement No.25*.

The suggested title of the fund is the "Deferred Compensation Investment Fund". Income is recognized upon the receipt (and investment) of deferred salary amounts from employees and employers. Investment income is recognized in accordance with the requirements of GASB Statement No. 31*, Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Expenditures are recognized upon the withdrawal of employee income deferrals, payment of compensation to retired participants, and payment of administrative fees.

Assets should be limited to cash, investments, and amounts due from other funds. Liabilities are generally limited to amounts being processed for disbursement, but not yet disbursed at June 30. The participants' equity is reflected in the fund balance of the trust fund.

Proper accounting controls require that either the county or the external administrator maintain, for each participant, subsidiary accounting records that individually report the employee's contribution, employer contributions, investment income, and administrative costs. The total of these individual subsidiary records should equal (or be reconcilable to) the total reported at the fund level for financial statement purposes.

CHAPTER 22 RISK MANAGEMENT

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CHAPTER 22 RISK MANAGEMENT

22.01 Risk Management

The cost of "risk" includes: (1) Insurance — a funding medium or a prefunding of losses; (2) Uninsured Losses — the retained loss, including small items such as minor accidents, repairs and replacements, and deductibles; (3) Administration — salaries, benefits and other operating expenses associated with the total risk of the agency; and (4) Safety Program Cost — without risk there would be no need for such a program.

The most important aspect of a risk management program is to formulate and establish a risk management policy statement. This document, in the form of a resolution by the board of supervisors, sets the tone for the risk management programs throughout the county by communicating from the board to all levels of the jurisdiction: (1) the goals of the risk management program; (2) authority and responsibilities of the risk manager; (3) coordination of the risk management activities; (4) guidelines on risk retention through the use of deductibles of self-insurance; (5) the centralization of the insurance responsibilities; and (6) support of the risk management philosophy of loss reduction and prevention.

The development, operation, control, and review of a risk management program that is attuned to this policy statement dictates that the total program be centrally budgeted. To capture the total cost of the program, it is recommended that accounting for the program be accomplished by utilizing an internal service fund (ISF). This allows for better allocation of costs to the various operating funds serviced, and is the best method that a jurisdiction has of determining the total cost of the risk management program. All other treatments are lacking in some components of the costs. The evaluation, operation, control, and review of the risk management program is simplified with this total program approach. This method has been designed to conform to generally accepted accounting principles (GAAP) for both purchased insurance as well as self-insurance.

The following pronouncements of the Governmental Accounting Standards Board (GASB) provide accounting standards for risk financing: GASB Statement No. 10*, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues;* GASB Statement No. 30*, Risk Financing Omnibus — an amendment of GASB Statement No. 10; and* GASB Interpretation No. 4*, Financial Reporting for Reverse Repurchase Agreements — an interpretation of GASB Statement No. 3.*

The general accounting procedures for ISFs are described in Chapter 13: Proprietary Funds of this manual. The ISF method is recommended for any county with a partially or wholly self-insured program. Use of the General Fund or Fund Incurring the Risk (FIR) to record self-insurance costs is an acceptable alternative.

Illustrative entries unique to risk management ISFs are presented in the next section of this chapter.

22.02 Risk Management Internal Service Fund (ISF) Illustrative Entries

Assume that a county is under a self-administered risk management program that includes workers' compensation and liability insurance, and is using a contracting claims adjuster.

a) On July 1, the county's operating funds are billed for annual liability premium charges and workers' compensation insurance charges, based on the relative risk factors and the loss experience for each department:

Account	Sub	Debit	Credit
Due From Other Funds		2,100,000	
Revenue From Liability Premium Charges			900,000
Revenue From Workers' Compensation Premium Charges			1,200,000
General Fund	1,100,000		
Road Fund	1,000,000		

b) Cash is received from the operating funds as a result of billings by the ISF:

Account	Sub	Debit	Credit
Cash		2,100,000	
Due From Other Funds			2,100,000
General Fund	1,100,000		
Road Fund	1,000,000		

c) On September 1, the contract claims adjustor is paid the full amount of a 13-month contract at $1,000 per month, extending from July 1, 20X1 to July 31, 20X2:

Account	Debit	Credit
Professional and Specialized Services (claims adjustor expense)	2,000	
Prepaid Expenses	11,000	
Cash		13,000

d) Liability and workers' compensation payments are made:

Account	Debit	Credit
Judgments and Damages — Liability	100,000	
Judgments and Damages — Workers' Compensation	470,000	
Cash		570,000

e) Revenue is received from a third-party source whose liability resulted from actions that caused damage to county property or an injury to a county employee:

Account	Debit	Credit
Cash	7,000	
Revenue from Recoveries		7,000

f) At year-end, the prepaid claims adjustor expense is adjusted and the current-year expense is recorded:

Account	Debit	Credit
Professional and Specialized Services (claims adjustor expense)	10,000	
Prepaid Expenses		10,000

g) At year-end, claims incurred but not yet reported, reported but not yet settled, and settled but not yet paid are accrued:

Account	Debit	Credit
Judgments and Damages — Liability	300,000	
Judgments and Damages — Workers' Compensation	200,000	
Liability Claims Payable		300,000
Workers' Compensation Claims Payable		200,000

Claims incurred but not reported should be accrued in accordance with GASB Statement No. 10*, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, and GASB Statement No. 30*, Risk Financing Omnibus — an amendment of GASB Statement No. 10*. This entry may be reversed at the beginning of the next fiscal year and then reestablished at the end of the year.

22.03 Allocation Bases for Risk Management

Self-insurance programs require an effective cost allocation system to formulate contributions. Contributions must be:

- Equitable, reflecting actual hazards and costs;
- Based on easily ascertained and quantifiable data; and
- Adjustable for different size deductibles, if units have widely disparate financial size.

The following list of insurances gives allocation bases for each:

Insurance Type	Allocation Base
Workers' Compensation	The county should establish: at least a 50/50 division of experience/exposure; after five years of loss history has been accumulated, a 70/30 division favoring experience; and after ten years of history, an 80/20 division favoring experience.
General Liability	The county should establish: at least a 50/50 division of experience/exposure; after 7 to 10 years of loss history has been accumulated, a 70/30 division favoring experience.
Auto	Past loss experience, mileage, etc.
Property Damage	Property value; department activity risk factor; specific identification of policies that cover specific property; square footage for buildings occupied by more than one department
Group Insurance (Health, Life, etc.)	Number of employees
Fidelity	Department activity risk factor and number of employees

22.04 Glossary of Risk Management Terms

Definitions of commonly used risk management terms may be found in GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* and GASB Statement No. 30, *Risk Financing Omnibus — an amendment of GASB Statement No. 10*.

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CHAPTER 23 GRANT, ENTITLEMENT, AND SHARED REVENUE ACCOUNTING

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CHAPTER 23 GRANT, ENTITLEMENT, AND SHARED REVENUE ACCOUNTING

23.01 Introduction

Counties receiving resources from other governmental units are often required to follow special legal, contractual, accounting, or reporting requirements. This chapter provides general guidelines on the accounting treatment for grants, entitlements and shared revenues. Governmental Accounting Standards Board (GASB) Statements No. 6, No. 24, No. 33, No. 34, No. 36, No. 63, and No. 65 have been used as sources of reference for this chapter.

23.02 Definitions

The following definitions make the distinction between grants, entitlements, and shared revenues:

- *Grants* are a contribution or gift of cash or other asset from another governmental agency to be applied to a specified purpose or use. Grants are classified as either capital or operating and are program revenues unless unrestricted. Capital grants are restricted by the grantor to a specific acquisition and/or construction of a fixed asset. All other grants are classified as operating.
- *Entitlements* are the amount of payment to which a county is entitled as determined by the agency providing the resource. Determination of the entitlement usually follows an allocation formula contained in statute. Entitlements may not be restricted to a specified purpose or use.
- *Shared Revenues* are revenues levied by one government but shared on a predetermined basis, often in proportion to the amount collected, with another level of government. State sales and gasoline taxes are examples of shared revenues that are derived tax revenues that the state administers and collects.

Grants and entitlements are separated into two categories.

- *Government-Mandated Non-Exchange Transactions* occur when a government at one level provides resources to a government at another level and requires the recipient to use the resources for a specific purpose or purposes (for example, federal programs that state or local governments are mandated to perform).
- *Voluntary Non-Exchange Transactions* occur when revenues arise from legislative or contractual agreements, other than exchanges, entered into willingly by the parties to the agreement (for example, certain grants and private donations).

Throughout the remainder of this chapter, the word “grant” includes grants, entitlements, and shared revenues in its definition.

Pursuant to GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance,* food stamps are recognized by the state as revenues and expenditures and, therefore, should not be reported by the county.

23.03 Fund Identification

Accounting for grant proceeds should be within one of the proper governmental, proprietary or fiduciary fund types. In identifying the proper fund to use, the purpose and requirements of the grant must be carefully reviewed.

Grants received to finance a function normally funded through the General Fund may be accounted for within that fund if legal requirements can be satisfied. However, the use of a special revenue fund may be appropriate for grants extending beyond one year, because grant transactions and resources can be accounted for as a separate entity. Resources received to finance principal and interest on general long-term debt are to be accounted for in the Debt Service Fund. Capital grants received to purchase or construct capital assets other than those associated with proprietary fund types are to be accounted for in the Capital Projects Fund.

Capital or operating grants received for proprietary fund types are to be accounted for within the same fund types.

Pass-Through Grants are resources received by one governmental entity to transfer to or spend on behalf of a secondary recipient. All cash pass-through grants received by a government entity (referred to as a "recipient government") should be reported in the financial statements. As a general rule, cash pass-through grants should be recognized and the grants should be reported in Agency Funds. A recipient government serves only as a cash conduit if it merely transmits grantor-supplied moneys without having any responsibility for monitoring recipient compliance, determining recipient eligibility, or exercising discretion on how the funds are allocated.

Some grants may require more than one fund at the discretion of the recipient or grantor. Until determination of the proper funds to be used for such a grant, an Agency Fund may be used to account for such resources. However, resources held temporarily in this fund must be included in the government-wide statements. At the time of distribution from the Agency Fund, revenues will be recognized by the financed funds.

23.04 Basis of Accounting

The basis of accounting is determined by the type of non-exchange transaction. Based on the substance of the grant, entitlement, or shared revenue transactions, the county must determine whether the transactions are derived tax revenues, imposed non-exchange revenues, government-mandated, or voluntary non-exchange transactions. Under the accrual and modified accrual basis of accounting, the county can record revenue only when transactions are subject to reasonable estimation and collection is likely to occur. In financial statements for Governmental Funds (General, Special Revenue, Capital Projects, Debt Service, and Permanent Funds) use the modified accrual basis. All other funds are accounted for on the accrual basis.

23.05 Revenue Recognition

Derived Tax Revenue — Revenues should be recognized when all of the following are met:

- The exchange that the tax is based upon has occurred;
- The amount is measurable; and
- The tax is expected to be collected.

Governmental-Mandated Non-Exchange Transactions — Revenues should be recognized when all of the following are met:

- When the county qualifies as recipient or a secondary recipient qualifies;
- The state or federal government has identified the period in which the county can expend resources; and
- The county has incurred costs related to the revenues (i.e., expenditure-driven grant programs).

Voluntary Non-Exchange Transactions — Revenues should be recognized when all of the following are met:

- When the county qualifies as a recipient or a secondary recipient qualifies;
- The state or federal government or other governmental unit has identified the period in which the county can expend resources;
- The county has incurred cost related to the revenues (i.e., expenditure-driven grant programs); and
- The county has met any contingency imposed by the provider and has the right to the resources.

When using the modified accrual basis of accounting, availability is the final criterion when recording these non-exchange revenues.

After a non-exchange transaction has been recognized in the financial statements, it may become apparent that:

- The eligibility requirements are no longer met (the transaction was recognized as a government-mandated or voluntary non-exchange transaction); or
- The recipient will not comply with the purpose restrictions within the specified time limit.

Advanced payments by a provider and the resources received in advance by a recipient in government-mandated non-exchange transactions, and voluntary non-exchange transactions, should be reported as a deferred outflow of resources by the provider and a deferred inflow of resources by the recipient until the resources are first permitted to be used.

In these circumstances, if it is probable that the provider will not provide the resources or will require the recipient to return all or part of the resources already received, then the recipient should recognize a decrease in deferred inflows of resources and an expense, and the provider should recognize a decrease in deferred outflows of resources and a revenue, for the amount that the provider is expected to cancel or reclaim.

23.06 Government-Mandated/Voluntary Non-Exchange Transactions

Although multi-year government mandated non-exchange transactions or voluntary non-exchange transactions may be entirely recognized as revenue, formal time restrictions create the possibility of deferred outflows/inflows treatment. Resources received before time requirements are met, but after all other eligibility requirements are met, should be reported as deferred outflows of resources by the provider and deferred inflows of resources by the recipient.

23.07 Capital Assets

Capital assets other than proprietary fund types are accounted for within the Capital Assets Accounting System. When capital assets are acquired with grant funds, it must be determined whether the grantor or the county is the legal owner. If the grantor retains an interest in the asset, then it should be segregated and reported separately within the Capital Assets Accounting System.

23.08 Grant Control

In order to ensure control over grants, the county should maintain a proper grant inventory. It is suggested that grant information records be kept on each grant. A sample form is illustrated on the following page to help in maintaining control over grants.

GRANT INFORMATION RECORD (Sample Form)

1	Title of Grant Project			CFDA#
				Date
2	Grant Objective:			
3	Dept.	No.	Contact person	Phone
4	Grantor Agency			Grant I.D. No.
5	Funding Source and Statutes			
	Name		Statue No.	
6	Contract Status	Awarded	Applies for	
7	Contract Period	From	To	
8	Will program occupy county facilities	YES	NO	Square Footage Occupied
	Location			
9	Budgetary			
	a. Revenues will be deposited into:	Dept.	Index	Account
	b. Appropriation will be recorded in:	Dept.	Index	Account

10	Fiscal Data						
			Sources of Contributions to Grant				
		Cost Included in Grant Contract	1 Federal Revenue	2 State Revenue	3 County Contributions	4 Other Contributions	5 Total Grant
	a.	Personnel[1]	$	$	$	$	$
	b.	Services/Supplies					
	c.	Equipment					
	d.	Indirect Costs					
	e.	Other Charges Misc.					
	f.	Total Grant	$	$	$	$	$
	g.	Percentages	%				100%
		Unfunded Co. Costs					
		Total Cost of Grant	$	$	$	$	$
	h.	What has been/will be the net county cost each year of the grant?	FY___–____ (actual/estimate)	FY___–____ (actual/estimate)	FY____–____ (actual/estimate)	FY____–____ (actual/estimate)	Total
	Appropriations		$	$	$	$	$
	Less: Revenues						
	Net County Cost		$	$	$	$	$

11	How many years has grant been funded?	Is grant renewable	YES	NO
12	Other Data/Comments			

[1]*Present details and calculations on reverse side of this sheet* (Page 1 of 2)

GRANT INFORMATION RECORD (Sample Form continued)						
1–7	Current data relating to attached grant application.					
8	"County facilities" includes county building space, whether it is owned, rented, leased or leased with an option to purchase. Indicate:					
	(a)	Address				
	(b)	*Square footage to be occupied				
9	Budgetary					
10	Fiscal Data					
	(a)	Personnel:				
		Indicate county employees' salaries and benefits				
		Indicate non-county employees' salaries and benefits				
		Total Personnel Costs				
	(b)	Services & supplies	Indicate additions to your departmental budget for this grant			
	(c)	Equipment:	Indicate additions to your departmental budget for this grant			
	(d)	Indirect Costs:	(Computation)			
			Dept. No	County Salaries & Benefits	Departmental Indirect Rate*	Indirect Cost
		County Employees (Refer to 10a)				
		Total (From 10a above)		$		
		Total Indirect Transfer to Line 10d				$
	(e)	Other Charges and Misc. (detail if any miscellaneous)				
	(g)	List below additional contribution of county resources not included in grant application.				
		Salaries Direct				
		Salaries — Administrative**				
		Services and Supplies				
		Equipment				
		Indirect Costs				
		Total (Transfer to line 10g)				
	(h)	Show appropriation, revenue, and net county cost by fiscal year. Amounts shown are actual expenditures and actual revenue expected to be paid or received during the fiscal year. Indicate whether figures are estimated. Total revenues must equal sum of Federal, State and other revenues in Columns 1, 2 and 4 of line 10(f). Total net county cost must equal county contributions on Line 10(f), Column 3.				
*Departmental indirect rates and space allocations are available from the Auditor-Controller's office.						
**Include here only that portion of administrative salaries that is not included in the computation of the department's indirect rate.						
(Page 2 of 2)						

23.09 Single Audit (OMB A-133 Audit)

Circular OMB A-133 is issued pursuant to the Single Audit Act of 1984, Public Law Section No. 98-502, and the Single Audit Act Amendments of 1996, Public Law section 104-156. It establishes audit requirements for state and local governments that receive federal aid and defines federal responsibilities for implementing and monitoring those requirements.

In complying with this act, it is imperative that the county is able to identify all federal revenues and the expenditure of those revenues. In addition, expenditures must be identified by program and federal catalog number as found in the catalog of Federal Domestic Assistance published by the General Services Administration.

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APPENDIX A ROAD FUND ACCOUNTING (See Chapter 9A)

Refer to Chapter 9A

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APPENDIX B COUNTY BUDGET ACT

Title 3, Division 3, Chapter 1 of the Government Code

Article 1. General

§29000

This chapter shall be known, and may be cited, as the *County Budget Act*. Unless the context otherwise requires or provides, the general provisions set forth in this article, and the requirements concerning county budget matters prescribed by the Controller under Government Code (GOV) §30200, govern the construction of this chapter.

§29001

Except as otherwise defined in this section, the meaning of terms used in this chapter shall be as defined in the Accounting Standards and Procedures for Counties prescribed by the Controller pursuant to (GOV) §30200. As used in this chapter:

(a) "Administrative officer," is the chief administrative officer, county administrator, county executive, county manager, or other officials employed in the several counties under various titles whose duties and responsibilities are comparable to the officials named herein.

(b) "Adopted budget" is the budget document formally approved by the board of supervisors after the required public hearings and deliberations on the recommended budget.

(c) "Auditor" is the county auditor or that officer whose responsibilities include those designated in Chapter 4 (commencing with (GOV) §26900) of Division 2.

(d) "Board" is the board of supervisors of the county, or the same body acting as the governing board of a special district whose affairs and finances are under its supervision and control.

(e) "Budget year" is the fiscal year (July 1 through June 30) for which the budget is being prepared.

(f) "Controller" is the State Controller.

(g) "Final budget" is the adopted budget adjusted by all revisions throughout the fiscal year as of June 30.

(h) "Recommended budget" is the budget document recommended to the board of supervisors by the designated county official.

(i) "Obligated fund balance" is nonspendable, restricted, committed, and assigned fund balances.

(j) "Fiscal year" is the current 12-month period to which the annual operating budget applies and at the end of which a government determines its financial position and the results of its operations.

§29002

This chapter shall apply to counties, dependent special districts and other agencies whose affairs and finances are under the supervision and control of the board.

§29003

Except as otherwise specifically provided by law, a majority vote of the total membership of the board is required for the board to take action pursuant to this chapter.

§29005

(a) The Controller shall promulgate such rules, regulations, and classifications as are deemed necessary and commensurate with the accounting procedures for counties prescribed pursuant to (GOV) §30200 to secure standards of uniformity among the various counties and to carry out the provisions of this chapter. The rules, regulations, and classifications shall be adopted in accordance with the provisions of (GOV) §30200.

(b) The Controller shall prescribe the forms required to be used in presenting the required information in the budget document after consultation with the Committee on County Accounting Procedures, which committee is provided for in (GOV) §30201. Any county may add to the information required, or display it in more detail, providing that the financial information and the classifications or items required to be included in the budget are clearly and completely set forth. Any change proposed by a county in the arrangement of the information required on the forms shall be subject to review and approval by the Controller.

§29006

For the adopted budget, the various forms, as prescribed by the Controller pursuant to (GOV) §29005, shall provide for the presentation of data and information to include, at a minimum, estimated or actual amounts of the following items by fund:

(a) Fund balances.
   1) Nonspendable.
   2) Restricted.
   3) Committed.
   4) Assigned.
   5) Unassigned.

(b) Additional financing sources shall be classified by source in accordance with the accounting procedures for counties as prescribed by the Controller pursuant to (GOV) §30200.
   For comparative purposes, the amounts of financing sources shall be shown as follows:

   1) On an actual basis for the fiscal year two years prior to the budget year.
   2) On an actual basis, except for those sources that can only be estimated, for the fiscal year prior to the budget year.
   3) On an estimated basis for the budget year, as submitted by those officials or persons responsible, or as recommended by the administrative officer or auditor, as appropriate.
   4) On an estimated basis for the budget year, as approved, or as adopted, by the board.

(c) Financing uses for each budget unit, classified by the fund or funds from which financed, by the objects of expenditure, other financing uses, intrafund transfers, and transfers-out in accordance with the accounting procedures for counties and by such further classifications or requirements pertaining to county budget matters as prescribed by the Controller pursuant to (GOV) §30200. For comparative purposes the amounts of financing uses shall be shown as follows:

1) On an actual basis for the fiscal year two years prior to the budget year.
2) On an actual basis, except for those uses that can only be estimated, for the fiscal year prior to the budget year.
3) On an estimated basis for the budget year, as submitted by those officials or persons responsible, or as recommended by the administrative officer or auditor, as appropriate.
4) On an estimated basis for the budget year, as approved, or as adopted, by the board.

(d) Appropriations for contingencies.

(e) Provisions for nonspendable, restricted, committed and assigned fund balances.

(f) The appropriations limit and the total annual appropriations subject to limitation as determined pursuant to Division 9 (commencing with Section 7900) of Title 1.

§29007

There shall be a schedule in or supporting the adopted budget document or separate ordinance or resolution, setting forth for each budget unit the following data for each position classification:

(a) Salary rate or range, as applicable.

(b) Total allocated positions approved by the board.

§29008

At a minimum, within the object of capital assets, the budget amounts for:

(a) Land shall be reported in total amounts, except when included as a component of a project.

(b) Structures and improvements shall be reported separately for each project, except that minor improvement projects may be reported in totals.

(c) Equipment shall be reported in total amounts by budget unit.

(d) Infrastructure shall be reported in total amounts by budget unit.

(e) Intangible Assets may be reported in total amounts by budget unit.

§29009

In the recommended, adopted, and final budgets the funding sources shall equal the financing uses.

§29040

On or before June 10 of each year, each official in charge of any budget unit shall provide the administrative officer or auditor, as the board directs, an itemized request detailing the estimate of financing sources, financing uses, and any other matter required by the board.

§29042

The requests shall be submitted as prescribed by the administrative officer or the auditor, as designated by the board.

Article 2. Budget Request

§29043

The auditor shall provide the estimates for bonded debt service requirements. The auditor shall also provide or furnish to the responsible authority, as applicable, the estimates for bonded debt service requirements of:

(a) School districts.

(b) Any special district, the records for which are maintained in the auditor's office as required by law.

§29044

The auditor shall provide to the administrative officer or such other official as the board directs, any financial statements, data, or recommendations, if any, for any changes to the estimated financing sources referenced in (GOV) §29040.

§29045

In the absence or disability, or failure of any official or person required to submit budget requests, they shall be submitted by the acting official in charge of the budget unit or shall be prepared by the administrative officer or the auditor, as designated by the board.

Article 3. Recommended Budget

§29060

The administrative officer or auditor, as designated by the board, shall compile the budget requests.

§29061

The board shall designate either the administrative officer or auditor to review the budget requests and prepare a recommended budget. Any differences may be described in the written recommendations or comments, or both.

§29062

The recommended budget shall be submitted to the board by the administrative officer or auditor as designated by the board, on or before June 30 of each year, as the board directs.

§29063

Upon receipt of the recommended budget, the board shall consider it and, on or before June 30 of each year, at such time as it directs, shall make any revisions, reductions, or additions. Any official or person whose budget requests have been revised shall be given the opportunity to be heard thereon before the board during or prior to the hearings required by (GOV) §29080.

§29064

(a) On or before June 30 of each year the board, by formal action, shall approve the recommended budget, including the revisions it deems necessary for the purpose of having authority to spend until the budget is adopted.

(b) 1) Except as provided in paragraph (2), the board may make revisions to the recommended budget until the budget is adopted pursuant to Article 4 (commencing with Section 29080).

2) A revision to the recommended budget after the start of the public hearing held pursuant to Article 4 (commencing with Section 29080) shall be made only if the revision is proposed in writing and filed with the clerk of the board prior to the close of the public hearing, or approved by a four-fifths vote of the board after the close of the hearing.

§29065

On or before September 8 of each year, as the board directs, the recommended budget shall be made available to the public.

Article 4. Adopted Budget

§29080

On or before September 8 of each year, the board shall publish a notice in a newspaper of general circulation stating that:

(a) The recommended budget documents are available to members of the public.

(b) On the date stated in the notice, not fewer than 10 days after the recommended budget documents are available, and at a time and place also stated in the notice, the board will conduct a public hearing on the recommended budget.

(c) Any member of the public may appear at the hearing and be heard regarding any item in the recommended budget or for the inclusion of additional items.

(d) All proposals for revisions shall be submitted in writing to the clerk of the board of supervisors before the close of the public hearing.

§29081

The hearing may be continued from day to day until concluded, but not to exceed a total of 14 calendar days.

§29082

(a) At the hearing, the board of supervisors shall hear any official who wishes to be heard regarding the recommended budget for his or her budget unit.

(b) At the time of the hearing, the board of supervisors may call in the official or person in charge of any budget unit concerning any matter relating to his or her budget unit. The board of supervisors may also call in the official or person in charge of a budget unit if any member of the public files with the clerk of the board a written request to question any matter relating to that budget unit.

§29083

(a) The auditor, or a deputy designated by the auditor, shall attend the public hearing on the recommended budget, and shall furnish the board with any financial statements and data it requires.

(b) It shall be the responsibility of the administrative officer or auditor to revise the recommended budget to reflect the actions of the board pertaining thereto in developing the adopted budget document.

§29084

The budget may contain an appropriation or appropriations for contingencies in such amounts as the board deems sufficient.

§29085

The budget for each fund may contain nonspendable, restricted, committed, or assigned fund balance classifications (also referred to as obligated fund balance) in such amounts as the board deems sufficient. General reserves and stabilization arrangements may also be included as part of the restricted, committed, assigned, and unassigned fund balance.

§29086

Except in cases of a legally declared emergency, as defined in (GOV) §29127, the general reserve may only be established, canceled, increased, or decreased at the time of adopting the budget as provided in (GOV) §29088. The general reserve may be increased any time during the fiscal year by a four-fifths vote of the board.

§29088

After the conclusion of the hearing, and not later than October 2 of each year, and after making any revisions of, deductions from, or increases or additions to, the recommended budget it deems advisable during or after the public hearing, the board shall by resolution adopt the budget as finally determined. Increases or additions shall not be made after the public hearing, unless the items were proposed in writing and filed with the clerk of the board before the close of the public hearing or unless approved by the board by four-fifths vote.

§29089

The resolution of adoption of the budget of the county, each dependent special district, and each other agency as defined in (GOV) §29002 shall specify:

(a) Appropriations by objects of expenditure within each budget unit, except for capital assets, that are appropriated at the subobject level pursuant to (GOV) §29008.

(b) Other financing uses by budget unit.

(c) Intrafund transfers by budget unit.

(d) Transfers-out by fund.

(e) Appropriations for contingencies, by fund.

(f) Provisions for nonspendable, restricted, committed and assigned fund balances, by fund and purpose.

(g) The means of financing the budget requirements.

§29090

The adoption of the budget may be accomplished by a resolution in which the adoption is effectuated by reference to the financing uses in the budget as finally determined, provided that the minimum requirements set forth in (GOV) §29089 are met in the budget document. If adopted by reference, the budget shall have the same effect and be subject to the same provisions of law as if the resolution of adoption had been accomplished by specific designation.

§29092

The board may set forth appropriations in greater detail than required in (GOV) §29089 and may authorize any additional controls for the administration of the budget as it deems necessary. The board may designate a county official to exercise these administrative controls.

§29093

(a) A copy of the adopted budget in the format prescribed by the Controller shall be filed by the auditor in the office of the clerk of the board and the office of the Controller not later than December 1 of each year.

(b) 1) If the auditor, after receipt of written notice from the Controller, fails to transmit a copy of the adopted budget within 20 days, the county shall forfeit to the State one thousand dollars ($1,000) to be recovered in an action brought by the Attorney General, in the name of the Controller.

2) Upon a satisfactory showing of good cause, the Controller may waive the penalty for late filing provided in paragraph (1).

Article 5. Tax Levy

§29100

(a) On or before October 3 of each year, the board shall adopt by resolution the rates of taxes on the secured roll, not to exceed the 1 percent limitation specified in Article XIIIA of the Constitution and Sections 93 and 100 of the Revenue and Taxation Code. For voter-approved indebtedness, the board shall adopt the rates on the secured roll by determining the percentage of full value of property on the secured roll legally subject to support the annual debt requirement. Each rate shall be such as will produce the amount determined as necessary to be raised by taxation on the secured roll after due allowance for delinquency, anticipated changes to the roll, disputed tax revenues anticipated to be impounded pursuant to (GOV §26906.1), amounts subject to the Community Redevelopment Law (Part 1 (commencing with section 3300 of Division 24 of the Health and Safety Code), and other available financing sources. The board may adopt a rate for voter-approved indebtedness as will produce the amount determined as appropriate for necessary reserves.

(b) For purposes of this section, “an amount appropriate for necessary reserves” shall be limited to an amount sufficient to accommodate the county’s anticipated annual cash-flow needs for servicing the county’s voter-approved debt. The funds reserved may service only the debt for which the extraordinary rate is levied. All interest earned on the amount deposited in the nonspendable, restricted, committed or assigned fund balance account shall accrue to the same account.

§29100.6

On or before December 1 of each year, each county auditor shall file with the Controller in such form as the Controller directs, a statement of the amounts of exempt values granted for the homeowners' property tax exemption under subdivision (k) of Section 3 and Section 25 of Article XIII of the Constitution for the county, each city and school district or portion thereof within the county, each special district or subdivision or zone thereof or portion thereof within the county, for which a tax levy is carried on the county assessment roll. The auditor shall therein compute and show the total amount of ad valorem tax loss to the county and the cities and districts resulting from the exemption and the statement shall claim such amount against the state for payment of reimbursement.

§29101

After adopting the rates, the board shall levy the taxes upon the taxable property of the county in specific sums in terms of the rates so adopted. Each rate is upon the full assessed valuation of property and only upon property that is legally subject to such tax.

§29102

Unless otherwise provided by law, the authority and duties of the county board of supervisors with respect to adopting of tax rates and the levying of taxes prescribed in this article shall have application to school districts and to special districts, or zones or improvement districts thereof, whose affairs and finances are not under the supervision and control of the county board of supervisors but for which a tax levy is carried on the regular county assessment roll.

If the assessed value of the taxable property in a special district on the unsecured roll exceeds the assessed value of the taxable property on the secured roll, the special district tax rate which is adopted by the board for the secured roll shall be adjusted to an amount which the board determines will meet the estimated annual revenue requirements of the district for both the current and next succeeding year.

§29103

It shall be the responsibility of the auditor to calculate the several tax rates for the board's action thereon.

§29104

The board may adopt a rate ending in the next highest fraction of a percent for a fund, or for a group of funds having the same tax base.

Any cash collections resulting from this rate or from an excess resulting from any other cause shall not invalidate the levies.

§29106

For the resolution to adopt tax rates, the entity or fund with its corresponding rate shall be classified in any manner sufficient to identify it.

§29107

The tax rates for property not sufficiently secured as provided in Section 12 of Article XIII of the Constitution are levied in the amounts therein provided and need not be formally levied by the board.

§29109

(a) On or before December 1 of each year, the auditor shall forward to the Controller, in the format prescribed by the Controller, a statement of the rates of taxation, the assessed valuation as shown on the current equalized assessment roll, the amount of taxes to be levied and allocated pursuant to the Revenue and Taxation Code.

(b) 1) If the auditor, after receipt of written notice from the Controller fails to transmit the statement within 20 days, the county shall forfeit to the state, one thousand dollars ($1,000) to be recovered in an action brought by the Attorney General, in the name of the Controller.

2) Upon a satisfactory showing of good cause, the Controller may waive the penalty for late filing provided in paragraph (1).

(c) The board may, by resolution, extend on a permanent basis or for a limited period the date specified in this section from November 1 to December 1.

Article 6. Appropriations and Transfers

§29120

Except as otherwise provided by law, the board and every other county or dependent special district official and person shall be limited in the incurring or paying of obligations to the amounts of the appropriations allowed for each budget unit as originally adopted or as thereafter revised by addition, cancellation or transfer.

§29121

Except as otherwise provided by law, obligations incurred or paid in excess of the amounts authorized in the budget unit appropriations are not a liability of the county or dependent special district, but a personal liability of the official authorizing the obligation.

§29122

The board shall not approve a claim and the auditor shall not issue payment for any obligation in excess of that authorized in the budget unit appropriation, except upon an order of a court, for an emergency, or as otherwise provided by law.

§29124

(a) If at the beginning of any fiscal year, the budget has not been adopted, the auditor shall approve payments for the support of the various budget units in accordance with the following authorizations:

1) Except as otherwise provided in subdivision (b), the amounts in the recommended budget except capital assets, transfer-out, and new permanent employee positions, are deemed appropriated until the adoption of the budget.

2) Capital assets, transfers-out, and new permanent employee positions are deemed appropriated until the adoption of the budget if specifically approved by the board. For the purposes of this subdivision, the words “new permanent employee positions” do not include any employee positions created in lieu of an employee position that is abolished.

3) If the recommended budget has not been approved by the board because of an emergency as described in subdivision (a) of (GOV) §29127, the amounts deemed appropriated shall be based on the final budget of the preceding year, excluding assets and transfers-out unless specifically approved by the board.

(b) Notwithstanding any other provision of this section, prior to the adoption of the adopted budget, the board of supervisors may impose expenditure limitations that are more restrictive than those contained in this section.

§29125

(a) Transfers and revisions to the adopted appropriations may be made by an action formally adopted by the board at a regular or special meeting as follows:

1) If between funds, by a four-fifths vote.

2) If transfers from appropriation for contingencies, by a four-fifths vote.

3) If between budget units within a fund if overall appropriations are not increased, by a majority vote.

(b) The board may designate the administrative officer or auditor to approve transfers and revisions of appropriations within a budget unit if overall appropriations of the budget unit are not increased.

§29126

At any regular or special meeting, the board may cancel any appropriation in whole or in part that is not needed and transfer the amount canceled to the appropriation for contingencies of the fund from which the appropriation was originally made if there is one, or to any appropriation for contingencies account, or fund, to which the amount canceled may be properly transferred. If there is no appropriation for contingencies in the respective fund, the board may establish one.

§29126.1

At any regular or special meeting, the board may cancel any unused appropriation in whole or in part upon determining that the source of funding of the appropriation will be unrealized in whole or part. An offsetting reduction shall be made to the corresponding estimated revenue.

§29126.2

The auditor may review and issue reports and make recommendations regarding estimated financing sources, or actual financing sources, or both, and the status of appropriations. The auditor shall submit to the board, and any other official the board may designate, a statement showing this information with respect to the condition of each separate budget appropriation and to the condition of estimated financing sources, as the board requires.

§29127

After adopting a resolution stating the facts constituting an emergency by a four-fifths vote of the board at any regular or special meeting, the board may appropriate and make the expenditure necessary to meet an emergency in any of the following cases:

(a) Upon the happening of an emergency caused by war, fire, failure or the imminent failure of a water system or supply, flood, explosion, storm, earthquake, epidemic, riot, or insurrection.

(b) For the immediate preservation of order or of public health.

(c) For the restoration to a condition of usefulness of any public property, the usefulness of which has been destroyed by accident.

(d) For the relief of a stricken community overtaken by calamity.

(e) For the settlement of approved claims for personal injuries or property damages, exclusive of claims arising from the operation of any public utilities owned by the county.

(f) To meet mandatory expenditures required by law.

§29128

All emergency expenditures shall be paid from any money in the county treasury in any fund from which the expenditure may properly be paid.

§29130

At any regular or special meeting, the board by a four-fifths vote may make available for appropriation any of the following fund balances for which the board has authority:

(a) Restricted, committed, assigned and unassigned fund balances, excluding general reserves and nonspendable fund balance.

(b) Amounts that are either in excess of anticipated amounts or not specifically set forth in the budget derived from any actual or anticipated increases in financing sources.

Article 7. Miscellaneous

§29141

The adopted budget shall include a schedule showing the managerial budget of each service activity financed by a proprietary fund established pursuant to (GOV) §25260 and (GOV) §25261. The schedule shall set forth expected operations of the activity in such detail for revenues, expenses, and reserves as will adequately display the nature and the approximate size of its operations.

Comparative data as prescribed in (GOV) §29006 shall be provided.

§29141.1

The property tax bill in the County of Orange shall include a statement with language to the effect that a portion of the taxpayer's property taxes may be used to implement the county recovery plan to emerge from bankruptcy. This section shall not be required after these revenues are no longer needed for this purpose.

§29142

Notwithstanding any other provision of law, when taxes or assessments are collected by the county for any special district, or zone or improvement district thereof, but excluding a school district, the board of supervisors may provide for a collection fee for such services which when collected shall belong to the county and shall be deposited to the credit of the general fund, and shall cover the expense and compensation of such officials of the county in the collection of such taxes and of the interest or penalties thereon, subject to the following:

(a) For taxes covering debt service requirements on any bond or bonds authorized and issued by any such special district, the tax rate fixed to raise such amounts may be fixed by the board of supervisors to include also a percentage of such amounts up to one-fourth of 1 percent thereof.

(b) For taxes covering all purposes of such special districts, other than debt service requirements on bonds, the amount of the collection fees, if any, to be charged by the county shall be fixed by agreement between the board of supervisors and the governing board of such special district and shall not exceed one-fourth of 1 percent of all money collected.

§29143

Any unencumbered balance remaining to the credit of any appropriation shall lapse at the end of the fiscal year and shall revert to the available balance of the fund from which appropriated.

§29144

All commitments covered by the restricted, committed or assigned fund balance encumbrances account at fiscal year-end, are appropriated for the succeeding fiscal year.

Title 3, Division 3, Chapter 8 of the California Government Code

§30200

Under this division, the Controller shall prescribe for counties uniform accounting procedures conforming to Generally Accepted Accounting Principles (GAAP). The procedures shall be adopted under the provisions of Chapter 3.5 (commencing with Section 11340) of Part 1 Division 3 Title 2 and shall be published in the California Code of Regulations either in their entirety or by reference. The Controller shall prescribe such procedures after consultation with and approval by the Committee on County Accounting Procedures. Approval of such procedures shall be by a majority vote of the members of the committee. The vote may be conducted by mail at the discretion of the chairperson of the committee, provided however, that should one or more members of the committee request a meeting for the purposes of voting, the chairperson shall call a meeting of the committee as provided in (GOV) §30201.

APPENDIX C GLOSSARY OF ACCOUNTING TERMS

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THE FOLLOWING ACRONYMS ARE USED THROUGHOUT THE MANUAL:

AICPA	American Institute of Certified Public Accountants
CAFR	Comprehensive Annual Financial Report
GAAP	Generally Accepted Accounting Principles
GAAS	Generally Accepted Auditing Standards
GAGAS	Generally Accepted Government Auditing Standards
GAN	Grant Anticipation Note
GAO	General Accountability Office
GASB	Governmental Accounting Standards Board
GFOA	Government Finance Officers Association
IGAS	Interpretation of Governmental Accounting
LAFCo	Local Agency Formation Commission
NCGA	National Council on Governmental Accounting
OPEB	Other Postemployment Benefits
SEC	Securities and Exchange Commission
SGAC	Statement of Governmental Accounting Concepts
SGAS	Statement of Governmental Accounting Standards
TB	Technical Bulletin

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AB 8. Assembly Bill 8, Chapter 282, Statutes of 1979. (State law governing the distribution of property tax.)

Abatement. A complete or partial cancellation of a levy imposed by a government. Abatements usually apply to tax levies, special assessments, and service charges.

Abstract. See Redemption Roll.

Account. A record of a type of monetary transaction maintained in a ledger. Also sometimes referred to as object (for example, objects of expenditures or revenues). See Object.

Account Number. See Coding.

Accounting Period. See Fiscal Period.

Accounting Principles Board (APB). The authoritative private-sector standard-setting body that preceded the Financial Accounting Standards Board. The APB issued guidance in the form of opinions.

Accounting Procedures. All processes which discover, record, classify, and summarize financial information to produce financial reports and to provide internal control.

Accounting Standards Executive Committee (AcSEC). AICPA committee authorized to issue Practice Bulletins.

Accounting System. The methods and records established to identify, assemble, analyze, classify, record and report a government's transactions and to maintain accountability for the related assets and liabilities.

Accounts Payable. A short-term liability account reflecting amounts owed to private persons or organizations for goods and services received by a government (but not including amounts due to other funds of the same government).

Accounts Receivable. An asset account reflecting amounts due from private persons or organizations for goods and services furnished by a government (but not including amounts due from other funds or other governments).

Accreted Value. A valuation basis for certain investments and debt instruments that report on the balance sheet only that portion of their face value that reflects principal and interest accrued to date.

Accrual Basis. The method of accounting that recognized the financial effect of transactions, events, and inter-fund activity when they occur, regardless of the timing of related cash flows.

Accrued Expenses. Expenses incurred but not paid.

Accrued Interest Payable. A liability account reflecting interest costs incurred but not due until a later date.

Accrued Revenue. Revenues earned but not received. See Modified Accrual Basis.

Accrued Taxes Payable. A liability account reflecting taxes incurred but not due until a later date.

Accrued Salaries and Wages Payable. A liability account reflecting salaries and wages earned by employees but not due until a later date.

Accumulated Depreciation. A contra-asset account to report the accumulation of periodic credits made to reflect the expiration of the estimated service life of capital assets.

AcSEC. See Accounting Standards Executive Committee.

Activity. Specific and distinguishable service performed by one or more organizational components of a government to accomplish a function for which the government is responsible. (Police is an activity within the public safety function.)

Activity Classification. Expenditure classification according to the specific lines of work performed by organization units. For example, "sewage treatment and disposal," "garbage collection," "garbage disposal," and "street cleaning" are activities performed in carrying out the function of "sanitation." The segregation of the expenditures made for each of these activities constitutes an activity classification.

Actual Accounts. Those accounts which show actual financial position and results of operations, such as actual assets, liabilities, fund balances, revenues, expenditures, and expenses, as distinguished from budgetary accounts. See Budgetary Accounts.

Actuarial Accrued Liability. That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of pension plan benefits and expenses which are not provided for by future Normal Costs.

Actuarial Assumptions. Assumptions as to the occurrence of future events affecting pension costs, such as mortality, withdrawal, disablement and retirement; changes in compensation and government provided pension benefits; rates of depreciation; procedures used to determine future entrants for Open Group Actuarial Cost Methods; and other relevant items.

Actuarial Basis. A basis used in computing the amount of contributions to be made periodically to a fund or account so that the total contributions plus the compounded earnings thereon will equal the required payments to be made out of the fund. The factors taken into account in arriving at the amount of these contributions include the length of time over which each contribution is to be held and the rate of return compounded on such contribution over its life. A Pension (and Other Post-Employment Benefits) Trust Fund for a public employee retirement system is an example of a fund used to account for a defined benefit pension plan concerned with actuarial basis data.

Actuarial Cost Method. A procedure for determining the Actuarial Present Value of pension plan benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of a Normal Cost and Actuarial Accrued Liability.

Actuarial Section. One of the five sections of a public employee retirement system's CAFR.

Actuarial Valuation. The determination, as of a point in time (the actuarial valuation date), of the service cost, total pension liability, and related actuarial present value of projected benefit payments of pensions performed in conformity with Actuarial Standards of Practice unless otherwise specified by the GASB.

Actuarial Value of Assets. The value of cash, investments and other property belonging to a pension plan, as used by the actuary for the purpose of an Actuarial Valuation.

ADA. Average Daily Attendance, as determined by the State Department of Education.

Additions. A term used to describe increases in the net position of fiduciary funds.

Administration Cost. Includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors.

Adopted Budget. The budget document formally approved by the board of supervisors after the required public hearings and deliberations on the recommended budget. See Final Budget and Recommended Budget.

Ad Valorem Property Tax. Any assessment imposed on the basis of the value of the real property, including any special ad valorem assessment.

Ad Valorem Property Taxation. Any source of revenue derived from applying a property tax rate to the assessed value of the property.

Advance From _____ Fund. A liability account used to record noncurrent portions of long-term debt owed by one fund to another fund within the same reporting entity. See Due From _____ Fund and Inter-Fund Receivable/Payable.

Advance Refunding. Transaction in which new debt is issued to refinance existing debt (old debt), but the proceeds must be placed in escrow pending call date or maturity (refunding in advance of redemption).

Advance To _____ Fund. An asset account used to record noncurrent portions of a long-term loan from one fund to another fund within the same reporting entity. See Due To _____ Fund and Interfund Receivable/Payable.

Adverse Opinion. An opinion stating the auditor's view that the financial statements do not present the financial position fairly, results of operations, or changes in financial position, in conformity with generally accepted accounting principles.

Agency Funds. Use to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, a private organization, or other governments. See Fiduciary Funds.

Agent Multiple-Employer Defined Benefit Pension or OPEB plan. A multiple-employer defined benefit pension (or OPEB) plan in which pension plan assets are pooled for investment purposes but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.

Aggregate Actuarial Cost Method. A method under which the excess of the Actuarial Present Value of Projected Benefits of the group included in an Actuarial Valuation over the Actuarial Value of Assets is service of the group between the valuation date and assumed exit. This allocation is performed for the group as a whole, not as a sum of individual allocations. That portion of valuation year is called the Normal Cost. The Actuarial Accrued Liability is equal to the Actuarial Value of Assets. This method is not widely used.

Agricultural Land. See Open Space Land.

Agricultural Preserve. An area devoted to either agricultural use, recreational use, open space use, or any combination of such uses, and which is established in accordance with the provisions of the California Land Conservation Act of 1965.

Agricultural Use. Use of land for the purpose of producing an agricultural commodity for commercial purposes.

AICPA. American Institute of Certified Public Accountants.

Allocate. To divide a lump-sum appropriation into parts which are classified as expenditure by specific organization units and/or for specific purposes, activities, or objects.

Allocated Claims Adjustment Expenses. In the context of risk financing activities, expenses associated directly with specific claims paid or in the process of settlement, such as legal and adjusters' fees.

Allocation. A part of a lump-sum appropriation which is classified as an expenditure by specific organization units and for special purposes, activities, or objects.

Allotment (or Allot). Where spending authority is apportioned for a particular period by an approving authority.

Allotment Ledger. A subsidiary ledger which contains an account for each allotment showing the amount allotted, expenditures for the allotment period, outstanding encumbrances, and net balance. See Appropriation Ledger.

Allotment Period. A period of time during which an allotment is effective. Monthly and quarterly allotments are most common. See Allotment.

Allowance for Uncollectibles. A contra-asset valuation account used to indicate the portion of a receivable not expected to be collected.

Alternate Method of Tax Apportionment. Allows counties to allocate secured property taxes to jurisdictions at 100% of the billed amount rather than actual tax collections. The county collects all future delinquent payments, penalties, interest, and distributes them to the appropriate funds.

Amortization. (1) The portion of the cost of a limited-life or intangible asset charged as an expense during a particular period. (2) The reduction of debt by regular payments of principal and interest sufficient to retire the debt by maturity.

Amortization Schedule. A schedule of debt service payments separating the portions of payments attributable to principal and interest.

Analytical Review. A term used by auditors to describe the process of attempting to determine the reasonableness of financial data by comparisons made with other financial and nonfinancial data.

Annual Budget. A budget applicable to a single fiscal year. See Budget and Operating Budget.

Annual Covered Payroll. In the context of defined benefit pension and OPEB plans, all element of annual compensation paid to active employees on which contributions to a plan are based.

Annual Financial Report. A financial report applicable to a single fiscal year.

Annual Inflation Factor. See Cost of Living.

Annual Operating Budget. See Operating Budget.

Annual Required Contribution of the Employer(s) (ARC). The employer's periodic required contributions to a defined benefit OPEB plan, calculated in accordance with the parameters.

Annual Tax Increment. The difference resulting from the comparison of base-year to current-year values.

Annuities Payable. A liability account reflecting the amount of annuities due and payable to retired employees in a public employee retirement system.

Annuity. A series of equal payments made or received at equal intervals over a specified period of time.

Annuity, amount of. The total amount of money accumulated or paid during an annuity period from an annuity along with compound interest at a specified rate.

Annuity Bonds. See Serial Bonds.

Annuity Period. The length of time during which annuity payments are to occur.

APB. See Accounting Principles Board.

Apportionment. Division of income and expenses in certain proportion and, in contrast to an allocation, over two or more accounts, departments, or entities. .

Appraise. To estimate the value, particularly the value of property. If the property is valued for purposes of taxation, the narrower term "assess" is substituted.

Appropriated Budget. The expenditure authority created by a bill or ordinance that is in law. It may also include revenues, transfers, allocations, allotments and program changes. It may be for a single period or for multiple years and for capital or for operating purposes or both.

Appropriation. A line item giving spending authority in a budget.

Appropriation Account. A budgetary account set up to record spending authorizations for specific purposes. The account is credited with the original appropriation and any supplemental appropriations and is charged with expenditures and encumbrances.

Appropriation Balance. See Unallocated Balance of Appropriation, Unencumbered Allotment, Unencumbered Appropriation, Unexpended Allotment, and Unexpended Appropriation.

Appropriation Bill. A bill through which appropriations are given legal effect. See Ordinance, Resolution, Order.

Appropriation Expenditure. An expenditure chargeable to an appropriation. Since virtually all expenditures of governments are chargeable to appropriations, the term expenditures by itself is widely and properly used.

Appropriation Expenditure Ledger. See Appropriation Ledger.

Appropriation for Contingencies. A budgetary provision representing that portion of the financing requirements set aside to meet unforeseen expenditure requirements.

Appropriation Ledger. A subsidiary ledger containing an account for each appropriation. Each account usually includes the amount originally appropriated, transfers to or from the appropriation, amounts charged against the appropriation, the available balance, and other related information. See Allotment Ledger.

Arbitrage. In the context of government finance, the reinvestment of the proceeds of tax-exempt securities in materially higher-yielding taxable securities.

Assess. To establish an official property value for taxation. See Appraise.

Assessed Value. One hundred percent of full value for the 1981–82 fiscal year and the following fiscal years. For FY 1980–81 and prior fiscal years, the assessed value was 25 percent of the full value.

Assessed Valuation. The valuation that a government sets on real estate or other property as a basis for levying taxes.

Assesee. The person to whom the property tax is assessed.

Assessment. (1) The process of making the official valuation of property for taxation. (2) The valuation placed upon property as a result of this process. See Special Assessment.

Assessment Year. The period beginning with a lien date and ending immediately prior to the succeeding lien date for taxes levied by the same agency.

Assessor Roll. See Roll Being Prepared.

Assessment Roll. With real property, the official list containing the legal description of each parcel of property and its assessed valuation. The name and address of the last known owner usually are listed. With personal property, the assessment roll is the official list containing the name and address of the owner, a description of the personal property and its assessed value.

Asset. Resources with present service capacity that the government presently controls.

Asset Allocation. In connection with pension and OPEB plans, the process of determining which types of investments are to be included in an investment portfolio and percentage of each.

Assigned Fund Balance. Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by (a) the governing body itself or (b) a body (a budget or finance committee, for examples) or official to which the governing body has delegated the authority to assign amounts to be used for specific purposes.

Attained Age Actuarial Cost Method. A method under which the excess of the Actuarial Present Value of Projected Benefits over the Actuarial Accrued Liability is respect of each individual included in an actuarial Valuation is allocated on a level basis over the earnings or service of the individual between the valuation date and assumed exit. The porting of this Actuarial Present Value which is allocated to a valuation year is call the Normal Cost. The Actuarial Accrued Liability is determined using the Unit Credit Actuarial Cost Method.

Audit. A methodical examination of utilization of resources. It concludes in a written report of its findings. An audit is a test of management's accounting system to determine the extent to which internal accounting controls are both available and being used. See Internal Auditing, Independent Audit, Financial Audit, Program Compliance Audit, Single Audit, and Performance Auditing.

Audit Committee. A group of individuals charged by the governing body with overseeing how management fulfills its responsibility for internal control and financial reporting.

Audit Finding. In the context of a financial audit, a weakness in internal controls or an instance of noncompliance with applicable laws and regulations that are presented in the audit report in conformity with GAGAS. A typical audit finding is composed of a statement of the condition (i.e., weakness or instance of noncompliance) and the criterion or criteria used to define it, an explanation of the cause of the condition, a discussion of its results, and recommendations for improvement. Findings ordinarily are presented together with a response from management, which states management's concurrence or non-concurrence with each finding and its plan for corrective action.

Audit Guides. Series of AICPA publications that enjoy potential level 2 status on the hierarchy of authoritative sources of GAAP. (Some publications in the series are titled audit and accounting guides.) In the public sector, the most important of these publications is the audit and accounting guide *State and Local Governments.*

Audit Management. The process used to procure auditing services to monitor the performance of the auditor, and to ensure the satisfactory resolution of issues raised by the audit.

Audit Procurement. The process used to obtain auditing services from independent public accountants.

Audit Program. A detailed outline of work to be done and procedures to be followed in any given audit.

Auditor's Report. In the context of a financial audit, a statement by the auditor describing the scope of the audit and the auditing standards applied in the examination and setting forth the auditor's opinion on the fairness of presentation of the financial information in conformity with GAAP or some other comprehensive basis of accounting.

Audit Resolution. The process whereby corrective action is planned, implemented and monitored to remedy weaknesses discovered and reported in conjunction with an audit.

Audit Scope. In the context of a financial statement audit, the specific contents of a financial report for which the independent auditor offers an opinion.

Audited Claims Payable. See Accounts Payable.

Auditor. See Internal Auditor and Independent Auditor.

Auditor-Controller. If the office of the controller is established by the county, the county auditor is the ex-officio controller, charged with the additional duties of auditing and statistical and financial reporting. See County Auditor or Director of Finance.

Auditor Rotation Policy. A policy that requires a government periodically to replace the independent auditor of its financial statements.

Auditor's Opinion. An expression in the audit report of the auditor's position on whether the financial information of the entity is presented fairly, in all material respects, in conformity with generally accepted accounting principles (or with other specified accounting principles applicable to the auditee).

Auditor's Report on Internal Controls and Compliance over Financial Reporting. Report issued in conjunction with a financial audit performed in accordance with GAGAS. In this report, the independent auditor reports on internal control weaknesses and instances of noncompliance discovered in connection with the financial audit, but does not offer an opinion on internal controls or compliance.

Authority. A government or public agency created to perform a single function or a restricted group of related activities. Usually, such units are financed from service charges, fees, and tolls, but in some instances, they also have taxing powers. An authority may be completely independent of other governments or partially dependent on other governments for its financing or the exercise of certain powers. See Special district.

Available Financing. In governmental fund types, the sum of the components which are available to meet the financing requirements for the accounting period involved. It includes unassigned fund balance, decreases in other fund balance classifications (nonspendable, restricted, committed and assigned), revenues, other financing sources, and transfers in. This is a conventional term and should not be used in the financial statement presentation.

Available Fund Balance. For budgetary presentation purposes, that portion of the governmental type fund balance which is available for financing the budget requirements for the accounting period involved. This is a conventional term, which is synonymous with the accepted term "unassigned fund balance," of the general fund, and for other governmental fund types, the portion of the assigned fund balance being used to finance budget requirements.

Availability Criterion. The requirement under the modified accrual basis of accounting that revenues be recognized only if they are collected or collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Availability Period. The designated period immediately following the close of the fiscal year by the end of which cash must be collected for related revenue to be recognized under the modified accrual basis of accounting.

B

Back Taxes. All payments required to be made under any provision of law allowing payment of delinquent taxes in installments, except payments of current taxes due on the property and the penalties and costs on the current taxes.

Balance Sheet. Report of information about the current financial resources (assets, liabilities, and fund balances) of each major governmental fund and for nonmajor governmental funds in the aggregate and totaled as of the reporting date.

Bank Balance. In the context of GASB Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements*, the amount credited by a financial institution to the government's account as opposed to the government's own ledger balance for the account (e.g., if checks have been written against an account but have not yet cleared the bank, the ledger balance would be lower than the bank balance).

Bank Holding Company. A company that controls one or more banks and may contain subsidiaries with operations related to banking.

Bank Investment Contract (BIC). A separate account at a financial institution that functions like a guaranteed investment contract (GIC).

Bankers' Acceptances. Bankers' acceptance generally is created based on a letter of credit issued in a foreign trade transaction. Bankers' acceptance is short-term, noninterest-bearing notes sold at a discount and redeemed by the accepting banks at maturity for face value.

Banking Pools. Risk financing arrangement in which monies are loaned to pool members in the event of loss.

Base Year (Assessor). The assessment year FY 1975–76 serves as the original base year. Thereafter, any assessment year in which real property, or a portion thereof, is purchased, is newly constructed, or changes ownership shall become the base year used in determining the full cash value of such real property, or a portion thereof.

Basic Financial Statements (BFS). The core required financial statements of a government including management's discussion and analysis, government-wide financial statements, fund financial statements, notes to the financial statements and required supplementary information other than the management's discussion and analysis. See Financial Statements.

Basis Differences. Differences that may arise when the basis of budgeting is different from GAAP.

Basis of Accounting. The timing of recognition for financial reporting purposes (when the effects of transactions or events should be recognized in financial statements).

Basis of Budgeting. Method used to determine when revenues and expenditures are recognized for budgetary purposes.

Betterment. Addition made to, or change made in, a capital asset, other than maintenance, to prolong its life or to increase its efficiency or capacity. The cost of the addition or change normally is added to the book value of the asset. The term improvement is preferred.

Bill. A term used to denote a law or statute passed by certain legislative bodies. A bill has greater legal formality and standing than a resolution. See Appropriation Bill, Ordinance, Resolution, Order.

Blending (Blended). The method of reporting the financial data of a component unit that presents the component unit's balances and transactions in a manner similar to the presentation of the balances and transactions of the primary government.

Blue Book. A term commonly used to designate the GFOA's publication, *Governmental Accounting, Auditing, and Financial Reporting* (GAAFR).

Board Roll. See State Assessed Roll.

Bond. A written promise to pay a specified sum of money, called the face value or principal amount, at a specified date or dates in the future, called the maturity date(s), together with periodic interest at a specified rate. Sometimes, however, all or a substantial portion of the interest is included in the face value of the security. See Deep-Discount Debt and Zero-Coupon Debt. The difference between a note and a bond is that the latter is issued for a longer period and requires greater legal formality. See General Obligation Bonds Payable, Revenue Bonds Payable, and Surety Bond.

Bond Anticipation Note (BAN). Short-term, interest-bearing note issued by a government in anticipation of bond proceeds to be received at a later date. The note is retired from proceeds of the bonds to which it is related.

Bond Covenant. A legally enforceable promise made by an issuer of bonds to the bondholders, normally contained in the bond resolution or indenture (e.g., pledged revenues).

Bond Discount. The difference between the present value and the face amount of bonds when the former is less than the latter. In common usage, the term also often includes issuance costs withheld from the bond proceeds by the underwriter.

Bond Indenture. A formal agreement, also called a deed of trust, between an issuer of bonds and the bondholder.

Bond Ordinance (Resolution). An ordinance or resolution authorizing a bond issue.

Bond Premium. The difference between the present value and the face amount of bonds when the former is greater than the latter.

Bonded Debt. That portion of indebtedness represented by outstanding bonds. See Gross Bonded Debt, Net Bonded Debt, and Funded Debt.

Bonds Authorized and Unissued. Bonds that have been legally authorized but not issued and that can be issued and sold without further authorization.

Bonds Issued. Bonds sold by the government.

Bonds Payable. Generally, the face value of bonds issued and unpaid. In the case of deep-discount and zero-coupon bonds, however, only the accreted value of the security is reported as bonds payable on the balance sheet.

Book Entry. A system that eliminates the need for physically transferring bearer-form paper or registering securities by using a central depository facility.

Book of Original Entry. The record in which the various transactions are formally recorded for the first time (e.g., cash journal, check register, or general journal). With automated bookkeeping methods, one transaction may be recorded simultaneously in several records, one of which may be regarded as the book of original entry. Memorandum books, check stubs, files of duplicate sales invoices, etc., on which first or prior business notations may have been made, are not books of original entry in the accepted meaning of the term, unless they are also used as the media for direct posting to the ledgers.

Book Value. Value as shown by books of account. In the case of assets which are subject to reduction by valuation allowances, “book value” refers to cost or stated value less the appropriate allowance. Sometimes a distinction is made between “gross book value” and “net book value,” the former designating value before deduction of related allowances and the latter the value after their deduction. In the absence of any modifiers, however, the term book value is understood to be synonymous with net book value.

Budget. A plan of financial operation embodying an estimate of proposed expenditures for a given period and the proposed means of financing them. Used without any modifier, the term usually indicates a financial plan for a single fiscal year. The term “budget” is used in two senses in practice. Sometimes it designates the financial plan presented to the board of supervisors for adoption and sometimes the plan finally approved by that body. See Annual Budget, Capital Budget, Capital Program, Long-Term Budget, Operating Budget, Performance Budget, Program Budget and Traditional Budget.

Budget Document. (1) The instrument used by the budget-making authority to present a comprehensive financial program to the appropriating body. The budget document usually consists of three parts. The first part contains a message from the budget-making authority, together with a summary of the proposed expenditures and the means of financing them. The second consists of schedules supporting the summary. These schedules show in detail past years' actual revenues, expenditures, and other data used in making the estimates. The third part is composed of drafts of the appropriation, revenue, and borrowing measures necessary to put the budget into effect. (2) The instrument used to present the plan of financial operations of the county and of the special district whose affairs and finances are under the supervision and control of the board of supervisors.

Budget-GAAP Basis Differences. Differences arising from the use of a basis of accounting for budgetary purposes that differs from the basis of accounting applicable to the fund type when reporting on operations in conformity with GAAP. For example, a cash-basis budget would produce a budget-GAAP basis difference.

Budget-GAAP Differences. Differences between the GAAP reporting model and a government's budgetary practices.

Budget-GAAP Entity Differences. Differences arising from the inclusion or exclusion in the budget of organizations, programs, activities and functions that may or may not be compatible with the criteria defining the government reporting entity.

Budget-GAAP Perspective Differences. Differences that result when the structure of financial information for budgetary purposes is not compatible with the fund structure prescribed by GAAP (i.e., some governments budget on the basis of organizational or program structures that differ from the funds used for financial reporting purposes).

Budget-GAAP Timing Differences. Variations such as continuing appropriations, project appropriations, automatic reappropriations, and biennial budgeting that separate budgetary accounting from GAAP.

Budget Message. A general discussion of the proposed budget as presented in writing by the budget-making authority to the legislative body. The budget message should contain an explanation of the principal budget items, an outline of the government's experience during the preceding period and its financial status at the time of the message, and recommendations regarding the financial policy for the coming period.

Budget Request. The sum of the organizational estimates of available financing and financing requirements for the period involved. The budget requests are compiled to prepare the recommended budget. See Recommended Budget.

Budget Unit. That classification of the expenditure budget requirements into appropriately identified accounting or organizational units deemed necessary or desirable for control of the financial operation.

Budget Year. For budgetary purposes, the budget year means the fiscal year (July 1 through June 30) for which the budget is being prepared.

Budgetary Accounts. Special accounts used to achieve budgetary integration that is not reported in the financial statements. By convention, ALL CAPS commonly are used to designate budgetary accounts. The most common budgetary accounts are ESTIMATED REVENUES, APPROPRIATIONS, and ENCUMBRANCES.

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

Budgetary Comparison Schedules. Schedules presented as required supplementary information for the general fund and for each major special revenue fund that has a legally adopted annual budget. The budgetary comparison schedule should present both (a) the original and (b) the final appropriated budgets for the reporting period as well as (c) actual inflows, outflows, and budgetary basis. A separate column to report variances between the final budget and actual amounts is encouraged but not required. Governments may also report the variance between original and final budget amounts.

Budgetary Control. The control or management of a government or enterprise in accordance with an approved budget to keep expenditures within the limitations of available appropriations and available revenues.

Budgetary Guidelines. Recommendations on budgeting issued by the National Advisory Council on State and Local Budgeting (NACSLB). The NACSLB's budgetary guidelines are chiefly of interest to accountants because of the emphasis they place on performance measurement in the context of the budgetary process.

Budgetary Integration. Use of budgetary accounts to record the operating budget in the general ledger to facilitate control during the year by providing a point of reference for comparison with actual results.

Budgetary Journal Entries. Journal entries involving budgetary accounts. Budgetary journal entries arise in connection with budgetary integration.

Budgetary Reporting. In the context of financial reporting, requirement to present budgetary comparisons in connection with general purpose external financial reporting. Budgetary reporting is required tin connection with the basic financial statements for both the general fund and individual major special revenue funds with annual (or biennial) appropriated budgets. Budgetary reporting also is required within the CAFR to demonstrate compliance at the legal level of control for all governmental funds with annual (or biennial) appropriated budgets.

Buildings and Improvements. A capital asset account reflecting the acquisition cost of permanent structures owned or held by a government, and improvements thereon.

Business-Type Activities. Activities financed in whole or in part by fees charged to external parties for goods and services.

C

Calendar Year. The yearly period from the first day of January to the last day of December, inclusive, for which the tax is imposed.

Callable Bond. A type of bond with a feature that permits the issuer to pay the obligation before the stated maturity date by giving notice of redemption in a manner specified in the bond contract.

Capital and Related Financing Activities. The (1) acquiring and disposing of capital assets used in providing services or producing goods, (2) borrowing money for acquiring, constructing, or improving capital assets and repaying the amounts borrowed, including interest, and (3) paying for capital assets obtained from vendors on credit.

Capital Assets. 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 (easements, land use rights, water rights, timber rights, computer software, patents, trademarks, etc.) that are used in operations and that have initial useful lives extending beyond a single reporting period. These assets are referred to most often as property, plant and equipment. See Intangible Assets**.**

Capital Budget. A plan of proposed capital outlays and the means of financing them. See Capital Program.

Capital Expenditures. Expenditures are resulting in the acquisition of or addition to the government's general capital assets.

Capital Grants. Grants restricted by the grantor for the acquisition and/or construction of capital assets. See Operating Grants.

Capital Improvement Assessment. Increase in taxes for capital asset acquisition or construction for a specific amount of time, for specific debts for specific property owners.

Capital Improvement Program. See Capital Program.

Capital Improvement Special Assessments. Special assessment projects that are capital in nature and enhance the utility, accessibility, or aesthetic value of the affected properties. Usually, the projects also provide improvements or additions to a government's general capital assets. Typical special assessment capital improvements are streets, sidewalks, parking facilities, and curbs and gutters. Sometimes the improvements provide capital assets that become an integral part of a government's enterprise activities (e.g., water or sewer main construction).

Capital Lease. An agreement that conveys the right to use property, plant or equipment, usually for a stated period of time, that meets one or more of the criteria set forth in SFAS No. 13 for lease capitalization.

Capital Outlays. See Capital Expenditures.

Capital Program. A plan for capital expenditures to be incurred each year over a fixed period of years to meet capital needs arising from the long-term work program or other capital needs. It sets forth each project or other contemplated expenditure in which the government is to have a part and specifies the resources estimated to be available to finance the projected expenditures.

Capital Projects Funds. Funds used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

Capitalization Contribution. Contribution to a public-entity risk pool to meet initial or ongoing capital minimums established by statute, regulation, or the pooling agreement itself. Capitalization contributions generally take the form of cash.

Capitalization Policy. The criteria used by a government to determine which outlays should be reported as capital assets.

Capitalization Threshold. Dollar value at which a government elects to capitalize tangible or intangible assets that are used in operations than that has initial useful lives extending beyond a single reporting period. Generally, capitalization thresholds are applied to individual items rather than groups of items unless the result would be to exclude items that in aggregate would clearly be material to the financial statements.

Capping. The cost of final cover expected to be applied near or after the date that the landfill stops accepting solid waste.

Carrying Amount (Book Value). The amount at which assets and liabilities are reported in the financial statements. See Book Value.

Cash. In the context of cash flows reporting, not only currency on hand but also demand deposits with banks or other financial institutions. Cash also include deposits in other kinds of accounts or cash management pools that have the general characteristics of demand deposit accounts.

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

Cash Discount. An allowance received or given if payment of an account is completed within a stated period of time.

Cash Equivalent. Cash equivalents are defined as short-term, highly liquid investments that are both (1) readily convertible to known amounts of cash (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Cash Flow Underwriting. The practice of an insurance enterprise depending on investment income rather than on positive underwriting results to achieve a profit.

Cash with Fiscal Agent. An asset account reflecting deposits with fiscal agents, such as commercial banks, for the payment of long-term debt principal and interest.

Cede. To transfer all or part of an insurance risk to another enterprise through reinsurance.

Ceded Premiums/Claims Costs. Premiums paid to a public entity risk pool and claims costs that are transferred to another enterprise in connection with a reinsurance arrangement.

Certificate of Achievement for Excellence in Financial Reporting Program. Program sponsored by the GFOA to encourage and assist state and local governments to prepare high-quality CAFRs. The program has been in continuous operation since 1946. The program originally was known as the Certificate of Conformance Program.

Certificates of Participation (COP). Certificates issued for the financing of capital assets. COPs represent undivided interests in the rental payments under a tax-exempt lease.

Certified Public Accountant (CPA). An accountant who has met all the statutory and licensing requirements of a given state for use of that designation. All U.S. states require accountants, at a minimum, to complete successfully a uniform national examination before being allowed to designate themselves as CPAs.

Change in Ownership. A transfer of a percent interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee interest.

Character Classification. Classification of expenditures according to the periods they are presumed to benefit. The four character groupings are (1) current operating expenditures, presumed to benefit the current fiscal period; (2) debt service expenditures, presumed to benefit prior fiscal periods as well as current and future periods; (3) capital outlay expenditures, presumed to benefit the current and future fiscal periods; and (4) intergovernmental expenditures.

Check. A bill of exchange drew on a bank and payable on demand; a written order on a bank to pay on demand a specified sum of money to a named person, to his or her order, or to the bearer out of money on deposit to the credit of the maker. A check differs from a warrant in that the latter is not necessarily payable on demand and may not be negotiable. It differs from a voucher in that the latter is not an order to pay. A voucher-check combines the distinguishing characteristics of a voucher and a check; it shows the propriety of a payment and is an order to pay.

Claim. (1) Potential losses that can arise from (a) employment (e.g., workers' compensation and unemployment), (b) contractual actions (e.g., delays or inadequate specifications), (c) actions of government personnel (e.g., medical malpractice, damage to privately owned vehicles by government-owned vehicles, improper police arrest), and (d) governmental properties (e.g., personal injuries, property damage). (2) In the context of insurance, demand payment of a policy benefit because of the occurrence of an insured event, such as the destruction or damage of property and related deaths or injuries.

Claims Made Policy. In connection with public entity risk pools, a type of policy that covers losses from claims asserted (reported or filed) against the policyholder during the policy period, regardless of whether the liability-imposing events occurred during the current or any previous period in which the policyholder was insured under the claims-made contract or other specified period before the policy period (the policy retroactive date).

Claims Servicing Pool. Public entity risk pool that manages separate accounts for each pool member from which the losses of that member are paid. Also referred to as an Account Pool.

Classification of Property. Any enumeration or grouping of property by a statute which results in it being treated differently from other property for the purpose of taxation.

Classified Presentation. Separate reporting of the current and noncurrent portions of assets and liabilities that permits the calculation of working capital. A classified presentation is required for the proprietary fund statement of net position.

Closed Amortization Period. A specific number of years that is counted from one date and, therefore, declines to zero with the passage of time. For example, if the amortization period initially is thirty years on a closed basis, twenty-nine years remain after the first year, twenty-eight years after the second year, and so forth. In contrast, an open amortization period (open basis) is one that begins again or is recalculated at the exact actuarial valuation date. Within a maximum number of years specified by law or policy (for example, thirty years), the period may increase, decrease, or remain stable.

Closed End Mutual Fund. An SEC-registered investment company that issues a limited number of shares to investors which are then traded like an equity security on a stock exchange. See Open End Mutual Fund.

Coding. A system of numbering or otherwise designating accounts, entries, invoices, vouchers, etc., in such a manner that the symbol used reveals quickly certain required information. To illustrate the coding of accounts, numbers in the 400 range could be used for expenditures, numbers between 420 and 430 for expenditures within the public safety function, and the number 421 for expenditures incurred in connection with the police activity classification. Within the police activity classification, the number 421.5 could be used for support services, and the number 421.51 for communications support services. Accordingly, expenditure for police radios would be classified as 421.51 (i.e., expenditures for communications services, within support services, within the police activity classification, within the public safety function).

Collateral. The cash, securities, or letters of credit received by the lender from the borrower as protection against the borrower's failure to return the underlying securities.

Collateral Investment Pool. An agency-managed pool that for investment purposes commingle the cash collateral provided on the securities lending transactions of more than one lender.

Collector's Roll. See Tax Roll.

Combination Bond. A bond issued by a government that is payable from the revenues of a governmental enterprise but that is also backed by the full faith and credit of the government.

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

Commercial Paper. An unsecured promissory note issued primarily by corporations for a specific amount and maturing on a specific day. The maximum maturity for commercial paper is 270 days, but most is sold with maturities of up to 30 days. Almost all commercial paper is rated as to credit risk by rating services.

Committed Fund Balance. Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority should be reported as committed fund balance. Those committed amounts could not be used for any other purpose unless the government removed or changes the specified use by taking the same type of action (for example, legislation, resolution, ordinance) it employed to commit previously those amounts. The authorization specifying the purposes for which amounts can be used should have the consent of both the legislative and executive branches of the government, if applicable. Committed fund balance also should incorporate the contractual obligation to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Commitments. In the context of note disclosure, contingent obligations at the balance sheet date, arising from the terms of executory contracts.

Committee on Accounting Procedure (CAP). The authoritative private-sector standard-setting body that preceded the Accounting Principles Board and the FASB. The CAP issued guidance in the form of Accounting Research Bulletins.

Commodities Programs. Distribution of surplus agricultural products as a form of assistance, often in connection with school lunch programs.

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

Comparative Data. Information from one or more prior fiscal periods that is provided to enhance the analysis of financial data of the current fiscal period.

Comparative Financial Statements. When a statement of net (position) and the flows statement are presented for one or more preceding periods, as well as the current period, along with notes to the financial statements for the preceding periods that are repeated to the extent that they continue to be of significance.

Compensated Absences. Accrued vacation and sick leave (and similar) that will be paid in accordance with the terms and conditions of laws, regulations, contracts and similar based on services already rendered.

Compliance Auditing. Auditing for compliance with applicable laws and regulations. Tests of compliance with laws and regulations are substantive tests; therefore, the term "compliance auditing" should not be confused with the similar term "compliance testing," which usually refers to testing for compliance with internal control procedures.

Compliance Supplement. A publication of the U.S. Office of Management and Budget that outlines compliance requirements for federal awards programs. The publication is designed to assist independent auditors performing Single Audits.

Component Units. Legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, a component unit can be another organization for which the nature and significance of its relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Component Unit Financial Report (CUFR). A report covering all funds of a component unit.

Component Unit Financial Statements. Financial statements of a component unit that may be issued separately from the component unit financial report.

Composite Depreciation Methods. Depreciation methods applied to groups of assets rather than to individual assets.

Comprehensive Annual Financial Report (CAFR). CAFRs are more detailed reports containing the basic financial statements and other information and are intended for users who need a broad range of information. CAFRs may include such nonfinancial information as statistical data, analytical data, demographic information, forecasts, economic and service delivery statistics, legally required data, narrative explanations, and graphic displays. It includes an introductory, financial, and statistical sections (actuarial section on postemployment benefit plans) and other combining information on funds.

Comprehensive Framework of Internal Controls. A structure of internal controls that provides for: (a) a favorable control environment, (b) the continuing assessment of risk, (c) the design, implementation, and maintenance of effective control-related policies and procedures, (d) the effective communication of information, and (e) the ongoing monitoring of the effectiveness of control-related policies and procedures as well as the resolution of potential problems identified by controls.

Concession. A grant of rights, land or property in return for services or for a particular use, a right to undertake and profit by a specified activity, or a lease for a particular purpose. This may also refer to an agreement between the owner of a facility and the concession owner and/or concessionaire that grants the exclusive rights to operate a specified business in the facility under specified conditions. The concessionaire usually has to pay the party that grants it the concession's ongoing fees that may either be a fixed amount or a percentage of revenues. See **Service Concession Arrangement (SCA).**

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 prescribes the presentation of condensed financial information for the prior fiscal year as part of management's discussion and analysis.

Conduit Debt. Certain limited obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing capital financing for a specific third party that is not a part of the issuer's financial reporting entity. Although conduit debt obligations bear the name of the governmental issuer, the issuer has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf they are issued.

Connection Fees. Fees charged to join or to extend an existing utility system. Often referred to as tap fees or system development fees.

Consistency. The notion that once an accounting principle or reporting method is adopted, it will be used for all similar transactions and events.

Construction Contracts Payable. A liability account reflecting amounts due on contracts for construction of buildings and other improvements.

Construction/Development in Progress. A capital asset account reflecting the cost of construction or development work for projects not yet completed. The terms Construction in Progress and Development in Progress are used when recognizing project expenditures in the Capital Assets Accounting System for the construction of capital assets, such as building and improvements, infrastructure or the development of internally generated intangible assets.

Consumption Method. The method under which inventories are recorded as expenditures/expenses when used. See Purchases Method.

Contingency Appropriation. See Appropriation for Contingencies.

Contingent Liabilities. Items which may become liabilities as a result of conditions undetermined at a given date, such as guarantees, pending lawsuits, judgments under appeal, unsettled disputed claims, unfilled purchase orders, and uncompleted contracts. Contingent liabilities should be disclosed in the financial statements (including the notes) when there is a reasonable possibility that a loss may have been incurred. Guarantees, however, should be disclosed even though the possibility of loss may be remote.

Continuing Appropriation. An appropriation that, once established, is automatically renewed without further legislative action, period after period, until altered or revoked. The term should not be confused with Indeterminate Appropriation.

Contracts Payable. A liability account reflecting amounts due on contracts for goods or services furnished to a government. Amounts withheld as guarantees on contracts should be classified separately in an account entitled Retainage Payable. See Accounts Payable.

Control Account. An account in the general ledger where there is recorded the aggregate of debit and credit postings to a number of related accounts called subsidiary accounts. For example, Taxes Receivable is a control account supported by the aggregate of individual balances in individual property taxpayers' subsidiary accounts. See General Ledger and Subsidiary Account.

Control Cycle. A term used in connection with the evaluation of internal control to describe a series of logically interrelated transactions/processes and associated control-related policies and procedures.

Control Deficiency in Internal Control. A control deficiency in internal control exists when the design or operation of control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

Controller. See Auditor-Controller or Director of Finance.

Corrective Action Plan. A plan that state and local officials are required to submit to appropriate federal officials under the Single Audit Act. The plan details how material noncompliance or weaknesses found in the audit will be eliminated or why corrective action is not necessary.

Cost. The amount of money or other consideration exchanged for property or services.

Cost Accounting. The method of accounting that provides for the assembling and recording of all the elements of cost incurred to accomplish a purpose, to carry on an activity or operation, or to complete a unit of work or a specific job.

Cost Ledger. A subsidiary record wherein each project, job production center, process, operation, product, or service is given a separate account to which all items entering into its cost are posted in the required detail. Such accounts should be arranged and kept so that the results shown in them may be reconciled with and verified by a control account or accounts in the general books.

Cost of Living. The Annual Percentage Factor as determined by the California Department of Industrial Relations used in determining the annual inflation factor (not to exceed 2%), pursuant to Revenue and Taxation Code section 51.

Cost of Replacement. See Replacement Cost.

Cost of Reproduction. See Reproduction Cost.

Cost Records. All ledgers, supporting records, schedules, reports, invoices, vouchers, and other records and documents reflecting the cost of projects, jobs, production centers, processes, operations, products, or services, or the cost of any of the component parts thereof.

Cost Reimbursement Basis. Setting of charges so that costs are systematically recovered on a break-even basis over time.

Cost-Sharing Multiple-Employer Defined Benefit Pension or OPEB plan. A multiple-employer defined benefit pension or OPEB plan that is administered through an irrevocable trust and which the pensions or OPEB obligations to the employees of more than one employer are pooled and pensions or OPEB assets can be used to pay the benefits of pensions or OPEB through the pension or OPEB plan.

Cost Unit. A term used in cost accounting to designate the unit of product or service whose cost is computed. These units are selected for the purpose of comparing the actual cost with a standard cost or with actual costs of units produced under different circumstances or at different places and times. See Unit Cost and Work Unit.

Counterparty. The party that pledges collateral or repurchase agreement securities to the government or that sells investments to or buys them for the government.

Coupon Rate. The interest rate specified on interest coupons attached to a bond. The term nominal interest rate is also used in this sense.

Covenant. See Bond Covenant.

Coverage Ratio. A measure of the magnitude of resources available to pay the interest on and repay the principal of debt backed by pledged revenues. For each type of debt backed by pledged revenues, a coverage ratio is generally calculated by dividing gross pledged revenues or pledged revenues net of specific operating expenses by the sum of interest expenses and principal repayments.

Crossover Refunding. Types of advance refunding in which the escrow established with the proceeds of the refunding bonds only begins to secure repayment of the refunded debt at some designated future time, known as the “crossover date”.

Current. As applied to budgeting and accounting, the operations of the present fiscal period, as opposed to past or future periods. It usually connotes items likely to be used up or converted into cash within one year.

Current Assets. For accounting and financial reporting purposes, the term current assets are used to designate cash and other assets or resources commonly identified as those that are reasonably expected to be realized in cash or sold or consumed within a year. Therefore, current assets generally include such resources as (a) cash available for current operations and items that are the equivalent of cash; (b) inventories of merchandise, raw materials, goods in process, finished goods, operating supplies, and ordinary maintenance material and parts; (c) trade accounts, notes, and acceptances receivable; (d) receivables from taxpayers, other governments, vendors, customers, beneficiaries, and employees, if collective within a year; (e) installment or deferred accounts and notes receivable if they generally conform to normal trade practices and terms within the business-type activities; (f) marketable securities representing the investment of cash available for current operations; and (g) prepayments such as insurance, interest, rents, unused royalties, current paid advertising service not yet received, and operating supplies. Prepayments are not current assets in the sense that they will be converted into vast but in the sense that, if not paid in advance, they would require the use of current assets within a year. Current assets excludes such resources as: (1) cash and claims to cash that are restricted at to withdrawal or use for other than current operations, that are designated for disbursement in the acquisition or construction of noncurrent assets, or that are segregated for the liquidation of long-term debts; (2) receivables arising from unusual transactions (such as the sale of capital assets) that are not expected to be collected within 12 months; (3) cash surrender value of life insurance policies; (4) land and other natural resources; (5) depreciable assets; and (6) long-term prepayments that are applicable to the operations of several years, or deferred changes such as bonus payments under a long-term lease.

Current Costs. In connection with municipal solid-waste landfills and pollution remediation obligations, the amount that would be paid if all equipment, facilities, and services included in the estimate of the obligation were acquired during the current period.

Current Financial Resources Measurement Focus. Measurement focus where the aim of a set of financial statements is to report the near-term (current) inflows, outflows, and balances of expendable financial resources. The current financial resources measurement focus is unique to accounting and financial reporting for state and local governments and is used solely for reporting the financial position and results of operations of governmental funds.

Current Liabilities. Used principally to designate obligations whose liquidation is reasonably expected to require the use of existing resources properly classifiable as current assets or the creation of other current liabilities. As a category in the statement of net (position), the classification is intended to include obligations for items that have entered into the operating cycle, such as payables incurred in the acquisition of materials and supplies to be used in providing services; collections received in advance of the performance of services' and debts that arise from operations directly related to the operating cycle, such as accruals for wages, salaries, commissions, rentals, and royalties. Other liabilities who regular and ordinary liquidation is expected to occur within one year also are intended for inclusion, such as short-term debts arising from the acquisition of capital assets, serial maturities of long-term obligations, amounts required to be expended within one year under sinking fund provisions, and certain agency obligations arising from the collection or acceptance of cash or other assets for the account of third parties. The current liability classification also is intended to include obligations that, by their terms, are due on demand or will be due on demand within one year from the date of the financial statements, even though liquidation may not be expected within that period. It also is intended to include long-term obligations that are or will be callable by the creditor either because the debtor's violation of a provision of the debt agreement at the date of the financial statement makes the obligation callable or because the violation, if not cured within a specified grace period, will make the obligations callable. According, such callable obligations should be classified as current liabilities unless one of the following conditions is met:

(1) The creditor has waived or subsequently lost the right to demand repayment for more than one year from the date of the financial statement.

(2) For long-term obligations containing a grace period within which the debtor may cure the violation, it is probable that the violation will be cured within that period, thus preventing the obligation from becoming callable.

Current Refunding. Refunding transaction when the issuance of new debt immediately replaces previously outstanding issued debt.

Current Resources. Resources to which recourse can be had to meet current obligations and expenditures. Examples of: current assets, estimated revenues of a particular period not yet realized, transfers from other funds authorized but not received, and, in the case of certain funds, bonds authorized and unissued.

Current Roll Auditor's/Auditor's Roll. The roll containing the property on which current taxes are a lien.

Current Roll Supplemental/Supplemental Roll. The roll for the fiscal year during which the change in ownership occurs or the new construction is completed.

Current Tax Rate. The tax rate applicable to the current roll, including any rate for voter-approved indebtedness.

Current Taxes. Taxes levied and became due within one year.

Custodial Agreement. A written contract is establishing the responsibilities of a custodian who holds collateral for deposits with financial institutions, investment securities, or securities underlying repurchase agreements.

Custodial Credit Risk. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

Customer Deposits. A liability account used in an Enterprise Fund to reflect deposits made by customers as a prerequisite to receiving services and/or goods provided by the fund.

D

Data Processing. (Information Systems) (1) The preparation and handling of information and data from source media through prescribed procedures to obtain such end results as classification, problem solution, summarization, and reports. (2) Preparation and handling of financial information wholly or partially by mechanical or electronic means. See Electronic Data Processing (EDP).

Debt. An obligation resulting from the borrowing of money or from the purchase of goods and services. Debts of governments include bonds, time warrants, and notes. See Accounts Payable, Bonds, Note Payable, General Long-Term Debt.

Debt Extinguishments. See Advance Refunding Bonds, Defeasance, In-Substance Defeasance of Debt.

Debt Limit. The maximum amount of outstanding gross or net debt legally permitted.

Debt Proceeds. The difference between the face amount of debt and the issuance discount or the sum of the face amount and the issuance premium. Debt proceeds differ from cash receipts to the extent issuance costs, such as underwriters' fees, are withheld by the underwriter.

Debt Ratios. Comparative statistics illustrating the relation between the issuer's outstanding debt and such factors as its tax base, income or population. These ratios often are used as part of the process of determining the credit rating of an issue, especially with general obligation bonds.

Debt Service. Appropriations required to pay the cost of interest and redemption charges, including the funding of any reserve or sinking fund requirements on indebtedness existing or legally authorized as of January 1, 1979, or on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity, voting in an election for such purpose.

Debt Service Fund. Funds used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should be used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in debt service funds.

Debt Service Fund Requirements. The resources which must be provided for a debt service fund so that all principal and interest payments can be made in full and on schedule.

Debt Service Requirements. The amount of money required to pay interest on outstanding debt, serial maturities of principal for serial bonds, and required contributions to accumulate money for future retirement of term bonds.

Deduction. A term used to describe decreases in the net position of fiduciary funds.

Deep-Discount Debt. Debt issued with a stated interest rate significantly less than the effective interest rate (e.g., less than 75 percent of the effective interest rate).

Defaulted Taxes. Delinquent secured property taxes that become subject to redemption penalties and fees as of July 1st. Five years after becoming tax defaulted, property, by operation of law, becomes subject to the Tax Collector's power to sell.

Defeasance. In the context of financial reporting, netting of outstanding liabilities and related assets on the statement of financial position. Most refunding's result in the defeasance of the refunded debt. Defeasance also is sometimes encountered in conjunction with annuity contracts purchased in connection with lottery prizes and settlements of claims and judgments.

Deferred Inflow(s) of Resources. An acquisition of net position by the government that is applicable to a future reporting period.

Deferred Outflow(s) or Resources. A consumption of net position by the government that is applicable to a future reporting period.

Deficiency. A general term indicating the amount by which anything falls short of some requirement or expectation. The term should not be used without qualification.

Deficit. (1) The excess of the liabilities of a fund over its assets. (2) The excess of expenditures over revenues during an accounting period; or, in the case of proprietary funds, the excess of expenses over revenues during an accounting period.

Defined Benefit Pension Plan (or OPEB). Pension or OPEB plans that are used to provide defined benefit pensions or OPEB.

Defined Benefit Pensions (or OPEB). Pensions or OPEB for which the income or other benefits that the employee will receive at or after separation from employment are defined by the benefit terms. The pensions or OPEB may be stated as a specified dollar amount or as an amount that is calculated based on one or more factors such as age, years of service, and compensation.

Defined Contribution Pension Plans (or OPEB). Pensions or OPEB plans that are used to provide defined contribution pensions or OPEB.

Defined Contribution Pensions (or OPEB). Pensions or OPEB having terms that (a) provide an individual account for each employee; (b) define the contributions that an employer is required to make (or the credits that it is required to provide) to an active employee's account for period in which that employee renders service; and (C) provide that the pensions an employee will receive will depend only on the contributions (or credits) to the employee's account, actual earnings on investments of those contributions (or credits), and the effects of forfeitures of contributions (or credits) made for other employees, as well as pension plan administrative costs, that are allocated to the employee's account.

Delinquent Abstract. See Redemption Roll.

Delinquent Roll. See Redemption Roll.

Delinquent Special Assessments. Special assessments remaining unpaid on and after the date to which a penalty for nonpayment is attached.

Delinquent Taxes. Taxes remaining unpaid on and after the date a penalty for nonpayment is attached. Even though the penalty may be subsequently waived and a portion of the taxes may be abated or canceled, the unpaid balances continue to be delinquent taxes until abated, canceled, paid or converted into tax liens.

Delinquent Unsecured Roll. A list of unsecured property declared to be in default by the tax collector in a particular year.

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

Depletion. The allocation of the cost of wasting assets (e.g., timber, oil, coal) to the periods benefited by their use.

Deposit. Money placed with a banking or other institution or with a person, sometimes for a specific purpose.

Depository Insurance. Depository insurance includes (1) Federal depository insurance funds, such as those maintained by the Federal Deposit Insurance Corporation (FDIC or FDICIA), (2) State depository insurance funds, and (3) multiple financial institutions collateral pools that insure public deposits. In such a pool, a group of financial institutions holding public funds pledges collateral to a common pool.

Deposit Warrant. A financial document prepared by an appointed accounting or finance officer authorizing the treasurer of a government to accept for deposit sums of money collected by various departments and agencies of the government. See Warrant.

Depreciation. (1) Expiration in the service life of capital assets, other than wasting assets, attributable to wear and tear, deterioration, the action of the physical elements, inadequacy, and obsolescence. (2) The portion of the cost of a capital asset, other than a wasting asset, charged as an expense during a particular period. In accounting for depreciation, the cost of a capital asset, less any salvage value, is prorated over the estimated service life of such an asset, and each period is charged with a portion of such cost. Through this process, the entire cost of the asset is ultimately charged off as an expense.

Depreciation schedule. A schedule listing the annual allocation of the cost of capital assets to future periods, using one of the depreciation methods acceptable under GAAP.

Derivative. A contract whose value depends on, or derives from, the value of an underlying asset, reference rate, or index. The term also is applied to similar transactions, such as structured financial instruments (for example, mortgage-backed securities).

Derived Tax Revenues. Assessments imposed on exchange transactions (for example, income taxes, sales taxes, and other assessments on earnings or consumption).

Developer Fees. Fees charged to developers to cover, in whole or in part, the anticipated cost of improvements that will be necessary as a result of the development (e.g., parks, sidewalks).

Direct Charges. See Direct Expenses.

Direct Costs. See Direct Expenses.

Direct Costing. Use of actual source data (invoices) to establish the historical cost of a capital asset.

Direct Debt. The outstanding long-term debt instruments, including bonds, notes, certificates of participation, loans, and capital leases, of the government preparing the statistical section. See Overlapping Debt.

Direct Expenses. An expense that is specifically associated with a service, program, or department and, thus, is clearly identifiable with a particular function.

Direct Labor. The cost of labor directly expended in the production of specific goods or rendition of specific services.

Direct Materials. The cost of materials which become an integral part of a specific manufactured product or which are consumed in the performance of a specific service.

Director of Finance. An office, created by the voters, with the power and duties of the auditor-controller, treasurer, and tax collector, and such other duties as prescribed by the board of supervisors.

Disallowed Costs. Claims for grantor resources that have been rejected by the grantor.

Disclaimer of Opinion. A report stating that the auditor does not express an opinion on the financial statements. The disclaimer of opinion is appropriate when the auditor has not performed an examination sufficient in scope to enable him to form an opinion on the financial statements. A disclaimer of opinion should not be expressed because the auditor believes, on the basis of the examination, that there are material departures from GAAP. In such circumstances, an adverse opinion would be appropriate. See Adverse Opinion and Qualified Opinion.

Discount. In the context of bonds payable and investments, the amount by which par value exceeds the price paid for security. The discount generally represents the difference between the nominal interest rate and the actual or effective rate of return to the investor.

Discount Rate. The rate used to adjust a series of future payments to reflect the time value of money. For the purpose of calculating the pension benefit obligation defined by GASB, this rate is equal to the estimated long-term rate of return on current and future investments of the pension plan. For capitalized leases, the discount rate used by the lessee is the lessee's incremental borrowing rate unless the lessee is aware of the lessor's implicit rate and that rate is less than the lessee's incremental borrowing rate.

Discount Rate (as used in GASB 73). A yield or index rate for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale).

Discounted Present Value. See Present Value.

Discrete Presentation. Method of reporting financial data of component units separately from financial data of the primary government.

Discussion Memorandum (DM). Due-process document issued by the GASB that solicits comments from interested parties on various aspects of a technical issue that is the subject of research by the board.

Documented Vessel. Any vessel required to have a valid marine document issued by the Bureau of Customs of the United States, subject to special valuation procedures.

Dollar Purchase/Reverse Repurchase Agreement. A repurchase/reverse repurchase agreement that involves the transfer of securities in which the parties agree that the securities returned usually will be of the same issuer but will not be the same certificates. Fixed coupon and yield maintenance agreements are the most common types of dollar agreements.

Double Entry. A system of bookkeeping that requires, for every entry made on the debit side of an account or accounts, entry or entries be made in an equal amount to the credit side of another account or accounts.

Dry Period Financing. The cash required to covering those times when cash receipts are insufficient to meet the cash demands.

Due from _____ Fund. An asset account used to indicate amounts owed to a particular fund by another fund for goods sold or services rendered. This account includes only short-term obligations on open account, not inter-fund loans. See Advance from _____ Fund and Inter-Fund Receivable/Payable.

Due from _____ Government. An asset account reflecting amounts due to the reporting government from another government. These amounts may represent grants-in-aid, shared taxes, taxes collected by another unit, loans, and charges for services rendered by a reporting unit for another government.

Due Process. Procedures followed by the GASB to ensure that the views of all interest parties are solicited and considered prior to issuing an authoritative pronouncement. At a minimum, due process requires that all statements and interpretations be preceded by an exposure draft.

Due to Fiscal Agent. A liability account reflecting amounts due to fiscal agents, such as commercial banks, for servicing a government's maturing interest and principal payments on indebtedness.

Due to _____ Fund. A liability account reflecting amounts owed by a particular fund to another fund for goods sold or service rendered. These amounts include only short-term obligations on open account and not inter-fund loans. See Advance to _____ fund and Interfund receivable/payable.

E

Early Recognition Option. A term used in connection with debt service funds. The option to recognize an expenditure in the current period in a debt service fund for principal and interest payments due early in the subsequent period. This option is available only in situations involving the nondiscretionary transfer of resources to a debt service fund in the current period for payments due shortly after the end of the fiscal year (i.e., usually within one to several days, and never more than one month later).

Earnings. See Income and Revenues.

Economic Gain/Loss. In the context of an advance refunding, the difference between the present value of the old debt service requirements and the present value of the new debt service requirements discounted at the effective interest rate and adjusted for additional cash paid.

Economic Resources Measurement Focus. A measurement focus under which the aim of a set of financial statements is to report all inflows, outflows and balances affecting or reflecting an entity's net position. The economic resources measurement focus is used for proprietary and fiduciary funds, as well as for government-wide financial reporting. It also is used by business enterprises and not-for-profit organizations in the private sector.

Education Revenue Augmentation Fund (ERAF). The fund established for the deposit of money deducted and transferred from the county, cities, and special districts for subsequent distribution to non-basic aid schools.

Effective Interest Rate. The rate of earnings on a bond investment, based on the actual price paid for the bond, the coupon rate, the maturity date, and the length of time between interest dates, in contrast with the nominal interest rate.

Effectiveness. A term used in connection with the evaluation of internal controls and performance measurement. The degree to which an entity, program, or procedure is successful at achieving its goals and objectives.

Efficiency. A term used in connection with the evaluation of internal controls and performance measurement. The degree to which an entity, program, or procedure is successful at achieving its goals and objectives with the least use of scarce resources.

Electronic Data Processing (EDP). Data processing by means of high-speed electronic equipment. See Data Processing.

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

Emerging Issues Task Force. A group established under the auspices of an authoritative standard-setting body and authorized to publish consensus positions on technical issues not specifically addressed by that body. GASB has not established an emerging issues task force, although it is empowered to do so.

Eminent Domain. The power of a government to acquire private property for public purposes. It is frequently used to obtain real property that cannot be purchased from owners in a voluntary transaction. When the power of eminent domain is exercised, owners are compensated by the government in an amount determined by the courts.

Enabling Legislation. Authorizes the government to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that a government can be compelled by an external party, such as citizens, public interest groups, or the judiciary, to use resources created by enabling legislation only for the purposes specified by the legislation.

Encumbrances. Commitments related to unperformed (executory) contracts for goods or services. Used in budgeting, encumbrances are not GAAP expenditures or liabilities but represent the estimated amount of expenditures ultimately to result if unperformed contracts in process are completed. Any encumbrances remaining at fiscal year-end will need to be classified as restricted, committed or assigned fund balance in the governmental fund balance sheet.

Endowment. Funds or property donated with either a temporary or permanent restriction as to their use. Endowments with the stipulation that the principal balance not is disbursed are often accounted for in permanent funds. See Permanent Fund.

Enterprise Fund. Used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's principal revenue sources. (1) The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit, even if that government is not expected to make any payments, is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity). (2) Laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt services), be recovered with fees and charges, rather than with taxes or similar revenues. (3) The pricing policies of the activity established fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Entitlement. The amount of payment to which a state or local government is entitled, pursuant to an allocation formula contained in applicable statutes.

Entity. The basic unit upon which accounting and/or financial reporting activities focus. The basic governmental legal and accounting entity is prescribed by GAAP to be the reporting entity for financial statement reporting purposes and it alone may issue CAFRs and BFS.

Entity Differences. A difference between the budgetary basis of accounting and GAAP, arising because the appropriated budget either includes or excludes organizations, programs, activities, and functions which may or may not be compatible with the criteria defining the governmental reporting entity.

Entry. The record of a financial transaction in the appropriate book of account.

Entry Age Actuarial Cost Method. A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for a valuation date by the actuarial present value of future normal costs is called the actuarial accrued liability.

Equalized Roll. The combination, as of August 20, of the local valuations certified by the assessor, any changes made by the county board of supervisors in July, and the current state-assessed valuations reported by the State Board of Equalization.

Equipment. See Machinery and Equipment.

Equity Accounts. In those accounts presenting either fund balances or net position, this is the difference between assets and liabilities of the fund.

Equity Securities. Any security that represents an ownership interest in an entity, including common, preferred, or other capital stock; unit investment trusts; and closed-end mutual funds. However, the term equity security does not include convertible debt or preferred stock that either is required to be redeemed by the issuing entity or is redeemable at the option of the investor.

Equivalent Single Amortization Period. The weighted average of all amortization periods used when components of the total unfunded actuarial accrued liability are separately amortized and the average is calculated in accordance with the parameters.

Escheat (Abandoned Property). The reversion of property to a government entity in the absence of legal claimants or heirs. The laws of many governmental entities provide that a rightful owner or heir can reclaim escheated property into perpetuity, provided the claimant can establish his or her right to the property. This does not necessarily mean that governments hold all escheated property into perpetuity. Because large portions of escheated property are never reclaimed, most governments use some of the property to help finance with either their general or specific operations.

Estimated Life. The expected economic useful life of an asset, from the date placed in service to the projected retirement date.

Estimated Revenue. The amount of revenue estimated to accrue or to be collected during a fiscal period.

Estimated Uncollectible Accounts. See Allowance for Uncollectibles.

Estimated Uncollectible Receivables. See Allowance for Uncollectibles.

Ethics Rule 202. An ethics rule established by AICPA that places upon auditors the burden of proof for justifying any material departures from the guidance found on levels 2, 3, or 4 of the GAAP hierarchy.

Ethics Rule 203. An ethics rule established by AICPA that makes it an ethical violation for an auditor to state that financial statements are “fairly presented in conformity with GAAP” if those statements materially violate standards issued by FASB, GASB, or the Federal Accounting Standards Advisory Board. A special exception applies when unusual circumstances would make the application of an authoritative standard misleading.

Exchange (Exchange Transaction). A reciprocal transfer between a government and another entity that results in the government acquiring assets or services or satisfying liabilities by surrendering other assets or services or incurring other obligations.

Exchange-Like Transaction. Transactions between a government and another party(ies) where the values may not be quite equal or the direct benefits of the exchange may not be exclusive to the parties to the exchange. These tend to be licenses or permits and similar.

Exempt Property. Property acquired by a public entity, which becomes exempt from taxation under the laws of the state.

Expected Useful Life. See Estimated Life.

Expenditure-Driven Grants. Government-mandated or voluntary non-exchange transactions in which expenditure is the prime factor for determining eligibility. Also referred to as reimbursement grants.

Expenditures. Decreases in net financial resources. Expenditures include current operating expenses which require the present or future use of net current assets, debt service and capital outlays, and intergovernmental grants, entitlements and shared revenues.

Expenses. Outflows or other using up of assets or incurrences of liabilities (or a combination of both) from delivering or producing goods, rendering services or carrying out other activities that constitute the entity’s ongoing major or central operations.

Explicit Measurable Equity Interest. A term used in connection with joint ventures. An asset resulting from a stipulation in the joint venture agreement that the participants have a present or future claim to the net resources of the joint venture and setting forth the method to determine the participants' shares of the joint venture's net resources.

Exposure Draft (ED). A proposed statement or interpretation issued for public comment by GASB or FASB.

External Auditor. Independent auditor(s) typically engaged to conduct the audit of a government's financial statements.

External Financing Sources. In governmental fund types, includes revenues, other financing sources, and transfers in. This is a conventional term and should not be used in the financial statement presentation.

Extraordinary Items. Increases or decreases in fund balances that are both (1) unusual in nature and (2) infrequent in occurrence.

F

Face Value. As applied to securities, the amount of the issuer's liability stated in the security document. See Par Value.

Fair Value. The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Federal Award. Federal financial assistance and federal cost-reimbursement contracts that non-federal entities receive directly from federal awarding agencies or indirectly from pass-through entities.

Federal Financial Assistance. For purposes of applying the provisions of the Single Audit Act of 1997 and OMB Circular A-133, Audits of State and Local Governments, assistance provided by a federal agency in the form of grants, contracts, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, or direct appropriations. Federal financial assistance does not include direct federal cash assistance to individuals.

Federal Program. All Federal awards to a nonfederal entity assigned a single number in the Catalog of Federal Domestic Assistance (CFDA).

Fidelity Bond. A written promise to indemnify against losses from theft, defalcation, and misappropriation of public monies by government officers and employees.

Fiduciary Fund. Funds consisting of pension and other employee benefit trust funds, investment trust funds, private-purpose trust funds, and agency funds. The funds are used to report assets held in a trustee or an agency capacity for others and, therefore, cannot be used to support the government's own programs.

Final Amended Budget. A term used in connection with budgetary reporting. The adopted budget adjusted by all fund balance classifications, 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.

Final Budget. The original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year, whenever signed into law or otherwise legally authorized.

Financial Accountability. The level of accountability that exists if a primary government appoints a voting majority of an organization's governing board and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. An 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 Foundation (FAF). A not-for-profit organization responsible for overseeing the operations of both GASB and FASB.

Financial Accounting Standards Advisory Council (FASAC). An advisory group that assists FASB. FASAC includes representatives of all of 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. FASB is the direct successor of the Committee on Accounting Procedure and the Accounting Principles Board. GASB and its predecessors have elected to apply a number of FASB's standards, as well as those of its predecessors, to state and local government.

Financial Audit. An audit made to determine whether the financial statements of a government are presented fairly, in conformity with GAAP.

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

Financing Requirements. In governmental fund types, the total financing needs for the accounting period involved. This is a conventional term and should not be used in the financial presentation.

Financial Resources. Cash and other assets that, in the normal course of operations, will become cash.

Financial Resources Measurement Focus. A Measurement focus according to which the aim of a set of financial statements is to report the near-term (current) inflows, outflows, and balances of expendable (spendable) financial resources. The current financial resources measurement focus is unique to accounting and financial reporting for state and local governments and is used solely for reporting the financial position and results of operations of governmental funds.

Financial Section. One of the three basic sections of a CAFR. The financial section is used to present the independent auditor's report on the financial statements, the basic financial statements (including the notes to the financial statements); required supplementary information; combining statements; individual fund statements and schedules; and supplementary information, as needed.

Financial Statements. A tabulation of amounts, derived from accounting records and expressed in words and dollars, that displays either 1) the financial position of the reporting unit at a moment in time or 2) inflows and outflows of resources from transactions or other events during a period of time.

Financial Uses. In governmental fund types, decreases, excluding expenditure refunds, in the net current assets of a fund. "Financing uses" includes expenditures, other financing uses, and transfers out.

Finding. A published communication of an internal control weakness or instance of noncompliance in connection with an audit.

Fiscal Accountability. Compliance with public decisions concerning the raising and spending of public funds within a reporting period.

Fiscal Agent. A fiduciary agent, usually a bank or county treasurer, who performs the function of paying debt principal and interest when due.

Fiscal Dependence. A term used in connection with the definition of the financial reporting entity. A 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 (1) its budget, (2) the levying of taxes or the setting of rates or charges, or (3) the issuance of bonded debt.

Fiscal Funding Clause. A provision in a lease that allows a cancellation if a governing body does not appropriate funds to pay for a lease in a given period.

Fiscal Period. Any period at the end of which a government determines its financial position and the results of its operations. Often referred to as an Accounting Period.

Fiscal Year. For financial reporting purposes, any 12-month period to which the annual operating budget applies and at the end of which a government determines its financial position and the results of its operations. For budgetary purposes, the current 12-month period to which the annual operating budget applies and at the end of which a government determines its position and the results of its operations.

Five Percent Criterion. The 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. See Ten Percent Criterion.

Fixed Budget. A budget setting forth dollar amounts that are not subject to change based on the volume of goods or services to be provided. See Flexible Budget.

Fixed Charge (Fixed Charge Assessment). A charge in addition to any ad valorem taxes included on a tax bill. Fixed charges are not based on the assessed value of the property and are levied on a parcel basis (i.e. for sewer, library, and flood control assessments). See Special Benefit Assessment(s).

Fixed Costs. Costs of providing goods or services that do not vary proportionately with the volume of goods or services provided (e.g., insurance and contributions to retirement systems).

Fixed Coupon Repurchase/Reverse Repurchase Agreement. A dollar repurchase/reverse repurchase agreement in which the parties agree that the securities returned will have the same stated interest rate as, and maturities similar to, the securities transferred.

Fixed-Income Securities. Securities that offer a specified, measurable cash flow (e.g., most bonds).

Fixtures. Attachments to buildings that are not intended to be removed and cannot be removed without damage to the buildings. Those fixtures with a useful life presumed to be as long as that of the building itself, are considered a part of the building; all others are classified as equipment.

Flexible Budget. A budget whose dollar amounts vary according to the volume of goods or services to be provided. See Fixed Budget.

Flow of Current Financial Resources. See Current Financial Resources Measurement Focus.

Flow of Economic Resources. See Economic Resources Measurement Focus.

Food Stamps. A federal award program that is intended to improve the diets of members of low-income households by increasing their ability to purchase food.

Force Account. A method employed in the construction and/or maintenance of capital assets whereby a government's own personnel are used instead of an outside contractor. This method also calls for the purchase of materials by the government and the possible use of its own equipment, but the distinguishing characteristic of the force account method is the use of the government's own personnel.

Foreclosure. The seizure of property as payment for delinquent tax or special assessment obligations. Ordinarily, property foreclosed is resold to liquidate delinquent tax or special assessment obligations, but on occasion governments retain possession for their own needs.

Forfeiture. The automatic loss of cash or other property as a punishment for not complying with legal provisions and as compensation for the resulting damages or losses. This term should not be confused with confiscation. The latter term designates the actual taking over of the forfeited property by the government. Even after the property has been forfeited, it cannot be said to be confiscated until the government claims it.

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

Formula Grants. Government-mandated or voluntary nonexchange transactions involving the provision of resources based on established criteria (e.g., number of full-time equivalent students) other than the incurrence of qualifying expenditures. Also commonly referred to as shared revenues.

Franchise. A special privilege granted by a government permitting the continued use of public property, such as city streets, and usually involving the elements of monopoly and regulation.

Frozen Entry Age Actuarial Cost Method. A method under which the excess of the Actuarial Present Value of Projected Benefits of the group included in an Actuarial Valuation, over the sum of the Actuarial Value of Assets plus the Unfunded Frozen Actuarial Accrued Liability, is allocated on a level basis over the earnings or service of the group between the valuation date and assumed exit. This allocation is performed for the group as a whole, not as a sum of individual allocations. The Frozen Actuarial Accrued Liability is determined using the Entry Age Actuarial Cost Method. The portion of this Actuarial Present Value allocated to a valuation year is called the Normal Cost.

Full Cash Value. The amount of cash or its equivalent that property would bring if exposed for sale in the open market.

Full Faith and Credit. A pledge of the general taxing power for the payment of debt obligations. Bonds carrying such pledges are referred to as general obligation bonds or full faith and credit bonds.

Full Scope Audit. An audit covering: (1) Financial and Compliance, to determine (a) whether the financial statements of an audited entity present fairly the financial position, results of operations, and (when applicable) cash flows in accordance with generally accepted accounting principles, and (b) whether the entity has complied with the various legal and contractual requirements that may have a material effect on the financial statements; (2) Economy and Efficiency, to determine (a) whether the entity is managing and utilizing its resources (such as personnel, property, space) economically and efficiently, (b) the causes of inefficiencies or uneconomical practices, and (c) whether the entity has complied with laws and regulations concerning matters of economy and efficiency; and (3) Program Results, to determine (a) whether the desired results or benefits established by the legislature or other authorizing body are being achieved, and (b) whether the agency has considered alternatives that might yield the desired results at a lower cost.

Function. A group of related activities aimed at accomplishing a major service or regulatory program for which a government is responsible. For example, public health is a function. See Subfunction.

Functional-Basis Combining. The process of grouping or combining similar funds and/or component units on a functional basis (e.g., transportation, economic development) for financial reporting purposes.

Functional Classification. Expenditure classification according to the principal purpose for which expenditures are made. Examples are public safety, public health, and public welfare.

Fund. A fiscal and accounting entity with a self-balancing set of accounts in which cash and other financial resources, all related liabilities and equities or balances, and changes therein, are recorded and segregated to carry on specific activities or attain certain objectives in accordance with special regulations, restrictions or limitations.

Fundamental Analysis. A method of estimating the fair value of a security when it is thinly traded or when quoted market prices are not available. Fundamental analysis considers assets, liabilities, operating statement performance, management, and economic environment of the issuer in estimating a fair value.

Fund Balance. In a governmental fund, the residual of assets, less liabilities and deferred inflows of resources (if applicable). Fund balance has five components: nonspendable, restricted, committed, assigned, and unassigned.

Fund Balance Classifications. Financial statements for governmental funds may report up to five components of fund balance: nonspendable, restricted, committed, assigned and unassigned. (The General Fund is the only governmental fund with a positive unassigned amount.)

Fund Balance Sheet. A balance sheet for a single fund. See Fund and Balance Sheet.

Fund Capital Assets. Those capital assets associated with proprietary or trust funds.

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

Fund Financial Statements. Display of information about major funds individually and nonmajor funds in the aggregate for governmental and enterprise funds. Fiduciary statements should include financial information for fiduciary funds and similar component units. Each of the three fund categories should be reported using the measurement focus and basis of accounting required for that category.

Fund Type. Any one of eleven categories into which all funds are classified in governmental accounting. The governmental fund types are General, Special Revenue, Debt Service, Capital Projects, and Permanent. The proprietary fund types are Enterprise and Internal Service. The fiduciary fund types are Pension (and Other Employee Benefit) Trust, Investment Trust, Private-Purpose Trust, and Agency.

Funded Debt. The same as bonded debt, which is the preferred term.

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).

Funded Ratio (OPEB Only). The actuarial value of assets expressed as a percentage of the actuarial accrued liability.

G

GAAFR. Acronym for *Governmental Accounting, Auditing, and Financial Reporting*, a publication of the GFOA. Also known as the "Blue Book."

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

Generally Accepted Accounting Principles (GAAP). Uniform minimum standards and guidelines for financial accounting and reporting. They govern the form and content of the financial statements of an entity. GAAP encompasses the conventions, rules and procedures necessary to define accepted accounting practice at a particular time. The principles include not only broad guidelines of general application, but also detailed practices and procedures. GAAP provides a standard by which to measure financial presentations. The primary authoritative body on the application of GAAP to state and local governments is GASB.

Generally Accepted Auditing Standards (GAAS). Standards established by AICPA for the conduct and reporting of financial audits. There are ten basic standards classed into three broad categories: general standards, standards of field work, and standards of reporting. The Auditing Standards Board of AICPA publishes *Statements on Auditing Standards* (SASs) to comment and expand upon these basic standards. SAS, together with the ten basic standards, constitute GAAS. GAAS sets forth the objectives of the audit and establishes measures that can be applied to judge the quality of its performance.

Generally Accepted Government Auditing Standards (GAGAS). Standards established by the GAO in its publication, *Government Auditing Standards* (GAS), commonly known as the "Yellow Book, for the conduct and reporting of both financial and performance audits. GAGAS sets forth general standards applicable to both types of audits and separate standards of field work and reporting for financial and performance audits. The GAGAS standards of field work and reporting for financial audits incorporate and build upon GAAS.

General Capital Assets. Capital assets that are not assets of any fund, but of the government unit as a whole. Most often these assets arise from the expenditure of the financial resources of governmental funds.

General Fund. The primary operating fund of a government. The General Fund accounts for and reports all financial resources not accounted for and reported in another fund.

General Journal. A journal in which are recorded all entries not recorded in special journals. See Journal and Special Journal.

General Ledger. A record containing the accounts needed to reflect the financial position and the results of operations of a government. In double entry bookkeeping, the debits and credits in the general ledger are equal (i.e., the debit balances equal the credit balances). See Subsidiary Ledger, Control Account, and Subsidiary Account.

General Long-Term Debt. Long-term debt expected to be repaid from governmental funds. See Long-Term Debt.

General Obligation Bonds Payable. Bonds backed by the full faith and credit of government. See Full Faith and Credit.

General Revenues. All revenues are general revenues unless they are required to be reported as program revenues. All taxes, even those that are levied for a specific purpose, are general revenues and should be reported by type of tax. For example, sales tax, property tax, franchise tax, income tax, and all other nontax revenues (including interest, grants, and contributions) that do not meet the criteria to be reported as program revenues should be reported as general revenues. General revenues should be reported after total net expense of the government's functions.

Government Accountability Office (GAO). The investigative arm of the U.S. Congress charged with improving the performance and accountability of the federal government. The GAO issues the publication *Government Auditing Standards* (GAS), commonly known as the "Yellow Book," which sets generally accepted government auditing standards (GAGAS).

Government Finance Officers Association (GFOA). Formerly the Municipal Finance Officers Association. An organization comprised of accounting and finance professionals from throughout the United States and Canada. The GFOA has played a major role in the development and promotion of GAAP for state and local government and sponsored the Certificate of Achievement for Excellence in Financial Reporting Program. Publishes *Governmental Accounting, Auditing, and Financial Reporting* (GAAFR), commonly known as the "Blue Book."

Governmental Accounting. The composite activity of analyzing, recording, summarizing, reporting and interpreting the financial transactions of governments.

Governmental Accounting Standards Advisory Council (GASAC). An advisory body established to assist GASB. The membership of GASAC represents all major groups with an interest in accounting and financial reporting for state and local governments.

Governmental Accounting Standards Board (GASB). The authoritative accounting and financial reporting standard-setting body for government entities.

Governmental Accounting, Auditing and Financial Reporting (GAAFR). GAAFR supplement updates the publication of the GFOA also known as the "Blue Book." Provides detailed guidance to the application of principles to the accounting and financial reporting activities of state and local governments.

Governmental Activities. Those activities of a government that are carried out primarily to provide services to citizens and that are financed primarily through taxes and intergovernmental grants.

Governmental External Investment Pool. An arrangement that commingles (pools) the money of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio; one or more of the participants not being part of the sponsor's reporting entity. In California counties, it is typical for external pools to be used; the participants that are not typically part of the county's reporting entity and may include school districts and local-board-governed special districts.

Governmental Entity. For accounting and financial reporting purposes, an entity subject to the hierarchy of GAAP applicable to state and local governmental units. The criteria used to distinguish governmental entities from nongovernmental entities are set forth in the AICPA's *Audits of State and Local Governmental Units*.

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

Governmental Funds. Funds (emphasizing major funds) consisting of the General Fund, Special Revenue Funds, Capital Projects Funds, Debit Service Funds, and Permanent Funds, as applicable. The funds focus primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation.

Government-Mandated Nonexchange Transactions. When a government at one level provides resources to a government at another level and requires the recipient to use the resources for a specific purpose (for example, federal programs that state or local governments are mandated to perform.)

Government-Wide Financial Statements. Display of information about the reporting government as a whole, except for its fiduciary activities. The statement as a whole, except for its fiduciary activities. The statements should include separate columns for the governmental and business-type activities of the primary government as well as for its component units. Government-wide financials statements should be prepared using the economic resources measurement focus and the accrual basis of accounting. They consist of a statement of net (position) and a statement of activities.

Grant Anticipation Note (GAN). A short-term interest-bearing note issued by a government in anticipation of grants to be received at a later date. The notes are retired from proceeds of the grants to which they are related. See Interim Borrowing.

Grants. Contributions or gifts of cash or other assets from another government to be used or expended for a specified purpose, activity or facility. See Capital Grants and Operating Grants.

Grants-in-Aid. See Grants.

Gross Bonded Debt. The total amount of direct debt of a government, represented by outstanding bonds before deduction of any assets available and earmarked for their retirement.

Guaranteed Investment Contract (GIC). A group annuity contract designed to provide guarantees of principal and interest on funds deposited with an insurance company for a specified party.

H

Historical Cost. The price paid to acquire an asset or the amount received pursuant to the incurrence of a liability in an actual exchange transaction. See Cost.

Hold-Harmless Agreement. A contract under which the liability of one party for damages is assumed by another.

Homeowner Exemption. A value reduction provided to homeowners pursuant to Revenue and Taxation Code section 218.

I

Impact Fees. Fees charged to developers to cover, in whole or in part, the anticipated cost of improvements that will be necessary as a result of the development (e.g., parks, sidewalks).

Implementation Guides. Guidance on the proper implementation of authoritative accounting and financial reporting standards issued by the staff of GASB. Implementation guides use a question-and-answer format and enjoy "level 4" status on the hierarchy of GAAP for state and local governments.

Imposed Nonexchange Revenues. Assessments imposed on nongovernmental entities, including individuals, other than assessments on exchange transactions (for example, property taxes and fines).

Imprest Account. An account into which a fixed amount of money is placed for the purpose of minor disbursements or disbursements for a specific purpose (e.g., payroll). When disbursements are made, a voucher is completed to record their date, amount, nature and purpose. From time to time, a report with substantiating vouchers is prepared; the account is replenished for the exact amount of the disbursements and appropriate general ledger accounts are charged. The total of cash plus substantiating vouchers always should equal the total fixed amount of money set aside in the imprest account. See Petty Cash.

Improvements. Addition made to, or change made in, a capital asset, other than maintenance, to prolong its life or to increase its efficiency or capacity. The cost of the addition or change normally is added to the book value of the asset (the term *betterment* is sometimes used instead). Betterment s refer to sidewalks, trees, drives, tunnels, drains, sewers, etc. See Buildings and Improvements.

Improvements other than Buildings. Attachments or annexations to land that are intended to remain so attached or annexed, such as sidewalks, trees, drives, tunnels, drains and sewers. Sidewalks, curbing, sewers, and highways are sometimes referred to as betterments, but the term improvements are preferred.

"In-Relation-To" Opinion. An indication in the independent auditor's report that the auditor does not render an opinion on the fair presentation per se of certain information contained in the financial report (e.g., combining and individual fund financial statements), but does assert that the information in question is fairly presented "in relation to" the audited financial statements).

Income. A term used in proprietary fund type accounting to represent (1) revenues or (2) the excess of revenues over expenses. See Operating Income, Income Before Transfers, and Net Income.

Income before Transfers. Proprietary fund operating income plus nonoperating revenues and minus nonoperating expenses.

Incurred but not Reported (IBNR) Claims. Claims relating to insured events that have occurred but have not yet been reported to the insurer or reinsurer as of the date of the financial statements. IBNR claims include (1) known loss events that are expected to be later presented as claims, (2) unknown loss events that are expected to become claims, and (3) expected future development on claims already reported.

Independent Auditor. Auditor(s) who are independent, both in fact and appearance, of the entities they audit. Both GAAS and GAGAS set specific criteria that must be met for an auditor to be considered independent.

Indeterminate Appropriation. An appropriation which is not limited either to any definite period of time or to any definite amount. A distinction must be made between an indeterminate appropriation and a continuing appropriation. First, whereas a continuing appropriation is indefinite only as to time, an indeterminate appropriation is indefinite as to both time and amount. Second, even indeterminate appropriations that are indefinite only as to time are to be distinguished from continuing appropriations in that such indeterminate appropriations may eventually lapse (e.g., an appropriation to construct a building may be made to continue in effect until the building is constructed; once the building is completed, the unexpended balance of the appropriation lapses). On the other hand, a continuing appropriation may continue forever and can be abolished only by specific action of the legislative body.

Indirect Expenses. Expenses that are not program-specific and are usually allocated based on a systematic and rational formula. See Overhead.

Indirect Project Costs. Costs incurred after the acquisition of the property, such as construction administration (for example, the costs associated with a field office at a project site and the administrative personnel that staff the office), legal fees, and various office costs, that clearly relate to projects under development or construction. Examples of office costs that may be considered indirect project costs are cost accounting, design, and other departments providing services that are clearly related to real estate project.

Individual Investment Accounts. An investment service provided by a governmental entity for other, legally separate entities that are not part of the same reporting entity. With individual investment accounts, specific investments are acquired for individual entities and the income from and changes in the value of those investments affect only the entity for which they were acquired.

Industrial Development Bonds. Bonds issued by governments, the proceeds of which are used to construct facilities for a private business enterprise.

Inflows of Resources. An acquisition of net position that is applicable to the current reporting period.

Information Systems. See Data Processing.

Infrastructure (or Infrastructure Assets). Long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructures assets include roads, bridges, tunnels, drainage system, water and sewer systems, dams, and lighting systems. Buildings, except those that are not ancillary part of a network or infrastructure assets, should not be considered infrastructure assets.

Inputs. The assumptions that market participants would use when pricing an asset or liability, including assumptions about risk, such as the following: (1) the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model), and (2) the risk inherent in the inputs to the valuation technique.

In-Substance Assignment. An in-substance assignment occurs when all of the following criteria are met: (1) the original swap counterparty, or the swap counterparty's credit support provider, is replaced; (2) the original swap agreement is ended, and the replacement swap agreement is entered into on the same date, (3) the terms that affect changes in fair values and cash flows in the original and replacement swap agreement are identical. These terms include, but are not limited to, notional amounts; terms to maturity; variable payment terms; reference rates; time intervals; fixed-rate payments; frequencies of rate resets; payment dates; and options, such as floors and caps, and (4) any difference between the original swap agreement's exit price and the replacement swap's entry price is attributable to the original swap agreement's exit price being based on a computation specifically permitted under the original swap agreement. Exit price represents the payment made or received as a result of terminating the original swap. Entry price represents the payment made or received as a result of entering into a replacement swap.

In-Substance Defeasance. When debt is considered defeased for accounting and financial reporting purposes, even though a legal defeasance has not occurred.

In-Substance Defeasance of Debt. An advance refunding in which the government is not legally released from being the primary obligor on the refunded debt, but the possibility of the government having to make additional payments is considered remote under criteria provided by GAAP. See Advance Refunding.

Insurance. The transfer of risk of loss from one party (the insured) to another party (the insurer) in which the insurer promises (usually specified in a written contract) to pay the insured (or others on the insured's behalf) an amount of money (or services, or both) for economic losses sustain from an unexpected (accidental) event during a period of time for which the insured makes a premium payment to the insurer.

Insured Defined Benefit Pension Plan. A pension financing arrangement whereby an employer accumulates funds with an insurance company, while employees are in active service, in return for which the insurance company unconditionally undertakes a legal obligation to pay the pension benefits of those employees or their beneficiaries, as defined in the employer's plan.

Intangible Assets. Assets include easements, land use rights (such as the right to use a water source) computer software, patents, and trademarks. Intangible assets may be externally generated (purchased or received from a third party) or internally generated such as computer software. Generally, an intangible asset possesses all of the following characteristics: (1) lack of physical substance, (2) nonfinancial nature, and (3) initial useful life extending beyond a single reporting period. Intangible assets should be classified as capital assets and should follow the existing authoritative guidance related to the accounting and financial reporting of capital assets. See Capital Assets.

Interest in Property. Includes any legal or equitable interest in property.

Interest Method. In the context of bonds, a method of periodic amortization of issuance costs and premium or discount over the term of the related debt. The objective of the interest method is to arrive at a periodic interest cost (including amortization) that will represent a level effective rate on the sum of the face amount of the debt and (plus or minus) the unamortized premium or discount and issuance costs at the beginning of each period. The difference between the periodic interest cost so calculated and the nominal interest on the outstanding amount of the debt is the amount of periodic amortization.

Interest Receivable on Investments. An asset account reflecting the amount of interest receivable on investments.

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

Inter-fund Loans. Loans made by one fund to another, where both funds are included in the primary government's reporting unit. See Inter-Fund Activity and Internal Balances.

Inter-fund Receivable/Payable. Short-term loans made by one fund to another, or the current position of an advance to or from another fund, where both funds are included in the primary government's reporting unit. See Inter-Fund Activity.

Inter-fund Reimbursements. Repayments made by one fund to another, where both funds are included in the primary government's reporting unit. See Inter-Fund Activity.

Inter-fund Services Provided and Used. Sales and purchases of goods and services by one fund to/from another at a price approximating their external exchange value, where both funds are included in the primary government's reporting unit. See Inter-fund activity.

Inter-Fund Transaction. Transactions between funds of the same government reporting entity. See Inter-Fund Activity and Internal Activities.

Inter-fund Transfers. Transfer of assets (cash, goods) between funds of the primary government reporting entity. See Inter-fund activity.

Intergovernmental Payable. A liability account reflecting amounts owed by the reporting government to another government.

Intergovernmental Receivable. An asset account reflecting amounts due to the reporting government from another government. These amounts may represent grants-in-aid, shared taxes, taxes collected by another unit, loans, and charges for services rendered by the government for another government.

Intergovernmental Revenues. Revenues from other governments in the form of grants, entitlements, shared revenues, or payments in lieu of taxes.

Interim Borrowing. (1) Short-term loans to be repaid from general revenues during the course of a fiscal year. (2) Short-term loans in anticipation of tax collections, grants or bond issuance. See Bond Anticipation Notes, Grant Anticipation Notes and Tax Anticipation Notes.

Interim Financial Statements. Financial statements prepared as of a date or for a period during the fiscal year and including only financial transactions during the current year to date.

Internal Activities (Interfund Transactions). Transfers between funds or activities of a government during a period.

Internal Auditing. An independent appraisal of the diverse operations and controls within a government entity to determine whether acceptable policies and procedures are followed, established standards are met, resources are used efficiently and economically, and the organization's objectives are being achieved. The term covers all forms of appraisal of activities undertaken by auditors working for and within an organization.

Internal Balances (Interfund Loans). Receivables or payables between funds or activities of a government that exist at the reporting date.

Internal Control Structure. Policies and procedures established to provide reasonable assurance that specific government objectives will be achieved.

Internal Financial Reporting. Financial reporting specifically designed to meet the needs of management.

Internal Investment Pools. An arrangement that commingles (pools) the money of more than one fund or component unit of a reporting entity. Investment pools that include participation by legally separate entities that are not part of the same reporting entity as the pool sponsor are not internal investment pools, but rather are external investment pools.

Internal Service Fund (ISF). Used to report any activity that provides goods or services to other funds, departments, or agencies of the primary governments, on a cost-reimbursement basis. Internal service funds should be used only if the reporting government is the predominant participant in the activity. Otherwise, the activity should be reported as an enterprise fund.

Interperiod Equity. The measure of the extent to which current-year revenues are sufficient to pay for the services provided by the government entity during the year, and whether current-year citizens are receiving services by shifting part of the payment burden to future years' citizens or by using up previously accumulated resources.

Intrafund Transfer. A transfer of central staff costs to the operating units in the same governmental type fund.

Introductory Section. The first of three essential components of any CAFR. The introductory section typically provides general information on a government's structure and personnel, as well as information useful in assessing the government's economic condition. The contents of the introductory section normally fall outside the scope of the independent audit of the financial statements. The key element of the introductory section is the letter of transmittal.

Inventory. The aggregate of those items of tangible personal property that (1) are held for sale in the ordinary course of operations, (2) are in process of production for such sale, or (3) are to be currently consumed in the production of goods or services to be available for sale. Operating materials and supplies (for example, property held for installation or use in the provision of services) or certain business-type activities usually are treated as inventory.

Investee. An entity that issued an equity instrument of which all or a portion is held by an investor.

Investing Activities. Making and collecting loans and acquiring and disposing of debt or equity instruments.

Investment. A security or other asset that (1) a government holds primarily for the purpose of income or profit and (2) has presented service capacity based solely on its ability to generate cash or to be sold to generate cash.

Investment in Capital Assets Net of Related Debt. One of three components of net assets that are required by GAAP to be reported in both government-wide and proprietary fund financial statements. Related debt, for this purpose, includes the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of capital assets of the government.

Investment Section. One of four sections of a CAFR for an investment pool and one of five sections of a CAFR of a public employee retirement system.

Investment Trust Fund. Used to report the external portion of investment pools reported by the sponsoring government.

Invitation to Comment (ITC). A due-process document that may be released by GASB to solicit the views of interested parties on a topic under study by the board prior to the release of an exposure draft.

Issuer. An issuer is the entity that has the authority to distribute a security or other investment. A bond issuer is the entity that is legally obligated to make principal and interest payments to bond holders. In the case of mutual funds, external investment pools, and other pooled investments, issuer refers to the entity invested in, not the investment company manager or pool sponsor.

J

Job Account. An account pertaining either to an operation which occurs regularly (a "standing order") or to a specific piece of work ("job order") showing all charges for material and labor used and other costs incurred, together with any allowances or other credits.

Joint Venture. A legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility.

Jointly Governed Organization. A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that create the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility.

Journal. A book of original entry. See General Journal, Special Journal, and Register.

Journal Voucher. A standard form provided for the recording of certain transactions or information in place of, or supplementary to, the journals or registers. The journal voucher usually contains an entry or entries, explanations, references to documentary evidence supporting the entry or entries, and the signature or initials of one or more properly authorized officials.

Judgment. An amount to be paid or collected by a government as the result of a court decision, including a condemnation award in payment for private property taken for public use.

Judgment Bonds. Bonds issued to finance judgments.

Judgments Payable. A liability account reflecting amounts owed as the result of court decisions, including condemnation awards for private property taken for public use.

Jurisdiction. A local agency, school district, community college district, or county superintendent of schools.

Jurisdictional Change. Any changes to the boundaries of a jurisdiction, including formations, consolidations and dissolutions.

K

NONE

L

Landfill Closure and Postclosure Care Costs. Costs incurred to provide for the protection of the environment that occur near or after the date that a municipal solid-waste landfill stops accepting solid waste and during the postclosure period. Closure and postclosure care costs include the cost of equipment and facilities (e.g., leachate collection systems and final cover) as well as the cost of services (e.g., postclosure maintenance and monitoring costs).

Lapse. As applied to appropriations, the automatic termination of an appropriation. Except for indeterminate appropriations and continuing appropriations, an appropriation is made for a certain period of time. At the end of this period, any unexpended or unencumbered balance thereof lapses, unless otherwise provided by law. Also referred to as the lapse period.

Leasehold. The right to the use of real estate by virtue of a lease, usually for a specified term of years, for which consideration is paid.

Lease Purchase Agreements. Contractual agreements that are termed “leases,” but which in substance amount to purchase contracts. See Capital Lease.

Lease Rental Bond. A bond usually issued by a nonprofit authority and secured by lease payments to be made by the government leasing the project financed by bond proceeds.

Ledger. A group of accounts in which are recorded the financial transactions of an entry. See General Ledger and Subsidiary Ledger.

Legal Debt Limit. See Debt Limit.

Legal Debt Margin. The excess of the amount of debt legally authorized over the amount of debt outstanding. See Debt Limit.

Legal Defeasance (of Bonds). When debt is legally satisfied based on certain provisions in the debt instrument even though the debt is not actually paid.

Legal Investments. 1) Investments that savings banks, insurance companies, trustees and other fiduciaries (individual or corporate) are permitted to make by the laws of the state in which they are domiciled, or under the jurisdiction in which they operate or serve. The investments which meet the conditions imposed by law constitute the legal investment list. 2) Investments that governments are permitted to make by law.

Legal Level of Budgetary Control. The level at which spending in excess of budgeted amounts would be a violation of law.

Legal Opinion. 1) An opinion of an authorized official such as an attorney or county counsel regarding the legal issues applicable to a particular situation. 2) In the case of government bonds, the opinion of a specialized bond attorney as to the legality of a bond issue.

Lender. A governmental entity that transfers its securities to a broker-dealer or other entity in a securities lending transaction.

Lent Securities. The securities lent by the lender to the borrower in a securities lending transaction. Also referred to as underlying securities.

Letter of Credit. A financial institution's written guarantee of a customer's drafts, up to a specified amount, for a certain period of time.

Level (1–4) Guidance. In the context of the hierarchy of GAAP for state and local governments, a reference to the relative authority of a given source of GAAP guidance.

Level of Budgetary Control. One of the three possible levels of budgetary control and authority to which organizations, programs, activities and functions may be subject. These levels of budgetary control are (1) appropriated budget, (2) legally authorized nonappropriated budget review and approval process, which is outside the appropriated budget process, and (3) nonbudgeted financial activities, which are not subject to the appropriated budget and the appropriation process or to any legally authorized nonappropriated budget review and approval process, but still are relevant for sound financial management and oversight. See Legal Level of Budgetary Control.

Level of Effort Requirements. A requirement that a grant recipient does not use grant resources to reduce its own participation in a given program or activity.

Levy. 1) verb, to impose taxes, special assessments or service charges for the support of government activities. 2) noun, the total amount of taxes, special assessments or service charges imposed by government.

Liabilities. Present obligations to sacrifice resources that the government has little to no discretion to avoid.

Lien. An enforceable legal claim by a government. The date of the lien may be known as a lien date or an assessment date.

Lien Date. For property (ad valorem) taxes, the date when an enforceable legal claim to taxable property arises. Generally, the lien date is specified in the relevant enabling legislation. Many governments use the term lien date even though a lien is not formally placed on the property at that date. Alternatively, the term assessment date is used to describe this same date.

Liquidity. The ability to convert assets to cash quickly without significant losses.

Loan Premium or Fee. Payments from the borrower to the lender as compensation for the use of the underlying securities when the borrower provides securities or letters of credit as collateral.

Loans Receivable. An asset account reflecting amounts loaned to individuals or organizations external to a government, including notes taken as security for such loans. Loans to other governments should be recorded and reported separately.

Local Agency. Any city, county, special district, or authority.

Local Improvement Tax. See Special Assessment.

Local Roll. Property on the secured and unsecured roll that is the county assessor's duty to assess.

Long-Term Budget. A budget prepared for a period longer than a fiscal year; or, in some state governments, a budget prepared for a period longer than a biennium. Long-term budgets concerned with capital outlay plans and capital improvement programs are referred to as capital budgets.

Long-Term Debt. See General long-term debt.

Long-Term Obligations. Obligations scheduled to mature beyond one year from the date of a government's financial statements.

Lump-Sum Appropriation. An appropriation made for a stated purpose, or for a named department, without specifying further the amounts that may be spent for specific activities or for particular objects of expenditure (e.g., a lump-sum appropriation for the police department would not specify the amounts to be spent on uniform patrol, traffic control, etc., or for salaries and wages, materials and supplies, travel).

M

Machinery and Equipment. Property that does not lose its identity when removed from its location and is not changed materially or consumed within one year by its use.

Maintenance. The act of keeping capital assets in a state of good repair. It includes preventive maintenance; normal periodic repairs; replacement of parts, structural components and so forth and other activities needed to maintain the asset so that it continues to provide normal services and achieves its optimum life.

Major Fund. The general fund or its equivalent and any other fund where: (1) total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total (assets, liabilities, and so forth) for all funds of that category or type (that is, total governmental or total enterprise funds, and; (2) total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined. In addition, to funds that meet the major fund criteria, any other governmental or enterprise criteria, any other governmental or enterprise fund that the government's officials believe is particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a major fund.

Major Program. A term used in the context of single audits. As part of the single audit, the independent auditor must gain an understanding of internal controls over compliance for each major federal award program and then test those controls. In addition, the independent auditor must render an opinion on whether the government complied with laws, regulations, and provisions of contracts or grant agreements that could have a direct and material effect on each major federal award program.

Management. Persons who are responsible for achieving the objectives of the government and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management normally includes the chief executive officer (for example, city manager), directors or secretaries in charge of principal government departments or functions (such as service provision administration or finance), and other persons who perform similar policymaking functions. Persons without formal titles also may be members of management.

Management Letter. A term used in connection with the independent audit of the financial statements. A formal communication by the auditor to management that focuses on internal control weaknesses discovered in the course of the audit of the financial statements. The management letter should be distinguished from the management representation letter which is a communication by management to the independent auditor in which management takes formal responsibility for the fair presentation of the financial statements and makes certain specific representations regarding their contents.

Management's Discussion and Analysis (MD&A). A component of required supplementary information, an introduction to the basic financial statements providing an analytical overview of the government's financial activities. The MD&A should provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions. MD&A should discuss the current-year. This fact-based analysis should discuss the positive and negative aspects of the comparison with the prior year. The use of charts, graphs, and tables is encouraged to enhance the understandability of the information. MD&A should focus on the primary government. Comments in MD&A should distinguish between information pertaining to the primary government and that of its component units. Determining whether to discuss matters related to a component unit is a matter of the individual component unit's significance to the total of all discretely presented component units and that component unit's relationship with the primary government. When appropriate, the reporting entity's MD&A should refer readers to the component unit's separately issued financial statements.

Margin. The excess of the market value including accrued interest of the securities underlying a repurchase/reverse repurchase or a fixed coupon repurchase/reverse repurchase agreement over the agreement amount including accrued interest. It is common practice for a margin to be built into an agreement to protect against declines in the market value of the underlying securities.

Market Approach. A valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets, liabilities, or groups of assets and liabilities.

Market Risk. The risk that changes in market prices will reduce the fair value of an asset, increase the fair value of a liability, or adversely affected the cash flows of an expected transaction. Market risk comprises of the following: (1) Interest Rate Risk, (2) Currency Risk, and (3) Other Price Risks.

Market Value. See Full Cash Value.

Master Agreement. A written contract covering all future transactions between the parties to repurchase/reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

Matched Position. A condition existing when reverse repurchase agreement proceeds are invested in securities that mature at or almost at the same time as the reverse repurchase agreement and the proceeds from those securities will be used to liquidate the agreement.

Matching Requirement. A requirement that a grant recipient contributes resources to a program that equal or exceed a predetermined percentage of amounts provided by the grantor.

Material Weakness. A deficiency or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Materiality. The magnitude of an omission or misstatement of accounting information that makes it probable that the judgment of a reasonable person relying on the information would be 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 conducted its affairs during the period.

Matrix Pricing. A valuation technique used to value securities based on their relationship to benchmark quoted prices.

Matured Bonds Payable. A liability account reflecting unpaid principal on bonds that have reached or passed their maturity date.

Matured Interest Payable. A liability account reflecting unpaid interest on bonds that have reached or passed their maturity date.

Measurement Focus. The accounting convention that determines 1) which assets and which liabilities are included on a government's balance sheet, and where they are reported there, and 2) whether an operating statement presents information on the flow of financial resources (revenues and expenditures) or information on the flow of economic resources (revenues and expenses).

Mineral Rights. Provides the right to enter in or upon the land for the exploration, development, and production of minerals, including oil, gas, and other hydrocarbon.

Mobile Home. A stationary, nonmotorized vehicle designed and equipped for human habitation. For property tax purposes, mobile home is defined as containing 320 or more square feet of area, having no more than two dwelling units, and not permanently affixed to land (no foundation).

Mobile Home Base Year Value. The full cash value on the date a mobile home is purchased or ownership changes. If the mobile home undergoes any new construction after it is purchased or changes ownership, the base year value of the new construction is its full cash value on the date on which the new construction is completed and, if uncompleted, on the lien date.

Modified Accrual Basis of Accounting. The accrual basis of accounting adapted to the current financial resources measurement focus. Under it, revenues and other financial resource increments (e.g., bond issue proceeds) are recognized when they become susceptible to accrual, which is when they become both "measurable" and "available to finance expenditures of the current period." "Available" means collectible in the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recognized when the related fund liability is incurred except for 1) inventories of materials and supplies that may be considered expenditures either when purchased or when used, and 2) prepaid insurance and similar items that may be considered expenditures either when paid for or when consumed.

Modified Approach. The election not to depreciate infrastructure assets that are part of a network or subsystem of a network that meet two specific requirements. First, the government manages the eligible infrastructure assets using an asset management system that has certain specified characteristics; second, the government documents that the eligible infrastructure assets are being preserved approximately at (or above) a condition level established and disclosed by the government.

Money Market Investment. A short-term, highly liquid debt instrument, including commercial paper, banker's acceptances, and U.S. Treasury and agency obligations. Asset-backed securities, derivatives, and structured notes are not included in this term. **Mortgage Bonds**. Bonds secured by a mortgage against specified properties of a government, usually its public utilities or other enterprises. If primarily payable from enterprise revenues, they are also classed as revenue bonds. See Revenue bonds.

Multi-Purpose Grants. A term used in connection with the identification of program revenues. Grants intended to finance activities reported in different functional categories in the government-wide statement of activities. Multipurpose grants that do not provide for specific identification of the programs and amounts should be reported as general revenues.

Municipal. In its broadest sense, an adjective which denotes the state and all subordinate units of government. In a more restricted sense, an adjective which denotes a city or village, as opposed to other local governments.

Municipal Bond. A bond issued by a state or local government.

Municipal Corporation. A political and corporate body established pursuant to state statutes to provide government services and regulations for its inhabitants. A municipal corporation has defined boundaries and a population, and is usually organized with the consent of its residents. It usually has a seal and may sue and be sued. Cities and villages are examples of municipal corporations. See Quasi-Municipal Corporation.

Municipal Finance Officers Association. See Government Finance Officers Association.

Municipal Improvement Certificates. Certificates issued in lieu of bonds for the financing of special improvements. As a rule, these certificates are placed in the contractor's hands for collection from the special assessment payers.

Municipal Solid-Waste Landfill. A discrete area of land or an excavation that receives household waste, and that is not a land application unit, surface impoundment, injection well, or waste pile, as those terms are defined in regulations of the Environmental Protection Agency. It may also receive other types of Resource Conservation and Recovery Act Subtitle D wastes such as commercial solid waste, nonhazardous sludge, and industrial solid waste. The term municipal indicates the primary type of solid waste received by the landfill, not its ownership.

N

National Advisory Council on State and Local Budgeting (NACSLB). A working group created by eight public-sector organizations to establish a comprehensive framework for public-sector budgeting that could be used by state and local governments as an ideal against which to measure and improve the quality of their own budget practices. The Government Finance Officers Association (GFOA) has formally recommended NACSLB guidelines to its members.

National Committee on Governmental Accounting (NCGA). A committee of the Municipal Finance Officers Association that served as the authoritative accounting and financial reporting standard-setting body for local governments from 1946 until the establishment of the National Council on Governmental Accounting (NCGA) in the 1970s.

National Committee on Municipal Accounting (NCMA). A committee of the Municipal Finance Officers Association that served as the authoritative accounting and financial reporting standard-setting body for local governments prior to 1946. NCMA was one of the predecessors of GASB.

National Council on Governmental Accounting (NCGA). An organization established through the sponsorship of the Government Finance Officers Association to develop, promulgate, and interpret principals of accounting, financial reporting, and related financial management activities for the state and local governments in the United States and Canada. Immediate predecessor of the GASB.

Negotiable Certificates of Deposit. Transferable certificates of deposit. Because they are transferable, negotiable certificates of deposit are subject to custodial credit risk.

Net Bonded Debt. Gross bonded debt less any cash or other assets available and earmarked for its retirement and less all self-supporting debt (e.g., revenue bonds). Also referred to as net general obligation debt.

Net Book Value. See Book Value.

Net Cost. A term used in the context of the government-wide statement of activities. The difference between functional expenses and program revenues.

Net Income. The proprietary fund excess of operating revenues, nonoperating revenues, and transfers-in over operating expenses, nonoperating expenses, and transfers out.

Net Interest Cost. A method used to calculate a bond issuer's interest cost. The net interest cost (NIC) does not take into account the time value of money. The NIC is equal to the total interest payments plus discount (or minus premium) divided by the number of bond years.

Net OPEB Liability. The liability of employers and nonemployer contributing entities to plan members for benefits provided through a defined benefit OPEB plan that is administered through an irrevocable trust.

Net Pension Liability. The liability of employers and nonemployer contributing entities to employees for benefits provided through a defined benefit pension plan.

Net Pension/OPEB Obligation. A term used in connection with defined benefit pension plans. The cumulative difference between annual pension cost and the employer's contributions to the plan, including the pension liability (asset) at transition, and excluding (1) short-term differences and (2) unpaid contributions that have been converted to pension-related debt.

Net Position. The residual of assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources. Fiduciary activities net to fiduciary net position. Net position is displayed in three components: net investment in capital assets; restricted (distinguishing between major categories or restrictions); and unrestricted.

Net Profit. See Net Income.

Net Revenues. See Net Income and Net Revenues Available for Debt Service.

Net Revenues Available for Debt Service. Proprietary fund gross operating revenues less operating and maintenance expenses (which normally does not include depreciation expense or interest expense on bonds). Net revenues available for debt service as thus defined is used to compute "coverage" on revenue bond issues. Under the laws of some states and the provisions of some revenue bond indentures, to compute revenue bond coverage, net revenues available for debt service must be computed on a cash basis rather than in conformity with GAAP. See Coverage Ratio.

New Construction. Any addition to real property, whether land or improvements (including fixtures) since the last lien date; and any alteration of land or of any improvement (including fixtures), since the last lien date that constitutes a major rehabilitation thereof or that converts the property to a different use.

No-Commitment Special Assessment Debt. Special assessment debt that is secured solely by liens on assessed properties and resources provided from bond proceeds and were not backed by either the full faith and credit of the government or by any other type of general government commitment.

Nominal Account. Those accounts whose balances are transferred to equity or net asset accounts at the close of each fiscal year. Examples are revenue and expense accounts.

Nominal Interest Rate. The contractual interest rate shown on the face and in the body of a bond and used to compute the amount of interest to be paid, in contrast to the effective interest rate. See Coupon rate.

Noncapital Financing Activities. The borrowing of money for purposes other than to acquire, construct, or improve capital assets and repaying those amounts borrowed, including interest. This category includes proceeds from all borrowings (such as revenue anticipation notes) not clearly attributable to capital assets, regardless of the form of the borrowing. Also included are certain other inter-fund and intergovernmental receipts and payments.

Nonexchange Transaction. When a government gives (or receives) value without directly receiving (or giving) equal value in return. Four classes of nonexchange transactions are used: (1) Derived Tax Revenues; (2) Imposed Nonexchange Revenues; (3) Government-Mandated Nonexchange Transactions, and (3) Voluntary Nonexchange Transactions.

Nonfinancial Assets. A term used in connection with the current financial resources measurement focus and the modified accrual basis of accounting. Assets that are expected to be used in the provision of goods or services rather than converted to cash. Financial statement preparers have the option of treating prepaid items and inventories of supplies as either a financial asset (consumption method) or as a nonfinancial asset (purchases method).

Nonoperating Expenses. Proprietary fund expenses which are not directly related to the fund's primary activities (e.g., interest).

Nonoperating Nonunitary. Properties that do not operate as a unit and are not part of the primary function of the assesse.

Nonoperating Properties. Properties owned by an enterprise fund but not used in the provision of the fund's primary service activities.

Nonoperating Revenues. Proprietary fund revenues incidental to or byproducts of the fund's primary activities.

Nonparticipating Interest-Earning Investment Contracts. Investment contracts whose value is not affected by market (interest rate) changes (e.g., nonnegotiable certificates of deposit with redemption terms that do not consider market rates). This definition excludes investment contracts that are negotiable or transferable, or whose redemption value considers market rates.

Nonreciprocal Inter-Fund Activity. The internal counterpart to nonexchange transactions. This category includes both inter-fund transfers and inter-fund reimbursements.

Nonspendable Fund Balance. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact. The "not is spendable form" criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable, as well as property acquired for resale. However, if the use of the proceeds from the collection of those receivables or the sale of those properties is restricted, committed, or assigned, then they should be included in the appropriate fund balance classification (restricted, committed, or assigned), rather than nonspendable fund balance. The corpus (or principal) of a permanent fund is an example of an amount that is legally or contractually required to be maintained intact.

Nonspendable Fund Balance — Advance to Other Funds. An account used to segregate a portion of the fund balance to indicate that noncurrent portions of long-term inter-fund receivables do not represent expendable available financial resources.

Nonspendable Fund Balance — Capital Assets Held for Resale. An account used to segregate a portion of the fund balance to indicate that capital assets held for resale do not represent expendable available financial resources.

Nonspendable Fund Balance — Inventories. An account used to segregate a portion of the fund balance to indicate that, under the purchases method, inventories of supplies do not represent expendable available financial resources, even though they are a component of net current assets.

Nonspendable Fund Balance — Noncurrent Loans Receivable. An account used to segregate a portion of the fund balance to indicate that noncurrent portions of long-term loans receivable do not represent expendable available financial resources.

Nonspendable Fund Balance — Prepaid Items. An account used to segregate a portion of the fund balance to indicate that prepaid items do not represent expendable available financial resources, even though they are a component of net current assets.

Nonunitary. See Operating Nonunitary.

Normal Cost (also known as Service Cost). That portion of the Actuarial Present Value of pension plan benefits and expenses which are allocated to a valuation year by the Actuarial Cost Method.

Normal Costing. That is, the historical cost of an asset is estimated by taking the value of acquiring the asset new today and then discounting that amount by an appropriate inflation factor back to the date of acquisition.

Normally. A term used in connection with the application of the modified accrual basis of accounting to certain long-term liabilities. Specifically, certain accrued liabilities are recognized as expenditures in governmental funds only when they are "normally" expected to be liquidated with current available financial resources (e.g., compensated absences, claims and judgments, special termination benefits, landfill closure and postclosure care costs). For this purpose, the term "normally" should be interpreted from the perspective of the practice of state and local governments generally.

Note Payable. In general, an unconditional written promise signed by the maker to pay a certain sum in money on demand or at a fixed or determinable time, either to the bearer or to the order of a person designated therein. See Temporary Loans.

Note Receivable. A legal right to receive payment of a certain sum of money on demand or at a fixed or determinable time, based on an unconditional written promise signed by the maker.

Notes to the Financial Statements (Notes to the Basic Financial Statements). Notes explaining the government's balances and results of operations, presented in accordance with GAAP.

Number of Funds Principle. The principle that only the minimum number of funds consistent with legal and operating requirements should be established, since unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.

O

Object. As used in expenditure classification, this term applies to the article purchased or the service obtained, rather than to the purpose for which the article or service was purchased or obtained (e.g., personal services, contractual services, materials, and supplies). See Activity, Account, Character, Classification, Function, and Object Classification.

Object Classification. Expenditure classification according to the types of items purchased or services obtained (e.g., personal services, materials, supplies and equipment).

Object of Expenditure. See Object.

Obligated in Some Manner. A term used in connection with special assessment debt and the determination of the financial reporting entity. A government is obligated in some manner for debt if (1) it is legally obligated to assume all or part of the debt in the event of default or (2) the government may take certain actions to assume secondary liability for all or part of the debt and the government takes, or has given indications that it will take, those actions. Stated differently, the phrase obligated in some manner is intended to include all situations other than those in which (1) the government is prohibited (by constitution, charter, statute, ordinance, or contract) from assuming the debt in the event of default or (2) the government is not legally liable for assuming the debt and makes no statement, or gives no indication, that it will, or may, honor the debt in the event of default.

Obligations. Amounts a government may be legally required to meet out of its resources. They include not only actual liabilities but also unliquidated encumbrances.

Obsolescence. The decrease in the value of capital assets, resulting from economic, social, technological or legal changes.

Office of Management and Budget (OMB). An agency of the federal government with regulatory oversight of Single Audits. In fulfillment of this responsibility the OMB has issued Circular A-133, Audits of States, Local Government, and Nonprofit Organizations.

Official Statement. A document published by a government planning to issue long-term debt that provides information on the proposed long-term debt issue, the purpose of the issue, and the means of servicing the indebtedness, as well as other information about the issuer that may be helpful in evaluating credit-worthiness.

OMB. White House Office of Management and Budget. See Office of Management and Budget (OMB).

On-Behalf Payments of Fringe Benefits and Salaries. Direct payments made by one entity (the paying entity or paying government) to a third-party recipient for the employees of another, legally separate entity (the employer entity or employer government). They include payments made by governmental entities on behalf of nongovernmental entities and payments made by nongovernmental entities on behalf of governmental entities, and may be made for volunteers as well as for paid employees of the employer entity.

OPEB Plans. Arrangements through which OPEB is determined, assets dedicated for OPEB (if any) is accumulated and managed, and benefits are paid as they come due.

Open Amortization Period. A term used in connection with defined benefit pension and OPEB plans. An open amortization period (open basis) is one that begins again or is recalculated at each actuarial valuation date. Within a maximum number of years specified by law or policy (for example, 30 years), the period may increase, decrease, or remain stable.

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.

Open Space Land (Williamson Act). (1) Land within an agricultural preserve and subject to a contract or an agreement, (2) land subject to a scenic restriction, (3) land subject to an open-space easement.

Open Space Use. The use or maintenance of land in such a manner as to preserve its natural characteristics, beauty, or openness for the benefit and enjoyment of the public, to provide essential habitat for wildlife, or for the solar evaporation of sea water in the course of salt production for commercial purposes, if such land is within a scenic highway corridor; a wildlife habitat area; a salt pond; a managed wetland area; or a submerged area.

Operating Activities (Cash Flows). Cash flows resulting 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. Cash flows from operating activities generally are the cash effects of transactions and other events that enter into the determination of operating income.

Operating Budget. Plans for current expenditures and the proposed means of financing them. The annual operating budget (for some state governments: the biennial operating budget) is the primary means by which most of the financing, acquisition, spending, and service delivery activities of a government are controlled. The use of annual operating budgets is usually required by law. Even where not required by law, however, annual operating budgets are essential to sound financial management and should be adopted by every government. See Budget.

Operating Expenses. Proprietary fund expenses related directly to the fund's primary activities.

Operating Grants. Grants that are restricted by the grantor to operating purposes or that may be used for either capital or operating purposes, at the discretion of the grantee. See Capital Grants.

Operating Income. The excess of proprietary fund operating revenues over operating expenses.

Operating Lease. A lease agreement that does not meet the criteria for capitalization set forth in GAAP pronouncements.

Operating Nonunitary. A group of properties that operate as a unit but is not part of the primary function of the assesse.

Operating Revenues. Proprietary fund revenues directly related to the fund's primary activities. They consist primarily of user charges for goods and services.

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.

Optional Bond. See Callable Bond.

Order. A formal legislative enactment by the governing board of certain local governments that has the full force and effect of law (e.g., county governing bodies in some states pass orders rather than laws, resolutions or ordinances).

Ordinance. A formal legislative enactment by the governing board of a municipality. If it is not in conflict with any higher form of law, such as a state statute or constitutional provision, it has the full force and effect of law within the boundaries of the municipality to which it applies. The difference between an ordinance and a resolution is that the latter requires less legal formality and has a lower legal status. Ordinarily, the statutes or charter will specify or imply those legislative actions that must be by ordinance and those that may be by resolution. Revenue raising measures, such as the imposition of taxes, special assessments and service charges, universally require ordinances. See Resolution.

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 Postemployment Benefits (OPEB). Benefits other than retirement income (such as death benefits, life insurance, disability, and long-term care) that are paid in the period after employment and that are provided separately from a pension plan, as well as the postemployment health care benefits paid in the period after employer (if any), regardless of the manner in which they are provided. Other postemployment benefits do not include termination benefits or termination payments for sick leave.

Other Sources of GAAP. Potential sources of accounting and financial reporting guidance that may be used in the absence of authoritative guidance on one of the four levels of the hierarchy of GAAP for state and local governments. Examples of other sources of GAAP for state and local governments include concept statements of GASB, pronouncements of FASB that are not authoritative for government, professional publications, textbooks, and position papers of professional organizations. GASB concepts statements take precedence as another source of GAAP.

Outflows of Resources. A consumption of net position that is applicable to the current reporting period.

Outlays. Synonymous with expenditures. See Capital Expenditures

Outcome Measures. A term used in connection with service efforts and accomplishments reporting. Indicators that measure accomplishments or results that occur (at least partially) because of services provided. Results also include measures of public perceptions of outcomes.

Output Measures. A term used in connection with service efforts and accomplishments reporting. Indicators that measure the quantity of services provided. Output measures include both measures of the "quantity of service provided" and measures of the "quantity of a service provided that meets a certain quality requirement."

Overdraft. (1) The amount by which checks, drafts or other demands for payment on the treasury or on a bank exceed the amount of the credit against which they are drawn. (2) The amount by which requisitions, purchase orders, or audited vouchers exceed the appropriation or other credit to which they are chargeable.

Overhead. Those elements of cost necessary in the production of a good or service which is not directly traceable to the product or service. Usually these costs relate to objects of expenditure which do not become an integral part of the finished product or service, such as rent, heat, light, supplies, management and supervision (indirect costs/charges/expenses).

Overlapping Debt. The outstanding long-term debt instruments, including bonds, notes, certificates of participation, loans, and capital leases, of governments that overlap geographically, at least in part, with the government preparing the statistical section information.

Overlapping Governments. All local governments located wholly or in part within the geographic boundaries of the reporting government.

Oversight Responsibility. A basic criterion for including a government department, agency, institution, commission, public authority or other organization in a government unit's reporting entity for basic financial reports. Oversight responsibility is derived from the government unit's power and includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Oversight Unit. In defining the reporting entity, the component unit that has the ability to exercise oversight responsibility. Typically, an oversight unit is the primary unit of government directly responsible to the chief executive and the elected legislative body.

P

Par Value. In the case of bonds, the amount of principal that must be paid at maturity. Par value is referred to as the face value of the security.

Participating Interest-Earning Investment Contracts. Interest-earning investment contracts whose value is affected by market changes in interest rate (e.g. contracts that are negotiable or transferable or whose redemption value considers market rates).

Passenger Facilities Charges (PFCs). A fixed fee authorized by the Federal Aviation Administration that airports may impose on each departing passenger for use in eligible construction projects or for related debt service. This charge is collected by whoever sells the ticket and then remitted to the airport.

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

Pay-As-You-Go Basis. A method of financing a pension plan under which the contributions to the plan are generally made at about the same time in about the same amount as benefit payments and expenses becoming due.

Paying Agent. An entity responsible for paying long-term debt principal and interest on behalf of the government.

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

Pension (and OPEB) Trust Fund. Used to report resources require to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, or other employee benefit plans.

Pension Cost. A measure of the periodic cost of an employer's participation in a defined benefit pension plan.

Pension Obligation Bonds. Bonds issued by employers to finance one or more elements of their pension obligation to employees. Pension obligation bonds may be used 1) to reduce or eliminate the employer's net pension obligation, 2) to pay the employer's annual required contribution for the year, or 3) to reduce or eliminate the plan's unfunded actuarial accrued liability.

Pension Plan. Arrangements through which pensions are determined, assets dedicated for pensions are accumulated and managed, and benefits are paid as they come due.

Pension Related Debt. All long-term liabilities of an employer to a pension plan, the payment of which is not included in the annual required contributions of a sole or agent employer or the actuarially determined required contributions of a cost-sharing employer. Payments generally are made in accordance with installment contracts that usually include interest. Examples include contractually deferred contributions and amounts assessed to an employer upon joining a multiple-employer plan.

Pension Trend Data. Actuarially based data over time concerning the funding progress of a defined benefit pension plan and employers' actual and annual required contributions to the plan.

Pensions. Retirement income and, if provided through a pension plan, postemployment benefits other than retirement income (such as death benefits, life insurance, and disability benefits). Pensions do not include postemployment healthcare benefits and termination benefits.

Performance Auditing. A systematic process of objectively obtaining and evaluating evidence regarding the performance of an organization, program, function or activity. Evaluation is made in terms of its economy and efficiency of operations and its effectiveness in achieving desired regulations, for the purpose of ascertaining the degree of correspondence between performance and established criteria and communicating the results to interested users. The performance audit function provides an independent, third-party review of management's performance and the degree to which the performance of the audited entity meets pre-stated expectations.

Performance Budget. A budget that basis expenditures primarily upon measurable performance of activities and work programs. A performance budget may also incorporate other basis of expenditure classification, such as character and object class, but these are secondary to activity performance.

Performance Measurement. A commonly used term for service efforts and accomplishments reporting.

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

Perpetual Inventory. A system whereby the inventory of units of property at any date may be obtained directly from the records, without resorting to an actual physical count for each item or group of items to be inventoried. This system provides an ongoing record of goods ordered, received, and withdrawn, and the balance on hand, in units and frequently also in value.

Personal Property. Includes all property that is not real property, either tangible or intangible.

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.

Petty Cash. A sum of money set aside on an imprest basis to make change or to pay small obligations for which the issuance of a formal voucher and check would be too expensive and time-consuming. Petty cash accounts are sometimes referred to as petty cash "funds." However, they are not "funds" in the sense of governmental accounting. Petty cash accounts should be reported as assets of the fund of ownership. See Imprest Account.

Petty Cash Voucher. A form used to record individual disbursements of petty cash.

Pledged Receivables. Taxes or other types of receivables used to secure either a collateralized borrowing or sold to a third party in exchange for cash.

Pledged Revenues. Revenues to be collected in the future securing either a collateralized borrowing or sold to a third party in exchange for cash.

Policy. A formal written contract of insurance between an insurer and an insured describing among other things, the period and amount of risk coverage the insurer agrees to provide the insured.

Policyholder. The party to whom an insurance policy is issued and who pays a premium to an insurer for the insurer's promise to provide insurance protection.

Policyholder Dividends. Payments made or credits extended to the insured by the insurer, usually at the end of a policy year, which result in reducing the net insurance cost to the policyholder. These dividends may be paid in cash to the insured or applied by the insured to reduce premiums due from the next policy year.

Policy Year Basis. For disclosure purposes, a method that assigns incurred losses and claim adjustment expenses in the year in which the event that triggered coverage under the pool insurance policy or participation contract occurred. For occurrence based coverage for which all member has a common contract renewal date, the policy year basis is the same as the accident year basis. For claims made coverages, policy year basis is the same as the report year basis.

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 CAFR.

Popular Annual Financial Reporting Award. An awards program sponsored by the GFOA with the objective of encouraging and assisting governments to prepare and publish high-quality popular annual financial reports.

Population. The population of any entity of government other than a school district shall be determined by a method prescribed by the Legislature, provided that such determination shall be revised, as necessary, to reflect the periodic census conducted by the United States Department of Commerce, or successor agency of the United States Government. The population of any school district shall be such school district's average daily attendance as determined by a method prescribed by the Legislature.

Possessory Interests. Possession of, claim to, or right to the possession of land or improvements, except when coupled with ownership of the land or improvements in the same person. Taxable improvements on tax-exempted land.

Postemployment. The period after employment.

Postemployment Benefit Changes. Adjustments to the pension of an inactive employee (or plan member).

Postemployment Healthcare Benefits. Medical, dental, vision, and other health related benefits paid subsequent to the termination of employment.

Posting. The act of transferring to an account in a ledger the data, either detailed or summarized, contained in a book or document of original entry.

Potential Component Unit. A separate government unit, agency or nonprofit corporation that needs to be evaluated to determine if it is to be included with other component units and the oversight unit to constitute the reporting entity.

Potentially Misleading to Exclude. A term used in connection with defining the financial reporting entity. The basis for including a legally separate entity within the financial reporting entity even though that separate entity does not meet either of the normal criteria for inclusion as a component unit (i.e., board appointment or fiscal dependency).

Preliminary Project Stage. A term used in connection with computer software developed or obtained for internal use. Costs incurred prior to the development stage of computer software (e.g., the conceptual formulation of alternatives, the evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives).

Preliminary Views (PV). A due-process document issued by GASB that solicits comments from interested parties on a proposed authoritative pronouncement prior to the issuance of an exposure draft.

Premium. (1) The excess of the price of a security over its face value, excluding any amount of accrued interest bought or sold. (2) The consideration paid for an insurance contract.

Premium Deficiency. The amount by which expected claims costs (including IBNR) and all expected claim adjustment expenses, expected dividends to policyholders or pool participants, unamortized acquisition costs, and incurred policy maintenance costs exceed related unearned premium revenue.

Prepaid Items. Payment in advance of the receipt of goods and services in an exchange transaction. Prepaid items differ from deferred outflows in that they are spread over a shorter period of time than deferred outflows and are regularly recurring costs of operations. Examples of prepaid items are prepaid rent, prepaid interest, and unexpired insurance premiums. See Deferred Charges.

Preparer. Those who are responsible for producing financial reports that recognize relevant events in the financial statements or that disclose or present messages about such events elsewhere in the financial report.

Prepayment of Taxes. The deposits of money with a government on condition that the amount deposited is to be applied against the tax liability of a designated taxpayer after the taxes have been levied and such liability has been established. See Taxes Collected in Advance.

Present Value. A valuation technique used to link future amounts (cash flows or values) to a present amount by employing a discount rate (an application of the income approach).

Primary Government. A state government or general purpose local government. Also, a special purpose government that has a separately elected governing body, is legally separate, and is fiscally independent of other state or local governments.

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 (1) those to whom government is primarily accountable (the citizenry), (2) those who directly represent the citizens (legislative and oversight bodies), and (3) those who lead or participate in the lending process (investors and creditors).

Principal. In the context of bonds other than deep-discount debt, the face value or par value of a bond or issue of bonds payable on stated dates of maturity. See Face Value and Par Value.

Prior Secured Roll. See Redemption Roll.

Prior Unsecured Roll. Unsecured taxes unpaid as of February 28 of each fiscal year.

Prior Years' Tax Levies. Taxes levied for fiscal periods preceding the current one.

Private-Purpose Trust Fund. Used to report escheat property or all other trust arrangements under which principal and income benefit individuals, private organizations or other governments.

Pro Forma. Latin: "as a matter of form," "an example." Term is used in conjunction with a noun to denote merely a sample form (i.e.pro formal document, statement, certificate, or presentation) the contents of which may be either wholly or partially hypothetical.

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

Program Budget. A budget wherein expenditures are based primarily on programs of work and secondarily on character and object classification, on the one hand, and performance on the other. See Performance Budget and Traditional Budget.

Program Compliance Audit. An examination leading to the expression of an opinion on the degree of the audited entity's compliance with requirements imposed by intergovernmental grantors and the audited entity's eligibility for grant monies.

Program Loan. A 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. Revenues derived 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. The statement of activities should separately report three categories of program revenues: (a) charges for services, (b) program specific operating grants and contributions, and (c) program specific capital grants and contributions.

Program Specific Grants and Contributions (Operating and Capital). Revenues arising from mandatory and voluntary nonexchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.

Projected Benefit Payments. All benefits estimated to be payable through the pension or OPEB plan to current active and inactive employees as a result of their past service and their expected future service.

Projected Unit Credit Actuarial Cost Method (PUC). A method under which the benefits (projected or unprojected) of each individual included in an Actuarial Valuation are allocated by a consistent formula to valuation years. The Actuarial Present Value of benefits allocated to a valuation year is called the Normal Cost. The Actuarial Present Value of benefits allocated to all period prior to a valuation year is called the Actuarial Accrued Liability.

Property. Includes all matters and things, real, personal and mixed, capable of private ownership.

Proprietary Funds. Funds consisting of enterprise funds (emphasizing major funds) and internal service funds. The funds focus on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows.

Provisions. In governmental fund types, budgeted amounts to provide for increases or decreases in fund balance classifications.

Public Authority. See Authority.

Public Corporation. See Municipal Corporation and Quasi-Municipal Corporation.

Public Employee Retirement System (PERS). A special purpose government that administers one or more pension plans; also may administer other types of employee benefit plans, including postemployment health care plans and deferred compensation plans.

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.

Purchase Order. A document authorizing the delivery of specified merchandise or the rendering of certain services and the making of a charge for them.

Purchases Method. The method under which inventories are recorded as expenditures when acquired. See Consumption Method.

Pure Cash Conduit. A term used in connection with pass-through grants. A grantor that merely transmits grantor-supplied money without having administrative or direct financial involvement in the program.

Purpose Restrictions. A term used in connection with government-mandated and voluntary nonexchange transactions. Legal limitations that specify the purpose or purposed for which resources are required to be used (as distinguished from eligibility requirements).

Purpose Restrictions (Eligibility). The purpose for which resources is required to be used. All other purposes other than those required are un-allowed (or disallowed).

Q

Qualified Opinion. An opinion stating that, "except for" the effect of the matter to which the qualification relates, the financial statements present fairly the financial position, results of operations, and (when applicable) cash flows in conformity with GAAP. Such an opinion is expressed when a lack of sufficient, competent evidential matter or restrictions on the scope of the auditor's examination have led the auditor to conclude that an unqualified opinion cannot be expressed, or when the auditor believes, on the basis of the examination, that (1) the financial statements contain a departure from GAAP, the effect of which is material, (2) there has been a material change between periods in accounting principles or in the method of their application, or (3) there are significant uncertainties affecting the financial statements, and the auditor has decided not to express an adverse opinion or to disclaim an opinion. See Adverse Opinion and Disclaimer of Opinion.

Quasi-Municipal Corporation. An agency (e.g., a county or school district) established by the state primarily to help the state to carry out its functions. Some counties and other agencies ordinarily classified as quasi-municipal corporations have been granted the powers of municipal corporations by their states. See Municipal Corporation.

Questioned Cost. A determination by an auditor that an expenditure under a grant does not meet all of the grantor's requirements and, therefore, may be subject to disallowance and subsequent refund to the grantor.

R

Rate Base. The value of utility property used in computing an authorized rate of return as authorized by law or a regulatory commission.

Rate of Return (ROR). The gain or loss on an investment over a specified period, expressed as a percentage increase over the initial investment cost.

Rating. In the context of bonds, normally an evaluation of credit-worthiness performed by an independent rating service.

Real Account. An account, the balance of which is carried forward into the next fiscal year (a balance sheet account). See Nominal Account.

Real Estate or Real Property. (1) The possession of, claim to, ownership of, or right to possession of land; (2) all mines, minerals, and quarries in the land, all standing timber whether or not belonging to the owner of the land, and all rights and privileges appertaining thereto, and/or (3) improvements.

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

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.

Reasonable Assurance. A term used in connection with financial auditing. The principle that the goal of the independent audit of the financial statements is to ensure that financial statements are free from "material" misstatement. The principle of reasonable assurance rests upon the assumption that it is not cost beneficial to attempt to ensure that financial statements are free of immaterial misstatements.

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.

Recommended Budget. The recommended budget is prepared from compiled budget requests by the administrative officer or the auditor, as designated by the board and is recommended to the board by the designated county official on or before June 30 each year, as the board directs. The recommended budget document is formally approved by the board of supervisors to serve as the basis for public hearings prior to the determination of the adopted budget. See Adopted Budget and Budget Request.

Reciprocal Inter-Fund Activity. The inter-fund counterpart to exchange and exchange-like transactions. This category includes both inter-fund loans and inter-fund services provided and used.

Recoverable Expenditure. An expenditure that is made for or on behalf of another government, fund, or department or for a private individual, firm or corporation and that will subsequently be recovered in cash or its equivalent.

Redemption. The realization of a right to have the title of property restored free and clear of the lien of any taxes, through payment of money.

Redemption Amount. The total amount that would be necessary to redeem tax-defaulted property at the time an election is made to pay delinquent taxes.

Redemption Roll. All secured taxes defaulted as of June 30 of each fiscal year.

Refund. 1) noun, an amount paid back or credit allowed because of an overcollection or because of the return of an object sold. 2) verb, to pay back or allow credit for an amount because of an overcollection or because of the return of an object sold. 3) verb, to provide for the payment of an obligation through cash or credit secured by a new obligation.

Refunding. Issuance of new debt when proceeds are used to repay previously outstanding debt. The proceeds may be used currently (current refunding) or placed in escrow unit a later date (advance refunding).

Register. A record for the consecutive entry of a certain class of events, documents, or transactions, with proper notation of all the required details. See Journal.

Registered Bond. A bond whose owner is registered with the issuing government. A registered bond cannot be sold or exchanged without a change of registration.

Registered Security. A security that has the name of the owner written on its face. A registered security cannot be negotiated except by the endorsement of the owner.

Registered Warrant. A warrant which is registered by the paying officer for future payment due to a present lack of monies and which is to be paid in the order of its registration. In some cases, such warrants are registered when issued; in others, when first presented to the paying officer by the holders. See Warrant.

Regular Serial Bonds. Serial bonds in which all periodic installments of principal repayment are equal.

Regulated Enterprises. Enterprises for which (1) 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), (2) the regulated rates are designed to recover the specific enterprise's costs of providing regulated services or products, and (3) 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 FASB. In practice, the term "regulated enterprise" normally is applied only to enterprises that elect this option.

Reimbursable Expenditures. See Recoverable expenditure.

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."

Reimbursements. (1) Repayments of amounts remitted on behalf of another party. (2) Interfund transactions that constitute reimbursements of a fund for expenditures or expenses initially made from it that properly apply to another fund (e.g., an expenditure properly chargeable to a Special Revenue Fund is initially made from the General Fund and is subsequently reimbursed). These transactions are recorded as expenditures or expenses (as appropriate) in the reimbursing fund and as reductions of the expenditure or expense in the fund that is reimbursed.

Reinsurance. A transaction in which a reinsurer (assuming enterprise), for a consideration (premium), assumes all or part of a risk undertaken originally by another insurer (government). However, the legal rights of the insured are not affected by the reinsurance transaction and the insurance enterprise issuing the insurance contract remains liable to the insured for payment of policy benefits.

Related Organization. An organization for which a primary government is not financially accountable (because it does not impose will or have a financial benefit or burden relationship) even though the primary government appoints a voting majority of the organization's governing board.

Related Parties. A government's related organizations, joint ventures, and jointly governed organizations, elected and appointed officials of the government; its management; members of the immediate families of elected or appointed officials of the government and is management; and other parties with which the government may deal if management or operate policies of the other might be prevented from fully pursuing its own separate interests. Another party also is a related party if it can significantly influence the management or operate policies of the transacting parties (for example, through imposition of will) or if it has an ownership interest in one of the transacting parties and extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

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

Relative Liquidity. Organization of the assets and liabilities in a statement of net position with the elements 'closest to cash' placed at the top of each category, followed by elements by descending liquidity.

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.

Religious Exemption. The tax exemption allowed on property used exclusively for religious purposes.

Replacement Cost. The price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the measurement date.

Report. Noun, a statement or description. Verb, the process of communicating information.

Reporting Entity. The oversight unit and all of its related component units, if any, that are combined in the CAFR/BFS.

Reporting Package. A term used in connection with single audits. A package that the auditor must communicate to the Federal Audit Clearing House that includes (1) the government's financial statements, (2) the government's supplementary schedule of expenditures of federal awards, (3) the auditor's reports, (4) a summary schedule of prior audit findings, and (5) a corrective action plan. The reporting package must be accompanied by a special data collection form that summarizes the information contained in the reporting package.

Reproduction Cost. The cost as of a certain date of reproducing an exactly similar new property in the same place. Sometimes this term is designated as reproduction cost new to distinguish it from depreciated reproduction cost, which is the reproduction cost of a given property less the estimated accumulated depreciation applicable to it. In the absence of any modifier, however, reproduction cost is understood to be synonymous with reproduction cost new. See Replacement cost.

Repurchase Agreement. A generic term for an agreement in which a government entity (buyer-lender) transfers cash to a broker-dealer or financial institution (seller-borrower); the broker-dealer or financial institution transfers securities to the entity and promises to repay the cash plus interest in exchange for the same securities or for different securities.

Request for Proposal (RFP). A formalized method used in the procurement of services by soliciting information concerning the qualifications, experience and proposed compensation arrangements of prospective firms. The RFP sets forth the services being sought and requests information from firms interested in procuring the engagement.

Required Supplementary Information (RSI). Schedules, statistical data, and other information that are an essential part of financial reporting and should be presented with, but are not part of, the basic financial statements of a governmental entity. RSI is required by GAAP.

Requisition. A written demand or request, usually from one department to the purchasing officer or to another department, for specified articles or services.

Resolution. A special or temporary order of a legislative body; an order of a legislative body requiring less legal formality than an ordinance of statute. See Ordinance.

Resource. An element of the means available to a government to carry out its functions and activities. This includes money, property, equipment, manpower and other assets both tangible and intangible.

Restricted Assets. Assets whose use is subject to constraints that are either (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 Fund Balance. Fund balance should be classified as restricted when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

Restricted Fund Balance — Debt Service. An account used to segregate a portion of the fund balance for resources legally restricted to the payment of general long-term debt principal and interest maturing in future years.

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

Restricted Net Position. Restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

Retained Earnings. An equity account reflecting the accumulated earnings of a commercial business in the private sector. The term is not used in governmental accounting, which uses a “net assets” concept instead.

Retention. A liability account reflecting amounts due on construction contracts not paid pending final inspection of the project or the lapse of a specified period, or both. The unpaid amount is usually a stated percentage of the contract price.

Retirement Allowances. Amounts paid to government employees who have retired from active service or to their survivors.

Retirement Fund. See Pension (and Other Post-Employment Benefits) trust fund.

Retrospectively (Experience) Rated Policy. A term used in connection with public entity risk pools. An insurance policy for which the final amount of the premium is determined by adjusting the initial premium based on actual experience during the period of coverage (sometimes subject to maximum and minimum limits). A retrospectively rated policy is designed to encourage safety by the insured and to compensate the insurer if larger-than-expected losses are incurred.

Revenue and Claims Development Trend Data. Required supplementary information mandated by GASB for public entity risk pools.

Revenue Anticipation Note (RAN). A 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.

Revenue Bonds. Bonds whose principal and interest are payable exclusively from earnings of an enterprise fund. In addition to a pledge of revenues, such bonds sometimes contain a mortgage on the enterprise fund's property.

Revenue Bonds Payable. A liability account which reflects the face value of revenue bonds issued and outstanding.

Revenue District. Includes every city and district for which the county officers assess property and collect taxes or assessments.

Revenues. (1) Increases in the net current assets of a governmental fund type from other than expenditure refunds and transfers. Also, general long-term debt proceeds and transfers in are classified as other financing sources rather than as revenues. (2) Increases in the net total assets of a proprietary fund type, net total assets from other than expense refunds, capital contributions, and transfers. Also, transfers-in are classified separately from revenues.

Reverse Repurchase Agreement. An agreement in which a broker-dealer or financial institution (buyer-lender) transfers cash to a government entity (seller-borrower); the entity transfers securities to the broker-dealer or financial institution and promises to repay the cash plus interest in exchange for the same securities or different securities.

Revolving Fund. An imprest account which is accounted for as an asset of a fund.

Risk-Sharing Pools. One of four different types of public entity risk pools. An arrangement by which governments pool risks and funds and share in the cost of losses.

Roll Being Prepared. 1) Assessor's Roll: the roll being compiled by the assessor for the ensuing fiscal year prior to certification of valuations to the county auditor. 2) Supplemental Roll: the roll for the fiscal year following the fiscal year in which the change in ownership occurs or new construction is completed.

S

Salary-Related Payments. A 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 the employer's contributions to pension plans.

Salvage Value. The estimated value that will be realized upon sale of an asset at the end of its useful life.

Schedule of Employer Contributions. A term used in connection with defined benefit pension and OPEB plans. Trend data on employers' annual required contribution to a plan and actual contributions.

Schedule of Funding Progress. A term used in connection with defined benefit pension and OPEB plans. Trend data on the relationship between the actuarial value of pension plan assets and the related actuarial accrued liability.

Schedules. See Supporting Schedules.

School District or Entity. Any school district, community college district, or county superintendent of schools.

Scope of Public Service. One of the criteria used to determine whether the statements of a potential component unit should be included in the financial statements of a reporting entity. This criterion embraces two aspects: (1) is the activity for the benefit of the reporting entity and/or its residents? and (2) is the activity conducted within the geographic boundaries of the reporting entity and is it generally available to the citizens of that entity?

Scrap Value. The value that will be realized upon sale of an asset if sold for its materials.

Scrip. An evidence of indebtedness, usually in small denomination, secured or unsecured, interest-bearing or noninterest-bearing, stating that the government, under conditions set forth, will pay the face value of the certificate or accept it in payment of certain obligations.

Secured Roll. State-assessed property and property which, in the opinion of the assessor, has sufficient value to guarantee payment of taxes levied, which if unpaid can be satisfied by the sale of the property by the tax collector.

Security. A negotiable or nonnegotiable instrument that signifies an ownership interest, the right to an ownership interest, or creditor status.

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

Segment. An identifiable activity (or grouping 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.

Segment Information. In the context of governmental financial reporting, the presentation of selected information on certain individual enterprise funds. Such disclosures are required by GAAP for primary governments with activities meeting the definition of segments.

Segregation of Incompatible Duties. The principle of internal control that no single employee should be placed in a position that allows that employee both to commit and to conceal an irregularity in the ordinary course of the employee's duties.

Self-Supporting Debt or Self-Liquidating Debt. Debt obligations whose principal and interest are payable solely from the earnings of the enterprise for whose construction or improvement the bonds were originally issued. See Revenue Bonds.

Serial Bonds. Bonds whose principal is repaid in periodic installments over the life of the issue. See Regular Serial Bonds and Straight Serial Bonds.

Service Assessments. Special assessment projects for operating activities that do not result in the purchase or construction of capital assets. Often such service assessments are for services that are normally provided to the public as general government functions and that would otherwise be financed by the general fund or a special revenue fund. Those services include street lighting, street cleaning and snow plowing. Financing for these routine services typically comes from general revenues. However, when routine services are extended to property owners outside the normal service area of the government or are provided at a higher level or at more frequent intervals than that provided the general public, special assessments are sometimes levied. Only the affected property owners are charged for the additional services.

Service Concession Arrangement (SCA). An arrangement whereby a government transfers the operation of one of its capital assets to a third-party operator in exchange for consideration, with the operator then being compensated from the fees and charges it collects in connection with the operation of that asset, and with the transferor retaining control over the service and a significant residual interest. It is common to describe such arrangements as public-private partnerships, or public-public partnerships (PPPs). SCAs do not include arrangements in which a government contracts with vendors to provide ancillary services using a public asset (e.g. vendor use of a stadium as a venue to sell food or souvenirs). These types of ancillary services that are operated in conjunction with the facility, as opposed to services that relate to the primary function of the facility itself, are excluded from the scope of this term. See Concession.

Service Efforts and Accomplishments Reporting. A term used by GASB to describe the presentation of performance measures in connection with general purpose external financial reporting.

Shared Revenues. Revenues levied by one government but shared on a predetermined basis, often in proportion to the amount collected at the local level, with another government or class of governments.

Shared Taxes. See Shared Revenues.

Short-Term Debt. Debt with a maturity of one year or less after the date of issuance. Short-term debt usually includes variable-rate debt, bond anticipation notes, tax anticipation notes, and revenue anticipation notes.

Significant Deficiency. A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Single Audit Act of 1984. Federal legislation that provides for state and local government recipients of federal financial awards to have one audit performed to meet the needs of all federal grantor agencies. The Single Audit Act was amended in 1996.

Single-Program Government. A term used in connection with financial reporting for special purpose governments. A government that budgets, manages, and accounts for its activities as a single program. Single-program governments that use only governmental funds have the option to combine their fund financial statements and their government-wide financial statements into a single, combining presentation.

Sinking Fund. See Debt Service Fund.

Sinking Fund Bonds. Bonds issued under an agreement which requires the government to set aside periodically out of its revenues a sum that, with compound earnings thereon, will be sufficient to redeem the bonds at their stated date of maturity. Sinking fund bonds are usually term bonds.

Solvency Test. A term used in connection with pension plan financial reporting. Comparison of a pension plan's present assets to its aggregate accrued liabilities classified into the following categories: (1) liability for active member contributions on deposit, (2) liability for future benefits to present retired lives, and (3) liability for service already rendered by active members. In preparing this schedule, valuation assets are arbitrarily allocated first to the liability for active member contributions on deposit, second to the liability for future benefits to present retired lives, and third to the liability for service already rendered by active members, regardless of the method used for asset allocation.

Special Assessment. Capital improvements or services provided by special districts are intended primarily to benefit a particular property owner or group of property owners rather than the general citizenry. The benefitting owners pay a regular assessment to the special district through a lien assessed properties secure the debt which may or may not be also backed by the full faith and credit of the special district as additional security.

Special Assessment Bonds. Bonds payable from the proceeds of special assessments. If the bonds are payable only from the collections of special assessments, they are known as special assessment bonds. If, in addition to the assessments, the full faith and credit of the government are pledged, they are known as general obligation special assessment bonds.

Special Assessment Liens Receivable. Claims a government has upon properties until special assessments levied against them have been paid. The term normally applies to those delinquent special assessments the government has taken legal action to collect through the filing of claims.

Special Assessment Roll. The official list showing the amount of special assessments levied against each property presumed to be benefited by an improvement or service.

Special Assessments Receivable — Current. Account for uncollected special assessments that a government has levied and are due within one year and are not yet considered delinquent.

Special Assessments Receivable — Delinquent. Account for special assessments remaining unpaid on and after the date to which a penalty for nonpayment is attached.

Special Assessments Receivable — Noncurrent. Account for uncollected special assessments that a government has levied but that are not due within one year.

Special Benefit Assessment. See Special Assessment, Fixed Charge Assessment, and Service Assessment.

Special Funding Situations. A term used in connection with pensions. A situation in which a governmental entity is legally responsible for contributions to pension or OPEB plans that cover the employees of another governmental entity or entities. For example, a state government may be legally responsible for the annual "employer" contributions to a pension plan that covers employees of school districts within the state.

Special Items. Significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence.

Special Journal. A journal in which are entered all entries of a particular type (e.g. cash receipts journals, cash disbursement journals, and purchases journals). See Journal and General Journal.

Special Lien Bonds. Special assessment bonds that are liens against particular pieces of property.

Special Revenue Fund. A governmental fund used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. Special revenue funds should not be used to account for resources held in trust for individuals, private organizations, or other governments.

Special Termination Benefits. Benefits offered for a short period of time to employees in connection with their termination of employment. Special termination benefits serve as an inducement to take early retirement, and often are used to help alleviate near-term budgetary problems.

Stabilization Arrangements. These represent formal arrangements to maintain amounts for budget or revenue stabilization, working capital needs, contingencies or emergencies, and other similarly titled purposes. The authority to set aside these amounts generally comes from statute, ordinance, resolution, charter, or constitution. Stabilization amounts may be expended only when certain specific circumstances exist and those circumstances should be such that they would not be expected to occur routinely. Stabilization funds can be classified as either restricted or committed fund balance if they meet the criteria; if the criteria are not met, then stabilization agreements should be reported as unassigned.

Standard Cost. The predetermined cost of performing an operation or producing a product when labor, materials and equipment are utilized efficiently under reasonable and normal conditions. Normal conditions exist when there is an absence of special or extraordinary factors affecting the quality or quantity of the work performed or the time or method of performing it.

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

State and Local Government Series (SLGS, slugs). Direct obligations of the federal government that the U.S. Treasury issues specifically to provide state and local governments with required cash flows at yields that do not exceed Internal Revenue Service arbitrage limits.

State-Assessed Roll. Utility properties assessed by the State Board of Equalization that are comprised of both unitary and nonunitary value which is considered part of the secured roll.

State Controller. The elected state fiscal officer prescribed by the constitution with such additional powers, duties, and functions as the legislature may confer or impose upon the office.

Statement of Cash Receipts and Disbursements. A financial presentation summarizing an entity's cash transactions in an accounting period. This statement is not currently required by GAAP.

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

Statistical Tables. Presentations included in the statistical section of the CAFR/CUFR providing detailed data on the physical, economic, social and political characteristics of the reporting government.

Statute. A written law enacted by a duly organized and constituted legislative body. See Ordinance, Resolution, and Order.

Straight Serial Bonds. Serial bonds in which the annual installments of bond principal are equal or nearly equal.

Structured Settlement. A term used in connection with risk financing. A means of satisfying a claim liability, consisting of an initial cash payment to meet specific present financial needs combined with a stream of future payments designed to meet future financial needs, generally funded by annuity contracts.

Subactivity. A special line of work performed in carrying out a governmental activity. (e.g., "cleaning luminaries" and "replacing defective street lamps" would be subactivities under the activity of "street light maintenance").

Subfunction. A grouping of related activities within a particular governmental function. (e.g., "police" is a subfunction of the function "public safety".)

Subobject. A subdivision within an expenditure object classification (e.g., "regular employees" is a possible subobject classification within the "personal services — salaries and wages" expenditure object classification). May be used in a similar context when revenues utilize object classifications.

Subsidiary Account. One of a group of related accounts supporting in detail the debit and credit summaries recorded in a control account (e.g., the individual property taxpayers' accounts for the taxes receivable control account in the general ledger). See Control Account.

Subsidiary Ledger. A group of subsidiary accounts, the sum of the balances of which should equal the balance of the related control account. See General Ledger.

Subvention. Provision of aid, support, subsidy, grant, endowment, etc.

Summary of Significant Accounting Policies (SSAP). A disclosure of accounting policies, required by GAAP, that should identify and describe the accounting principles followed by the reporting entity and the methods of applying those principles that materially affect the determination of financial position, cash flows or results of operations. In general, the disclosure should encompass important judgments as to the appropriateness of principles relating to the recognition of revenue and the allocation of asset costs to current and future periods; in particular, it should encompass those accounting principles and methods that involve any of the following: (1) a selection from existing acceptable alternatives, (2) principles and methods peculiar to government, and (3) unusual or innovative applications of accounting principles, including those peculiar to government.

Supplemental Roll. The roll prepared or amended in accordance with the provisions of the Revenue and Taxation Code section 75 et seq. and containing properties which have changed ownership or had new construction completed.

Supplementary Information (SI). Supporting information that is useful for placing basic financial statements and notes to basic financial statements in an appropriate operational, economic, or historical context. SI is presented with the basic financial statements, notes to basic financial statements, and RSI in a government's general purpose external financial report. GASB does not require SI to be presented, preparers of governmental financial reports who elect to present SI *(or are otherwise required by law or regulations to present SI)* with their basic statements, notes to basic financial statements and RSI should follow any applicable guidance regarding the format and content of that information.

Supporting Schedules. Financial presentations used: (1) to demonstrate compliance with finance-related legal and contractual provisions; (2) to aggregate and present in greater detail information spread throughout the financial statements (e.g., cash balances, investments, current and delinquent taxes); (3) to present in greater detail information reported in the financial statements (e.g., additional revenue sources detail, changes in general capital assets by function); and (4) to present information not disclosed in GAAP basic financial statements (e.g., cash receipts and disbursements, changes in Agency Fund assets and liabilities).

Surety Bond. A written promise to pay damages or to indemnify against losses caused by the party or parties named in the document, through nonperformance or through defalcation (e.g., a surety bond might be required of an independent contractor). Surety bonds also include fidelity bonds covering government officials and employees.

Susceptible to Accrual. Revenues of governmental funds that are collected or collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Suspense Account. An account which carries charges or credits temporarily, pending the determination of the proper account or accounts to which they are to be posted.

System Development Fees. See Connection Fees.

T

Tap Fees. See Connection Fees.

Tax Anticipation Note (TAN). Notes or warrants issued in anticipation of collection of taxes, usually retired only from tax collections, and frequently only from the proceeds of the tax levy whose collection they anticipate.

Tax Anticipation Warrants. See Tax Anticipation Notes.

Tax Certificate. A certificate issued by a government as evidence of the conditional transfer of title to tax-delinquent property from the original owner to the holder of the certificate. If the owner does not pay the amount of the tax arrearage and other charges required by law during the specified period of redemption, the holder can foreclose to obtain title. Also called tax sale certificate and tax lien certificate in some jurisdictions. See Tax Deed.

Tax Deed. A written instrument by which title to property sold for taxes is transferred unconditionally to the purchaser. A tax deed is issued upon foreclosure of the tax lien and is obtained by the purchaser at the tax sale. The tax lien cannot be foreclosed until the expiration of the period during which the owner may redeem the property by paying the delinquent taxes and other charges. See Tax Certificate.

Tax-Defaulted Property. See Defaulted Taxes.

Tax-Exempt Bonds. State and local government securities whose interest is exempt from taxation by the federal government or within the jurisdiction issued.

Tax-Increment Financing. Financing secured by the anticipated incremental increase in tax revenues resulting from the redevelopment of an area.

Tax Levy Ordinance. An ordinance through which taxes are levied.

Tax Liens. Claims governments have upon properties until the taxes levied against them have been paid. This term is sometimes limited to those delinquent taxes the government has taken legal action to collect through the filing of liens.

Tax Liens Receivable. Legal claims against property that have been exercised because of nonpayment of delinquent taxes, interest and penalties. Amounts accumulated in this account include delinquent taxes, interest and penalties receivable thereon, and costs of converting delinquent taxes into tax liens.

Tax Notes. See Tax Anticipation Notes.

Tax Rate. The amount of tax stated in terms of a unit of the tax base (e.g. 25 mills per dollar of assessed valuation of taxable property).

Tax Rate Area (TRA). A geographic area served by a unique combination of jurisdictions.

Tax-Rate Limit. The maximum rate at which a government may levy a tax. The limit may apply to taxes raised for a particular purpose or to taxes imposed for all purposes, and may apply to a single government or to a class of governments operating in a particular area. Overall tax-rate limits usually restrict levies for all purposes and of all governments, state and local, having jurisdiction in a given area.

Tax Roll. The official list showing the amount of taxes levied against each taxpayer or property. Frequently, the tax roll and the assessment roll are combined, but even in these cases the two can be distinguished.

Tax Supplement. A tax levied by a local government having the same base as a similar tax levied by a higher level of government, such as a state. The local tax supplement is frequently administered by the higher level of government along with its own tax (e.g. locally imposed, state-administered sales tax).

Tax Title Notes. Obligations secured by pledges of the government's interest in certain tax liens or tax titles.

Taxable Assessed Value. The total assessed value minus all exemptions other than the homeowner's exemption.

Taxable Value. Means and includes the base year full cash value, adjusted for any given lien date as required by law, or the full cash value for the same date, whichever is less.

Taxes. Compulsory charges levied by a government to finance services performed for the common benefit. This term does not include specific charges made against particular persons or property for current or permanent benefits, such as special assessments. Neither does the term include charges for services rendered only to those paying such charges (e.g. sewer service charges).

Taxes Collected in Advance. A liability account reflecting taxes collected before they are formally levied.

Taxes Levied for Other Governments. An asset account reflecting taxes that are levied by the reporting government for other governments that, when collected, are to be paid over to those governments.

Taxes Receivable — Current. Account for the uncollected portion of taxes which a government has levied, which are due within one year and which are not considered delinquent.

Taxes Receivable — Delinquent. Account for taxes remaining unpaid on and after the date on which a penalty for nonpayment attaches. Delinquent taxes receivable is classified as such until paid, abated, canceled, or converted into tax liens.

Taxing Agency. Includes the state, county, city, and every district that assesses property for taxation purposes and levies taxes or assessments on the property so assessed.

Technical Agenda. A term used in connection with GASB's due process procedure. A list of research projects formally undertaken by GASB as part of its development of authoritative standards of accounting and financial reporting.

Technical Bulletin. A document issued by the staff of GASB to provide guidance for applying GASB statements and interpretations and resolving accounting issues not directly addressed by them. The Accounting Standards and Procedures Committee of the County Auditor's Association of California issues similar documents that relate to specific accounting issues and their related treatments that are unique to California counties.

Teeter Plan. See Alternate Method of Tax Apportionment.

Temporary Loans. Short-term obligations representing amounts borrowed for short periods of time and usually evidenced by notes payable or warrants payable. They may be unsecured or secured by specific revenues to be collected. See Tax Anticipation Notes.

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. See Five Percent Criterion.

Term Bonds. Bonds that mature, in total, on one date.

Termination Payments Method. A method of calculating the liability for earned sick leave for which it is probable that the benefits will result in termination payments. Under this method, the amount of the liability is estimated based on a governmental entity's past experience of making termination payments for sick leave, adjusted for the effect of changes in its termination policy and other factors.

Timber Advisory Committee. A standing committee appointed by the board and composed of one representative of the Board of Equalization, one representative of the Board of Forestry, five assessors from the rate adjustment counties, one member representing small-scale timber owners, and one member representing large-scale timber owners.

Timberland. (Timber Yield Tax). Privately owned land, or land acquired for state forest purposes, which is devoted to and used for growing and harvesting timber and compatible uses, and which is capable of growing an average annual volume of wood fiber of at least 15 cubic feet per acre.

Timeliness. The principle that financial statements must be issued soon enough after the reported events to affect decisions.

Timing Differences. Differences between the budgetary basis of accounting and GAAP that occur when the period used for budgeting differs from the period used for GAAP reporting (e.g., a special revenue fund that uses a grant-year budget rather than a fiscal-year budget).

Trade Discount. An allowance, usually varying in percentage with the volume of transactions, made to those engaged in certain businesses and given without respect to when the account is paid. These discounts are commonly considered a reduction of the sales or purchase price, not earnings. The term is not to be confused with cash discount.

Traditional Budget. A term sometimes applied to the budget of a government wherein expenditures are based entirely or primarily on objects of expenditure. See Program Budget and Performance Budget.

Transfers. See Interfund Transfers and Intrafund Transfers.

Trial Balance. A list of the balances of the accounts in a ledger kept by double entry with the debit and credit balances shown in separate columns. If the totals of the debit and credit columns are equal or their net balance agrees with a control account, the ledger from which the figures are taken is said to be "in balance."

Trust Funds. See Fiduciary Fund.

Trustee. A fiduciary holding property on behalf of another.

Type A Program. A term used in connection with the determination of major programs for purposes of single audits. Type A programs are defined on the basis of the relationship between program expenditures and total federal awards expended.

Type B Program. A term used in connection with the determination of major programs for purposes of single audits. A Type B program is any program with insufficient program expenditures to qualify as a Type A program.

U

Unallocated Balance of Appropriation. An appropriation balance available for allotment.

Unallocated Claim Adjustment Expenses. A term used in connection with risk financing. Costs that cannot be associated with specific claims but are related to claims paid or in the process of settlement, such as salaries and other internal costs of the pool's claims department.

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

Unamortized Discounts on Bonds Sold. A contra-liability account used to reflect that portion of the face value of bonds exceeding the amount received from their sale (excluding amounts paid for accrued interest) which remains to be amortized over the remaining life of the bonds.

Unamortized Premiums on Bonds Sold. A liability account used to reflect that portion of the excess of bond proceeds over exceeding par value and which remains to be amortized over the remaining life of such bonds.

Unamortized Premiums on Investments. An asset account used to reflect that portion of the excess of the amount paid for investments (excluding amounts paid for accrued interest) over their face value which remains to be amortized over the remaining life of such investments.

Unanticipated Available Financing. Material sums of available financing not included in the budget which may legally be made available for the financing requirements of the county.

Unassigned Fund Balance. This is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

Unavailable Fund Balance. That portion of the governmental-type fund balance which is unavailable for financing the budget requirements for the accounting period involved. This is a conventional term, which identifies the nonspendable, restricted, committed and assigned portion of the fund balance, and should not be used in a GAAP financial presentation.

Unbilled Accounts Receivable. An account designating the estimated amount of accounts receivable for service that have not yet been billed (e.g., if a utility bills its customers bimonthly but prepares monthly financial statements, the amount of goods sold or services rendered during the first month of the bimonthly period would be reflected in the balance sheet under this account title).

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

Underlying Securities. The securities lent by the lender to the borrower.

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

Underwriter. In the context of bonds, a dealer who purchases a new issue for resale.

Underwriting. The process of selecting, classifying, evaluating, rating and assuming risks.

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, or revenues, or the resulting equity, to allocate to participants.

Unearned Revenue. A type of deferred inflow accounts used in connection with resources that have not yet been earned.

Unencumbered Allotment. That portion of an allotment not yet expended or encumbered.

Unencumbered Appropriation. That portion of an appropriation not yet expended or encumbered.

Unexpended Allotment. That portion of an allotment not yet expended.

Unexpended Appropriation. That portion of an appropriation not yet expended.

Unfunded Actuarial Accrued Liability. The excess of the actuarial accrued liability over the actuarial value of assets. This value may be negative, in which case it may be expressed as a negative unfunded actuarial accrued liability, the excess of the actuarial value of assets over the actuarial accrued liability, or the funding excess.

Unit Cost. In the context of cost accounting, the cost of producing a unit of product or rendering a unit of service (e.g., the cost of treating and purifying 1,000 gallons of sewage).

Unitary Property. A group of properties that operate as a unit as part of the primary function of the assessee.

Unliquidated Encumbrances. Encumbrances outstanding. See Encumbrances.

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

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

Unrealized Revenues. A term used in connection with budgeting. The difference between estimated revenues and actual revenues.

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

Unsecured Roll. The county assessor's certified assessment listing of properties which, in his opinion, do not constitute sufficient "permanence." either through immovability or other intrinsic qualities, to guarantee payment of taxes levied against them.

V

Value. As used in governmental accounting, (1) the act of describing anything in terms of money or (2) to measure in terms of money. The term should not be used without further qualification. See Book Value and Face Value.

Variable Interest Rate. A rate of interest subject to adjustment (e.g., the rate of interest specified may be a percentage of the prime rate on certain set dates).

Vessel. See Documented Vessel.

Vesting Method. An estimate of accrued sick leave liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such payments. To calculate the liability, these accumulations should be reduced to the maximum amount allowed as a termination payment. Accruals for those employees who are expected to become eligible in the future should be based on assumptions concerning the probability that individual employees or classes or groups of employees will become eligible to receive termination payments.

Voucher. A written document that evidences the propriety of transactions and usually indicates the accounts in which they are to be recorded.

Voucher System. A system which calls for the preparation of vouchers for transactions involving payments and for the recording of such vouchers in a special book of original entry, known as a voucher register, in the order in which payment is approved.

Vouchers Payable. Liabilities for goods and services, evidenced by vouchers that have been pre-audited and approved for payment but that have not been paid.

Voluntary Nonexchange Transactions. Transactions that result from legislative or contractual agreements, other than exchanges, entered into willingly by the parties to the agreement (for example, certain grants and private donations).

Voting Majority. When the number of a government's appointees to a component unit's board is sufficient to exhibit control.

Vulnerability Assessment. A term used in connection with evaluations of internal controls. The risk-based systematic prioritization of internal control evaluations.

W

Warrant. An order drawn by the legislative body or an officer of a government upon its treasurer, directing the latter to pay a specified amount to the person named or to the bearer. It may be payable upon demand, in which case it usually circulates the same as a bank check; or it may be payable only out of certain revenues when and if received, in which case it does not circulate as freely. See Registered Warrant and Deposit Warrant.

Warrants Payable. The amount of warrants outstanding and unpaid.

Wasting Assets. Mines, timberlands, quarries, oil fields and similar assets that diminish in value by the removal of their contents.

Welfare Exemption. A tax exemption on property used exclusively for religious, hospital, scientific, or charitable purposes, owned and operated by community chests, funds, foundations, or corporations organized and operated for religious, hospital, scientific, or charitable purposes.

Widely Recognized and Prevalent Practice. A term used in connections with the hierarchy of GAAP for state and local governments. The principal that accounting and financial reporting practice should itself serve as a source of GAAP in the absence of higher level guidance.

Williamson Act. See Open Space Land.

Work in Process. The cost of partially completed products manufactured or processed, such as a partially completed printing job. Sometimes referred to as work in progress. See Construction in Progress.

Work in Progress. See Construction in Progress and Work in Process.

Work Order. A written order authorizing and directing the performance of a certain task and issued to the person who is to direct the work. Among the items of information included on the order are the nature and location of the job, specifications of the work to be performed, and a job number, which is referred to in reporting the amount of labor, materials and equipment used.

Work Program. A plan of work proposed to be done during a particular period by the administrative agency in carrying out its assigned activities.

Work Unit. A fixed quantity that will consistently measure work effort expended in the performance of an activity or the production of a good.

Working Capital Fund. See Internal Service Fund.

X

NONE

Y

Yellow Book. Term commonly used to describe the General Accounting Office's publication, *Government Auditing Standards*, the source of GAGAS.

Yield. See Effective Interest Rate.

Yield-Maintenance Repurchase/Reverse Repurchase Agreement. A type of dollar repurchase/reverse repurchase agreement in which the securities returned provide the seller-borrower with a yield specified in the agreement. See Repurchase Agreement and Reverse Repurchase Agreement.

Z

Zero-Coupon Debt. Deep discount debt issued with a stated interest rate of zero percent.

APPENDIX D RECORD RETENTION

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APPENDIX D RECORD RETENTION

Code Sections on Records Disposition

Due to the volume of record retention codes, this appendix is limited to record retention codes impacting the auditor-controller and treasurer-tax collector offices, and may not be all inclusive.

D.01 Bonds

1. Destruction of canceled bonds and coupons	
Responsible department	Treasurer/Fiscal Agent
Code section	Government Code §53921
Retention period	Until paid or canceled
Microfilming required	No
Board resolution required	No
Remarks	Conditions fixed by treasurer
Approval of Board required	Yes

2. Canceled county, school, special district bonds and coupons	
Responsible department	Auditor
Code section	Government Code §26907.1
Retention period	5 years
Microfilming required	No
Board resolution required	No
Remarks	No

D.02 Claims (See Also Warrants)

3. Preparation of duplicate lists of claims allowed	
Responsible department	Auditor
Code Section	Government Code §29747
Retention period	Not stated
Microfilming required	Not stated
Board resolution required	Not stated
Remarks	Specifies content of list

D.03 General Records

4. County records, generally	
Responsible department	All county departments
Code section	Government Code §26205
Retention period	No
Microfilming required	Yes
Board resolution required	Yes
Remarks	A county officer can request destruction of record, paper, or document that is not expressly requested by law to be filed and preserved if specified conditions are met.

5. County records, generally	
Responsible department	All county departments
Code section	Government Code §26202
Retention period	2 years
Microfilming required	No
Board resolution required	Yes
Remarks	The Board of Supervisors may authorize the destruction of any record, paper, or document that is more than two years old and that was prepared or received in any manner other than pursuant to a state statute or county charter. However, the board, by four-fifths vote, may authorize the destruction or disposition of any record, paper, or document that is more than two years old and that was prepared or received pursuant to state statute or county charter and that is not expressly required by law to be filed and preserved.

D.04 Permits, Deposit

6. Deposit permits	
Responsible department	Treasurer
Code section	Government Code §27001
Retention period	5 years or 1 year if criteria (b) (1–4) are met; see code section.
Microfilming required	Yes
Board resolution required	Yes
Remarks	Destruction subject to conditions of Government Code §26205.5

7. Books of account for receipts and warrants	
Responsible department	Treasurer
Code Section	Government Code §27002.1
Retention period	Not stated
Microfilming required	Permitted in lieu of maintaining books of account
Board resolution required	Not stated
Remarks	Not stated

8. Deposit permits and deposit receipts	
Responsible department	Auditor
Code Section	Government Code §26907.2
Retention period	5 years
Microfilming required	No
Board resolution required	Yes
Remarks	No

D.05 Receipts (See Also Permits, Deposit)

9. Special district records	
Responsible department	Special districts
Code Section	Government Code §60201
Retention period	0 through 7 years, see code section
Microfilming required	No
Board resolution required	Yes (legislative body of district)
Remarks	Records required by statute excepted

10. Special district records	
Responsible department	Special districts
Code Section	Government Code §60203 and §26205
Retention period	None
Microfilming required	Yes
Board resolution required	Yes (legislative body of district)
Remarks	Establishes conditions for microfilming

11. Receipt and disbursement reports	
Responsible department	Treasurer/Auditor
Code section	Government Code §27061, §27062, and §27063
Retention period	No
Microfilming required	No
Board resolution required	No
Remarks	Requirements for settling accounts, and depositing and taking auditor's receipt for warrants redeemed

D.06 Rolls, Tax

12. Tax rolls, generally	
Responsible department	Tax collector
Code section	Government Code sections §26908 and §26205
Retention period	2 years
Microfilming required	Yes
Board resolution required	Yes
Remarks	No

13. Original secured and delinquent tax rolls	
Responsible department	Auditor/Tax collector/redemption officer
Code section	Revenue and Taxation Code §4377
Retention period	None
Microfilming required	Yes, microfilm or alternate media
Board Resolution required	Yes
Remarks	Prior to destruction, the abstract list must be certified by the auditor and kept for 12 years on alternate media

14. Unsecured tax rolls	
Responsible department	Tax collector
Code section	Revenue and Taxation Code §2928
Retention period	None
Microfilming required	No
Board resolution required	Yes
Remarks	Abstract or delinquent roll must have been certified by auditor and kept for 5 years from the date of the creation of the original document.

Sheets, Layout (See Maps)

D.07 Statements

15. Statements of cash in treasury	
Responsible department	Auditor
Code section	Government Code sections §26920 and §26922
Retention period	Original: permanent; duplicate: 1 quarter
Microfilming required	No
Board resolution required	No
Remarks	Permanent copy filed with clerk

Statements, of Fees (See Affidavits)

D.08 Warrants (See Also Permits, Deposit)

16. County school, special district claims, warrants, warrant vouchers	
Responsible department	Auditor
Code section	Government Code §26907
Retention period	5 Years
Microfilming required	Optional
Board resolution required	No
Remarks	The original document may be destroyed so long as the original document is photographed or electronically recorded and the copy is held for the length of the retention period.

17. Warrants index or register	
Responsible department	Auditor
Code section	Government Code §26907
Retention period	5 years
Microfilming required	Optional
Board resolution required	No
Remarks	The original document may be destroyed so long as the original document is photographed or electronically recorded and the copy is held for the length of the retention period.

D.09 Records Retention Schedule

The following Records Retention Schedule is an example only and is not intended to be authoritative or all-inclusive. However, the schedule does provide general retention guidelines that may be used by county auditor-controllers. Included in the schedule are retention periods as required by various code sections of the law as suggested by the County Accounting Standards and Procedures Committee. Additionally, in the “title” column, the years indicated are an example only and each county needs to determine which years are appropriate.

Due to an overwhelming number of California statutes with county record retention information, a decision was made to limit the listings in this section to retention codes impacting the county auditor-controller and treasurer-tax collector offices.

Title	Description	Retention Period	Remarks
Accounting — Budget			
Board of Supervisors: Actions	Items acted upon by the board of supervisors and accompanying materials. Includes: resolutions, agenda item transmittal reports, agenda item summary reports, and background materials.	FY + 1Y [1]	Official records kept by the board of supervisors.
Budgets: Final-form 1970	Informational copies of the final budgets for the county and special districts. Includes: copies of budgets	Permanent [1]	One copy retained permanently for reference purposes. Other copies may be destroyed when obsolete. Official records kept by the clerk of the board of supervisors.
Budgets: Final through 1969	Final budgets and statistical reports for the county and special districts. Includes final budgets and statistical reports.	Permanent [1]	One copy retained permanently for reference purposes. If department no longer wants to retain records, they should be sent to county archives for permanent retention.
Budgets: Proposed	Recommended budget available for public review. Includes: recommended budget and back-up.	FY + 5Y [1]	Official records of recommended budget kept by the clerk of the board of supervisors.

[1] Suggested retention period per the Advisory Committee on County Accounting Procedures

Title	Description	Retention Period	Remarks
Accounting — Cost			
Cost Plan: Audited	Back up for cost plan and duplicate worksheets. Includes: audited cost plan and worksheets	After audit settled + 3Y [1]	*Handbook of Cost Plan Procedures for California Counties §2180.* Retention of documents until resolution of any litigation, claim, negotiation, or audit issues + 3 years.
Cost Plan: Charges	Support services billings for non-general fund departments. Included: journal vouchers and receipts.	After audit settled + 3Y [1]	*Handbook of Cost Plan Procedures for California Counties §2180.* Retention of documents until resolution of any litigation, claim, negotiation, or audit issues + 3 years.
Cost Plan: Equipment and building use	Cost plan back-up. Includes: special fixed asset report.	After audit settled + 3Y [1]	*Handbook of Cost Plan Procedures for California Counties §2180*. Retention of documents until resolution of any litigation, claim, negotiation, or audit issues + 3 years.
Cost Plan: Formal plan	All information sent to the state. Includes: costs plans, and exhibits.	After audit settled + 3Y [1]	*Handbook of Cost Plan Procedures for California Counties §2180.* Retention of documents until resolution of any litigation, claim, negotiation, or audit issues + 3 years.
Cost Plan: Working papers	Back-up for cost plan and duplicate reports. Includes: quarterly cost comparison, insurance losses, property insurance breakdown, DP cost, time sheets, expenditure and revenue ledger, labor distribution, etc.	After audit settled + 3Y [1]	*Handbook of Cost Plan Procedures for California Counties §2180.* Retention of documents until resolution of any litigation, claim, negotiation, or audit issues + 3 years,
Cost Plan: State approval and approved exhibit	State approval and approved exhibit/summary	FY + 15Y [1]	*Handbook of Cost Plan Procedures for California Counties §2180.* Retention of documents until resolution of any litigation, claim, negotiation, or audit issues +3 years. (**Note:** the State Controller's Office retains the original state approval and approved exhibit permanently.)

[1] Suggested retention period per the Advisory Committee on County Accounting Procedures

Title	Description	Retention Period	Remarks
Accounting — Financial			
Audit Reports	Financial statements and auditor's report for the county. Includes: annual external county audit. Supplemental report to the annual external county audit. Supplemental report to the annual external audit of the county, as required for federal award programs. Includes: single audit report.	FY + 5Y [1]	Official records kept by the clerk of the board of supervisors.
Audit Workpapers	Workpapers for financial statements and auditor's report for the county. Includes: internal workpapers and correspondence.	FY+ 5Y [1]	
Fixed Asset Records	Inventories of county-owned fixed assets. Incudes: department inventories, workpapers and related computer reports. Also known as certified property account and fixed asset inventories.	FY+ 5Y	Gov. Code §24051 permits the destruction of annual inventories of county property after 5 years. At least one annual inventory must be performed within each 3 year period.
Land, Buildings and Improvements values	Historical costs for land, Buildings and improvements for use in financial reports. Includes: lists of costs.	FY+ 5Y [1]	May be maintained in original form or on alternate media; includes data retained on diskettes.

[1] Suggested retention period per the Advisory Committee on County Accounting Procedures

Title	Description	Retention Period	Remarks
Accounting — General			
1099's	To record and report vendor amounts to the federal government; also known as information returns.	FY + 5Y [1]	
General Ledger	Alternate media	Permanent [1]	If department no longer wants to retain records, they should be sent to county archives for permanent retention.
Appropriation Transfers	Transfers of unanticipated revenues, appropriation contingencies, unassigned fund balances, and other transfers.	FY + 5Y [1]	
Claims	Claims and invoices for materials and services. Includes: transfers, other billings, purchase orders, vendor lists, forms and purges.	FY + 5Y	GOV §26907 permits the destruction of records after 5 years.
Contracts	Contracts used as back-up for payment or encumbrance.	Expiration of contract + 5Y [1]	Destroy records 5 years after expiration or termination of contract. Official records kept by the clerk of the board of supervisors, purchasing agent, or the originating department.
Journal Vouchers	Documents used to enter postings to the general ledger that are not automatically generated by the accounting system.	FY + 5Y [1]	Save original or transfer to alternate media.
Treasurer's Disbursement Report	Monthly report used to balance outstanding warrants.	FY + 5Y [1]	Official records kept by the treasurer.
Treasurer's Monthly Cash Count	Report used to count and balance the treasurer's cash count.	FY + 1Y [1]	Official records kept by the clerk of the board of supervisors. For workpapers see treasured monthly inventory.
Warrant Registers	Listing of warrants issued by the county for claims.	FY + 5Y	GOV §26907 permits destruction of records after 5 years.
Warrants: Schools	Auditor's copy of warrants issued by the superintendent of schools.	FY + 5Y	GOV §26907 permits destruction of records after 5 years.
Warrants: Stale-dated	Records used to cancel warrants with stale dates for reconciliation with outstanding warrants.	FY + 5Y	GOV §26907 permits the destruction of records after 5 years.
Warrants: Stop payments	Documents needed to stop payment of warrants. Includes affidavits of lost warrants, stop payment notices and notices to rescind.	FY + 5Y [1]	GOV §26907 permits the destruction of records after 5 years.

[1] Suggested retention period per the County Accounting Standards and Procedures Committee

Title	Description	Retention Period	Remarks
Accounting — Long-Term Debt			
Capital Leases	Information on all capital leases needed to keep track of payments on outstanding leases.	After final payment + 5Y [1]	After final payment. Official records kept by the clerk of the board of supervisors.
Long-term Loans	Records of long term loans.	After final payment + 5Y [1]	Destroy records 5 years after final payment.
Mandated Cost Claims	Claims for reimbursement of state mandated costs. Includes: claim and back up information. Filed numerically by chapter number.	10 Years or 3 years after final payment unless audit exceptions are not yet resolved [1]	Requires less retention; however, a longer period is recommended due to state funding practices. Gov. Code, §17558.5(a).

[1] Suggested retention period per the County Accounting Standards and Procedures Committee

Title	Description	Retention Period	Remarks
Accounting — Revenue			
Accounts Receivable	Material used to invoice billings by the auditor's office for services to other departments and agencies, state tax refunds, and any reimbursable costs. Costs due the county through the auditor's office.	After final payment + 5Y [1]	Destroy records 5 years after the close of the fiscal year in which the final payment is made.
Annual Reports of Financial Transactions	Various annual financial reports for county offices and special districts prepared by the auditor-controller department in accordance with Gov. Code §26909 and §51891.	FY + 5Y [1]	Copy is sent to the State Controller.

[1] Suggested retention period per the County Accounting Standards and Procedures Committee

Title	Description	Retention Period	Remarks
Payroll			
Payroll Records (Auditor-Controller's Office	All records used to support payroll transactions not otherwise listed in the schedule.	CAL [2] + 5Y [1]	
Employee Yearend List	Yearend cumulative employee list. Includes: department, section, job class and pay rate. Microfiche and alternate media.	CAL [2]+ 40Y [1]	
Employee's Earning Record	Year-end record of employee's net pay showing gross pay minus deductions. Microfiche and alternate media.	CAL [2] + 40Y [1]	
Garnishments and Wage Attachments	Attachments against wages. Includes: garnishments form different sources, attachments, and court orders.	After final payment + 5Y [1]	Destroy records 5 years after the close of the calendar year in which the final payment is made.
Payroll Masters Yearend Report	Records all; yearly payroll activity for all County Departments. Includes sick leave, vacation and accrued compensation hours. Microfiche or alternative media.	CAL [2] + 40Y [1]	
Personnel Files …	File on permanent and extra help employee's personnel activities. Includes: job application, loyalty oaths, performance evaluations, disciplinary actions, personnel forms such as Change of Status (COS) and Notice of Employment (NOE), correspondence, training records.	Termination of employee + 7Y [1]	Official records kept by departments for 7 years after separation of employee. If employee transfers to another department, the complete personnel file will also be transferred to the new department.
Personnel Forms	Personnel forms used to record new employees, separations and salary or withholding changes. Includes: Notice of Employments (NOE) and change of status (COS). File by pay date.	CAL [1,2]	Official records kept in the departmental personal folder. Official records of withholding kept by the auditor-controller.
Payroll Tax Reports	Records used to report federal and state quarterly and annual; meetings and taxes withheld.	CAL[2] + 15Y [1]	
W2 Forms: Employer's Copies	Employer's copies of W2 forms used to report employee's income to the state and federal governments. Includes: completed W2 forms and balancing worksheets. Filled alphabetically by individual. Also known as audit of W2s.	CAL[2] + 15Y	Regulation No. 4028 of the Internal Revenue Code permits destruction of W2 forms 4 years after the date the tax is due or has been paid, whichever is later.
Warrant Registers: Payroll Revolving	Listing of payroll warrants issued by the county. Microfiche or alternate media.	CAL[2] + 15Y	Gov. Code §26907 permits destruction of warrant registers after 5 years. Stored at off-site vault. Official Record.
Worker's Compensation	Files used to maintain records of payments from the payment system for workers' compensation 4850s	After close + 15Y [1]	Destroy records 15 years after last transaction.

[1] Suggested retention period per the County Accounting Standards and Procedures Committee
[2] Retain until end of calendar year (December 31)

Title	Description	Retention Period	Remarks
Taxes			
Apportionment of State Allocations	Apportionment of the county share of state subventions and reimbursements. Processes by the count from magnetic tape or computer printouts received from the state. Includes: journal vouchers, computer printouts.	FY + 5Y [1]	Maintain in hard copy or electronically until audited and cleared without exception by the State Controller's Office.
Apportionment of State Allocations	Diskette	FY + 5Y [1]	
Bond Records	Informational material on bond elections and authorizations. Includes: resolutions, certifications from the elections department, bonding attorney and the auditor-controller. Filed alphabetically, then by date.	After final bond payment + 5Y [1]	
Bond Registers	Register of bonds sold. Includes: principal and interest. Filed alphabetically, then by date.	After final bond payment + 5Y [1]	Destroy records 5 years after final payment. Official records kept by the clerk of the board of supervisors.
LAFCO correspondence and TRAs	Information needed to update the tax rate area code assignments, property tax exchange chart, and changes to the allocation of annual growth agreements related to property tax apportionments.	Superseded or obsolete + 5Y [1]	
Paying Agent: agreements	Back-up authority for payments to paying agent for bonds, coupons, and costs. Includes: agreements and board of supervisors resolutions.	Superseded or obsolete + 5Y [1]	Destroy records 5 years after superseded or obsolete. Official record kept by the clerk of the board of supervisors.
Paying Agent: certificates	Paying agent and coupon destruction certificates. Includes: certificates.	After final payment + 5Y	Gov. Code §26907.1 allows destruction of records 5 years after bonds or coupons have been paid or canceled.
Paying Agent: statements	Statement of accounts for each bond fund. Back- up for payments received by paying agent. Includes: payments to bond and coupon holders and balances for each bank account.	FY + 2Y [1]	
Property Tax Administration Fees	Records and calculations used to apportion and charge agencies for annual property tax administration fees.	Until audited and cleared without exception by the State Controller's Office [1]	Gov. Codes §12468 audit schedule
Redevelopment Agencies	Back-up for tax, roll entries and allocations. Includes: adopted plan, annual tax increment, agreements base year values, maps, and resolutions in hard copy of or electronic format. Filed chronologically by agency.	Superseded or obsolete + 5Y [1]	Destroy records 5 years after record is superseded or obsolete.
School Bonds	Documents and electronic files used to calculate annual tax rates and allocations for school bonds.	Until year of maturity is audited and clears audit without exception by the State Controller's Office. [1]	
State Tax Reports	Tax information reports to State agencies as required by various State Code sections. Includes: reports to State Controller, State Board of Education, chancellor of community colleges, State Board of Equalization and California municipal statistics.	FY + 5Y [1]	Retain original or on alternate media.

Title	Description	Retention Period	Remarks
Tax Rate Booklet	Information taken from the tax rate computer printout. Includes: the booklet.	Permanent [1]	One copy is kept permanently. Duplicate bound copies or a master printout are kept for 4 years after the close of the fiscal year.
TRAs and Tax Rates back-up	Information needed to set the annual tax rate and to create the tax roll files. Includes: tax code area and fund masters, tax rates, calculations, resolutions to set rate rates, and workpapers.	FY + 2Y, or until audited and cleared without exception by the State Controller's Office. [1]	Information may be original or on alternate media.
Tax Rolls: Secured, supplemental and delinquent	Records used to create annual tax billing roll, print tax bills, process tax roll changes, apportion collections and refunds, and maintain balance of tax rolls. Includes: reports. File chronologically by activity.	FY + 2Y	Revenue and Tax, Code §109.5 allows machine prepared rolls to be displayed on alternate media.
Tax Rolls: Secured, supplemental and delinquent	Tax rolls, hardcopy of substitute media.	FY + 2Y	Revenue and Tax Code §4377 permits destruction of records after 12 years.
Tax Rolls: Unsecured from FY 1989–90	Records used to create annual tax billing roll, print tax bills, process tax roll changes, apportion collections and refunds, and maintain balance of tax trolls. Includes: tax roll, including changes, apportionment collections refunds, and balances.	FY + 5Y	Revenue and Tax Code §109.5 allows machine-prepared rolls to be displayed on alternate media. Rev. and Tax. Code §2928 permits destruction of the tax roll after 5 years.

[1] Suggested retention period per the County Accounting Standards and Procedures Committee

APPENDIX E BIBLIOGRAPHY

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APPENDIX E BIBLIOGRAPHY

E.01 Introduction

The following bibliography is a general reference to the organizations and their publications. It is not all-inclusive, but does provide a rather extensive listing of publications and should prove useful to the accountant searching for additional information on governmental accounting and auditing.

The electronic version of the *Accounting Standards and Procedures for Counties* (ASP) manual and other publications are available on the State Controller's website at: https://www.sco.ca.gov/pubs_guides.html

Questions concerning the ASP manual or county accounting procedures should be directed to the Local Government Policy Section of the State Controller's Office at LocalGovPolicy@sco.ca.gov.

Questions concerning reporting requirements or submissions, including joint power agreements, should be directed to the Local Government Reporting Section of the State Controller's Office at:

(916) 322-9672 or LGRsupport@sco.ca.gov for Counties or Cities

(916) 327-1017 or SDsupport@sco.ca.gov for Special Districts

Hierarchy of GAAP

The hierarchy of GAAP governs what constitutes GAAP for all state and local governmental entities. It lists the priority sequence of pronouncements that an activity should look to for accounting and reporting guidance. With regard to state and local governmental entities, the hierarchy is as follows:

- *GASB Statements and Interpretations*: Also, AICPA and FASB pronouncement specifically made applicable to state and local governmental entities by GASB Statements or Interpretations.
- *GASB Technical Bulletins*: Also, if specifically made applicable to state and local governmental entities by AICPA and cleared by GASB: AICPA Industry Audit and Accounting Guides and AICPA Statements of Position.
- *AICPA FinREC Practice Bulletins*: if specifically made applicable to state and local governmental entities and cleared by GASB. Also, consensus positions of a group of accounts organized by GASB that attempts to reach consensus positions on accounting issues applicable to state and local governmental entities.
- *Implementation Guides*: (Q&A's) published by GASB staff. Also, practices widely recognized and prevalent in state and local government.
- *Other Accounting Literature*: including GASB Concept Statements and AICPA and FASB pronouncements when not specifically made applicable to state and local governmental entities.

E.02 American Institute of Certified Public Accountants (AICPA)

AICPA offices and contact information:Website: http://www.AICPA.org
AICPA Store: http://www.CPA2biz.com/index.jsp
Email: service@aicpa.org

American Institute of Certified Public Accountants (AICPA) was founded in 1887, the AICPA represents the CPA profession nationally regarding rule-making and standard-setting, and serves as an advocate before legislative bodies, public interest groups and other professional organizations. The AICPA develops standards for audits of private companies and other services by CPAs; provides educational guidance materials to its members; develops and grades the Uniform CPA Examination; and monitors and enforces compliance with the profession's technical and ethical standards.

Accounting Standards Division Statements of Position (SOP) SOPs are issued by AICPA Accounting Standards Division to influence the development of accounting and reporting standards. Of particular interest to CPAs in government are:

- 90-4: Auditor's Report Under U.S. Department of Housing and Urban Development's "Audit Guide for Mortgages Having HUD Insured or Secretary Held Multi-Family Mortgages." No.014831

- 92-7: Audits of State and Local Governmental Entities Receiving Federal Financial Assistance (Updates State and Local Governmental Units Audit Guide)

Codification of Statements on Auditing Standards (SAS) as of February 2014. SASs are issued by AICPA Auditing Standards Board. They interpret generally accepted auditing standards (GAAS) per the institute's Code of Professional Ethics. The SASs have been incorporated into the GAO Standards for Audit of Governmental Organizations, Programs, Activities, and Functions and are included in AICPA Professional Standards. Includes SASs Nos. 1-129, with superseded portions deleted and superseding amendments, modifications and interpretations included.

E.03 Financial Accounting Standards Board (FASB)

Financial Accounting Standards Board (FASB) offices and contact information:

Website: http://www.FASB.org
Publications Department Website: http://www.FASB.org/store

FASB Organization Formed in 1973 as the successor organization to AICPA's Accounting Principles Board, FASB operates under the auspices of the Financial Accounting Foundation and under a 1984 jurisdictional agreement with GASB, which was reaffirmed in 1989. It has GAAP standards-setting authority over all entities except those specifically assigned to GASB.

E.04 Federal Agencies

Administrative Regulations. The various federal agencies issue general administrative regulations that apply to their programs. These regulations provide general rules on how to apply for grants and contracts, how they are made, the general conditions that apply to grantees and contractors, their administrative responsibilities, and the compliance procedures used by the various agencies. These regulations are included in the Code of Federal Regulations.

Website: https://www.whitehouse.gov/omb/information-for-agencies/circulars#numerical

E.05 General Accounting Office (GAO)

Government Accountability Office (formerly the *General Accounting Office*) contact information:

Email: contact@gao.gov

Order GAO publications through website or by telephone:

Website: http://GAO.gov

(202) 512-6000 ♦ (866) 801-7077 Toll Free ♦ (202) 512-2537 TDD

The **U.S. Government Accountability Office (GAO)** is an independent, nonpartisan agency founded in 1921 that works for Congress. The GAO investigates how the federal government spends taxpayer dollars and is the supreme audit institution for the United States. Federal and state auditors look to GAO to provide standards for internal controls, financial audits, and other types of government audits. The GAO prescribes resources such as, "Government Audit Standards" (Yellow Book), Financial Audit Manual, Standards for Internal Control in the Federal Government, and The Federal Information Systems Controls Audit Manual.

E.06 Government Finance Officers Association of the United States and Canada (GFOA)

Government Finance Officers Association contact information:

Website: http://GFOA.org

Order publications: https://estore.gfoa.org/IMIS15/Gfoamember/

GFOA Organization Founded in 1906, GFOA is a professional association dedicated to serving the interests of government finance practitioners. GFOA offers a variety of services and programs designed to improve the knowledge and practice of government finance and enhance the skills and performance of those responsible for government finance policy and management.

E.07 Governmental Accounting Standards Board (GASB)

Government Accounting Standards Board (GASB) contact information:

Website: http://GASB.org

Order GASB publications at https://www.gasb.org/store, call (800) 748-0659, or via email at gasbpubs@gasb.org

GASB Organization Formed in 1984 as the successor organization to the National Council of Governmental Accounting (NCGA), GASB operates under the auspices of the Financial Accounting Foundation and under a 1984 jurisdictional agreement with FASB, which was reaffirmed in 1989. It has GAAP standard-setting authority over (1) state and local governmental entities, including cities, counties, public school districts, other special districts, and authorities, and (2) public benefit corporations and authorities, voluntary health and welfare organizations, public employee retirement systems, other non-profit organizations that are governmental entities or are a part of a governmental entity, and governmental utilities, hospitals, colleges and universities.

E.08 National Conference of State Legislatures (NCSL)

- **The National Conference of State Legislatures (NCSL)** is a national advisory council which provides services to state legislatures "by bringing together information from all states to forge workable answers to complex policy questions."

National Conference of State Legislatures (NCSL) contact information:

Website: http://www.NCSL.org

State-Local Fiscal Indicators (1990). This book provides insights about how and why the spending and taxes in each state differ from those of other states. It includes overviews of state-local revenues, state-local spending, local taxes, school finances, and employment and earnings. It addresses the balance between state and local tax systems, and discusses how state and local finances have changed over time.

E.09 National Intergovernmental Audit Forum (NIAF)

National Intergovernmental Audit Forum (NIAF) contact information:

email: mailto:EscalanteL@GAO.gov

Website: https://auditforum.org/about-us/national-intergovernmental-audit-forum/

NIAF Organization Congress formally recognized the need for an organized intergovernmental approach to auditing by passing the Intergovernmental Cooperation Act of 1968. The primary purpose of NIAF is to improve coordination and cooperation in intergovernmental auditing. NIAF is the umbrella organization for ten regional forums composed of representatives from federal, state, and local audit organizations and independent certified public accountants, who meet to exchange ideas for improving governmental auditing.

E.10 Office of Management and Budget (OMB)

Office of Management and Budget (OMB) contact information:

Website: http://www.WhiteHouse.gov/omb

Circulars The OMB, in consultation with federal grantor agencies, the Governmental Accountability Office, and representatives of grant recipients, developed a series of financial circulars that establish uniform policies and rules to be observed by all executive branch agencies of the federal government. For copies of circulars go to: http://www.whitehouse.gov/omb/circulars.

Bulletins OMB Bulletins are used when the nature of the subject matter requires single or one-time action by the departments and establishments or is of a transitory nature. For copies of bulletins go to: https://www.whitehouse.gov/omb/information-for-agencies/bulletins

Other OMB Guidance Other documents issued by the OMB which have accounting and/or auditing applications are listed below:

- **Catalog of Federal Domestic Assistance** This is a government-wide compendium of federal programs, projects, services, and activities that provide assistance or benefits to the American public. The General Services Administration (GSA) is responsible for the dissemination of federal domestic assistance information through the catalog and maintains the information data base from which program information is obtained. OMB serves as an intermediary between other federal agencies and the GSA, thus providing oversight relative to the collection of federal domestic assistance program data.
    - Program information provided by the catalog includes authorizing legislation and audit requirements. The catalog is online at: https://www.cfda.gov/

APPENDIX F CHANGE PROCEDURE

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APPENDIX F CHANGE PROCEDURE

The following are guidelines for revising and maintaining this manual.

F.01 Submitting Proposed Revisions

Proposed changes to the manual should be submitted in writing to Office of the State Controller, Local Government Program and Services Division, Local Government Policy Unit, P.O. Box 942850, Sacramento, CA 94250 or via email at LocalGovPolicy@sco.ca.gov. That office will forward the request to the State Association of County Auditors' County Accounting Standards and Procedures Committee, or such subcommittee as assigned by them for processing.

Minor changes such as typing errors, etc. will be processed by the State Controller's Office. The changes will usually be made when other maintenance occurs.

Use the Revision Request form be to submit any suggested changes (Exhibits, Figure 1).

F.02 Receiving Revisions

The County Auditor is responsible for maintaining a listing of manuals issued to his county and informing the Local Government Policy Unit of the number of copies maintained in his county. Each county is responsible for keeping their manuals current by inserting revisions as they are distributed.

F.03 Special Notations

Revisions will have the issue date in the lower left or right hand corner of the pages changed.

A substitute page is provided for each page that has been changed. In the event that changes or additions to the content cause a sequence error in paging, one of two methods are employed to correct the sequencing error.

Method One

The additional page will be coded with an alpha character:

Example: If the revisions caused an additional page of text to be added starting at page 4 but ending with page 5, the new manual with revisions would be paged as below:	
Current manual page sequence	10.01, 10.02, 10.03, 10.04, 10.05, 10.06
Revised manual page sequence	10.01, 10.02, 10.03,10.04,10.04a, 10.05, 10.06

Method Two

The additional page will be inserted in the proper location within the sequential page numbering. The resulting new page adds an additional page in the total page count for the chapter.

Example: If the revision caused an additional page of text to be added starting with page 4 and continuing through the end of the chapter, then the entire chapter from page 4 through the end of the chapter would be distributed as part of the revision packet.	
Current manual page sequence	1 2 3 4 5 6 7
Revised manual page sequence	1 2 3 4* 5* 6* 7* 8*
*new pages issued	

If the additions cause a sequence error in the section numbering, then the additions will be noted by use of an alpha character.

Example: if two sections were added after 10.03, then the new sections would be numbered as follows:	
Current manual section numbers	10.01, 10.02, 10.03, 10.04, 10.05
Revised manual section numbers	10.01, 10.02, 10.03, 10.03a, 10.03b, 10.04, 10.05

If a section is deleted and not replaced, the text following the section number would read "Deleted."

Example: If section 10.04 is deleted	
Current manual section number	10.04
Revised manual	10.04 Deleted

F.04 Legislative Responsibility, Revision, Approval and Distribution

The State Controller's Office (SCO) is statutorily required, pursuant to Government Code section 30200, to prescribe recommended accounting procedures to California counties and dependent special districts under the control of the County Board of Supervisors in compliance with Generally Accepted Accounting Principles. These recommended accounting procedures have been established and maintained in the SCO-prescribed, *Accounting Standards and Procedures for Counties (ASP) Manual.*

To comply with the Government Code sections 30200 and 30201, a SCO/County committee due process has been established to facilitate and approve revisions of the ASP Manual. This due process has been incorporated into the official bylaws of the California State Association of County Auditors (CalSACA). As part of the due process, the State Controller's Local Government Policy Unit in collaboration with SACA's Policy and Interpretations Committee are tasked with the research and revision recommendations of the ASP Manual.

The Advisory Committee on County Accounting Procedures has the final responsibility of reviewing and approving recommendations to the ASP manual. The recommendations are submitted for approval by SACA's Accounting and Standards Committee. Approved changes are processed by the State Controller's Local Government Policy Unit.

Copies of all revisions will be forwarded by the Local Government Policy Unit to the County Auditors with a consecutively numbered transmittal memo. It is recommended that receipt of each revision be recorded on a form similar to the *Revision Record* (Exhibit F.02).

Exhibits:

Figure 1 Revision Request

Sample **Accounting Standards and Procedures Manual for Counties** **☐ Manual Revision Request** **☐Policy or Interpretation Request**			
DATE:			
NAME		TITLE	
AGENCY			
PHONE #		EMAIL	
REQUEST			
CHAPTER NO./TITLE:			
SECTION TITLE:			
SECTION NO.		PAGE NO.	
Check the appropriate box			
☐	a)	Typing error (punctuation, spelling, etc.). *Attach a copy of the manual page(s) in question; circle the error(s) with red pencil or pen.*	
☐	b)	Content change to text. *Attach a copy of the manual page(s) in question; attach a typed copy of proposed change(s).*	
☐	c)	Interpretation of content. *Attach a copy of the manual page(s) in question; underscore the content area in question..*	
☐	d)	Miscellaneous policy or interpretation request. Attach *a copy of the manual page(s) in question; underscore the content area in question.*	
Please provide the following information:			
TOPIC:			
ISSUE:			
POSITION/SUGGESTION/REQUEST:			

Figure 2 Revision Record

Accounting Standards and Procedures for Counties Edition Number List of Substantive Changes and Additions		
Chapter	**Section(s)**	**Description of Changes/ Additions**
Changes consequent to: *Reason for changes*		

APPENDIX G GASB 34 IMPLEMENTATION GUIDE FOR COUNTIES

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APPENDIX G GASB 34 IMPLEMENTATION GUIDE FOR COUNTIES

IG.01 Introduction

This document provides guidance to assist counties with implementing the changes necessary to transition the preparation and presentation of financial statements for California counties to generally accepted accounting principles (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*. The major reporting aspects of GASB Statement No. 34 are described in this document to assist financial statement preparers in the application and implementation of the new reporting model. Readers should keep in mind that the information presented is non-authoritative and is not intended to interpret or prescribe the application of GASB Statement No. 34. This document is intended to supplement Appendix GR: GASB 34 Reporting Chapter — Financial Statements for Counties section of the *Accounting Standards and Procedures for Counties* Manual.

IG.02 Authoritative and Educational Resources

The following is a list of authoritative and educational resources that will assist you in preparing and presenting financial statements for California counties as prescribed by GASB Statement No. 34.

- Existing codification/Governmental Accounting, Auditing, and Financial Reporting (GAAFR) http://www.gfoa.org
- Governmental Accounting Standards Board (GASB) Statements, Concepts Statements, Interpretations and Implementation Guides. The most current GASB Statements are listed in the Policies Chapter of this manual, chapter 2, section 2.01. http://www.gasb.org
- Financial Accounting Standards Board (FASB) Statements — for governments who had the option of implementing pre November 1989 FASB statements — Concept Statements, Interpretations and Implementation Guides. http://www.fasb.org
- American Institute of Certified Public Accountants (AICPA) http://www.aicpa.org
- *The Accounting Standards and Procedures for Counties Manual* http://www.sco.ca.gov
- The California State Association of County Auditors Web site http://calsaca.org/

IG.03 Effective Date of GASB Statement No. 34

As set forth in the following chart, the effective dates of GASB Statement No. 34 vary, depending on the financial size of the county and its fiscal year. The chart assumes a fiscal year beginning July 1 and ending June 30. Also, there are different effective dates for implementing the new model and prospective reporting of infrastructure (assets added or deleted from the effective date of the new model) versus retroactive reporting of infrastructure assets acquired after June 30, 1980.

Total Revenues	Basic Model Prospective Infrastructure Reporting	Retroactive Infrastructure Reporting
	Effective for Fiscal Year	
$100 million or more	FY 2001–02	FY 2005–06
$10 to $100 million	FY 2002–03	FY 2006–07
Under $10 million	FY 2003–04	Not Required

IG.04 Key Implementation Issues

a. Strategy for Daily Accounting and How to Get the Financial Statements

The auditor-controller's office needs to determine how it will identify the financial data needed to prepare GASB Statement No. 34 compliant financial statements. If the data is not readily identifiable using current practices, how will it do when implementing applicable GASB statement. For many counties, small changes to existing accounting practices will achieve the goal. For others, more extensive system changes may be required.

b. Infrastructure Decisions

It is necessary to identify capital assets that qualify as infrastructure, as defined by GASB Statement No. 34. A decision needs to be made as to whether infrastructure assets will be capitalized and depreciated, or whether the modified approach will be used. If capitalization is used, valuation and useful lives decisions must be made. If the modified approach is used, condition assessments must be made. There is also a phase-in option for infrastructure, and it must be decided if the statements will include infrastructure costs/values in the initial year of implementation, or in a later year.

c. Cash Flow Using the Direct Method

The auditor-controller's office needs to become familiar with preparing a Statement of Cash Flows using the direct method, if it is not already using the direct method.

d. Capital Assets Accounting System

Depreciation of equipment and buildings (as well as infrastructure) will now be reflected in the financial statements, so modification of the capital assets accounting system to perform depreciation calculations may be required. Asset useful-life determinations will also need to be made.

e. Fund Classification (Trust and Agency Fund Matrix)

Some existing fund type definitions were changed by GASB Statement No. 34. In particular, fiduciary fund type definitions have been significantly changed, so a review of all current trust and agency funds is necessary to determine whether or not their classification should be changed.

f. Budgetary Impacts

Fund reclassifications may require that budgetary comparison schedules be created for funds that in the past had no budgets, e.g., if a trust fund is reclassified under the new definitions as a special revenue fund, the new special revenue fund could require a budget if it is considered a major fund. In addition, GASB Statement No. 34 requires reporting of the original adopted budget, as well as the final year-end adjusted budget, with material changes explained, which may lead to increased efforts to develop better budget estimates. Lastly, if a county needs to make accounting changes to comply with GASB Statement No. 34 requirements, it probably needs to determine if the changes will also need to be made in the budgetary accounting system.

g. Decision on Whether or Not to Allocate Indirect Cost (Government-Wide)

GASB Statement No. 34 requires inclusion of a new government-wide Statement of Activities which is intended to display the revenues, expenditures, and net costs of each major function/activity of the government. When preparing the statement, the county is given the option of allocating the indirect costs amongst the activities directly on the statement.

h. Changes to Net Asset Classification

GASB Statement No. 34 compliant statements measure net assets rather than fund balance. This will require statement formatting changes and a review of classifications. GASB Statement No. 34 net asset classifications include: investments in capital assets (net of related debt), restricted net assets, and unrestricted net assets.

i. Restating Beginning Balances, Asset Values, and Asset Related Debt

Because GASB Statement No. 34 requires a Statement of Net Assets and a Statement of Activities, two new financial statements prepared on the accrual basis, pro forma statements for the prior year must be prepared to correctly state beginning balances. Asset values, accumulated depreciation, and asset related debt will need to be identified to report in the new statements.

j. Financial Statement Contents

The table of contents and footnotes need to be modified to describe the new financial statements.

k. Major and Non-Major Funds

GASB Statement No. 34 requires fund basis statements that present only major funds in the basic financial statements, and optionally present non-major funds in a supplementary schedule. As a result, determining which funds are major and which are not is an important step in preparing GASB Statement No. 34 compliant fund basis statements. Major and non-major fund definitions are defined in GASB Statement No. 34.

l. Financial Statement Reconciliation

The new government-wide financial statements must be reconciled to the fund based statements.

m. Interfund Eliminations

GASB Statement No. 34 requires that certain interfund activity be eliminated. This includes elimination of the effects in both revenue and expenditure amounts and in internal balances at year-end; and it may require some changes to daily accounting procedures.

n. Staff Training

Many departments throughout the county may need to be familiarized with the impacts of GASB Statement No. 34. Training may take the form of written communications and/or live presentations, and it may vary from general information about the changes to very specific, detailed examples of accounting procedures in the new GASB Statement No. 34 environment.

o. Capital Assets Accounting System/Debt Accounting Records Instead of General Fixed Assets Account Group/General Long-Term Debt Account

A Capital Assets Accounting System (CAAS) and Debt Accounting Records (DAR) are needed to comply with GASB Statement No. 34 requirements. The CAAS will need to capture assets, valuations, and accumulated depreciation for each asset. The DAR needs to capture all debt obligations, and associate debts with capital assets where appropriate. The CAAS and DAR may be implemented by using existing systems, modifying existing systems, and/or establishing new systems.

p. Revenue Classification (Analysis of Program and General Revenue, Grants, etc.)

The new government-wide Statement of Activities requires revenues be captured by activity and reported in specific categories: Charges for Services, Operating Grants and Contributions, Capital Grants and Contributions, and General Revenues (which require further breakdown in the statement). Accounting systems must be able to capture revenues accordingly.

q. Management Discussion and Analysis (MD&A) Process

GASB Statement No. 34 requires the inclusion of MD&A in the financial statements. The MD&A must be objective and meaningful, and it must address material issues of which management is aware. Developing a process for the annual composition of the MD&A, and who is ultimately responsible for its contents, may be an issue requiring discussion between the county auditor, the county administrative officer, external auditors, and other county officials.

r. Footnote Review

Some disclosure requirements have changed. A review of the new requirements is necessary to determine if all of the information needed is readily available.

s. Coordination with Component Units

GASB Statement No. 34 implementation must be coordinated with component units included in the primary government statements so that all of the data are presented in accordance with the new standards.

IG.05 Major Reporting Elements

a. Dual Perspective in Presenting Financial Statements

There will be two distinct sets of financial statements, government-wide financial statements and fund financial statements. There will be significant differences between these two financial statements including major differences in the amounts displayed in the equity sections of the two statements. A detailed reconciliation between the two statements will be required on the fund statements.

Traditional fund reporting for tax-supported (governmental) activities has focused on near-term inflows, outflows, and balances of spendable financial resources. The new financial reporting model retains this short-term focus in the fund financial statements while providing a long-term perspective on the same activities in the government-wide financial statements.

b. Basic Financial Statements, Measurement Focus and Basis of Accounting

- **Government-Wide Statements.** For the first time, users of state and local governmental financial reports have access to government-wide financial statements that provide a clear picture of the government as a single, unified entity. The government-wide statements are to provide operational accountability with a long-term perspective. These new government-wide financial statements complement rather than replace traditional fund-based financial statements.

The government-wide financial statements are consolidated financial statements for all of the agencies' operations on a full accrual basis of accounting. They are not presented on a fund basis; instead, fiscal operations are organized into two major activities: governmental and business-type. Interfund transfers within the two types are eliminated. Internal service fund transactions are eliminated and net balances are included with the governmental display. Only county-controlled operations are to be displayed. Non-county fiduciary funds are not included.

Following are the primary financial statements:

- **The Statement of Net Assets:** (replaces the balance sheet) displays assets minus liabilities equals net assets. Instead of fund balance, retained earnings and contributed capital, the statement of net assets must identify its three components: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

- **The Statement of Activities:** (replaces the statement of revenues and expenditures) displays costs by function, net of direct program revenues, such as fees and operating or capital grants, producing a net program cost. General revenues provided by taxpayers offset the net program costs.

- **The Fund Statements:** In meeting stewardship and accountability concerns, there is another set of financial statements presented on a fund basis, similar to current fund reporting. The fund statements provide fiscal accountability with a short-term focus. The governmental funds continue to report on the modified accrual basis versus the full accrual reported on the government-wide statements. Proprietary funds are reported on the full accrual basis for both financial statements.

c. Management's Discussion and Analysis

The new governmental financial reporting model provides financial report users with a simple narrative introduction, overview, and required explanation and analysis of the basic financial statements in the form of Management's Discussion and Analysis (MD&A). For many local agencies that already prepare a Comprehensive Annual Financial Report (CAFR), this new requirement should not pose significant additional work. However, since the MD&A is now a required part of the "basic" financial statements, this may result in increased audit costs, although required supplementary information (RSI) requires a lower level of review by the auditors.

d. Changes in Fund Types and Classification

Old Model	New Model
Governmental Funds	**Governmental Funds**
General Fund	General Fund
Special Revenue	Special Revenue[1]
Debt Service	Debt Service
Capital Projects	Capital Projects
	Permanent Funds[2]
Proprietary Funds	**Propriety Funds**
Enterprise	Enterprise[3]
Internal Service	Internal Service[4]
Fiduciary Funds	**Fiduciary Funds**
Pension Trust	Pension (and Other Employee Benefit)Trust
Investment Trust	Investment Trust
Expendable Trust	
Non-Expendable Trust	
	Private Purpose Trust[5]
Agency	Agency[6]
Account Groups	**Accounting Systems**
General Fixed Asset Account Group (GFAAG)	Capital Assets Accounting System[7] (CAAS)
General Long-Term Debt Accounting Group (GLTDAG)	Debt Accounting Records[8] (DAR)

(1) Trust and agency fund analysis will result in additional special revenue funds.

(2) Should be used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs for the benefit of the government or its citizenry.

(3) Three criteria, any one of which mandates the use of enterprise funds: (1) activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; (2) laws and regulations require that the activity costs of providing services, including capital costs, be recovered with fees and charges, rather than with taxes or similar revenues; (3) pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

(4) 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. The reporting government is the predominate user of the services.

(5) Used to report all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments.

(6) Used to report resources held by the reporting government in a purely custodial capacity (assets equal liabilities). "Non-county" temporary; remit to non-county entities (e.g. payroll tax withholding).

(7) CAAS is no longer reported in fund financial statements, but is reported in government-wide financial statements.

(8) DARs are no longer reported in fund financial statements, but are reported in government-wide financial statements.

e. Capital Assets

Capital assets, which were previously reported in a separate fund group, are now included in the government-wide statements as assets for both governmental and business-type activities. Capital assets (formerly fixed assets) include land, structures and improvements, equipment, intangibles, and infrastructure. Generally, these assets are reported at their historical cost and depreciated over their estimated useful lives. In the government-wide statements these assets are reported net of accumulated depreciation.

Infrastructure assets are new to government reporting and include long-lived capital assets that are normally stationary in nature and can be preserved for a significantly greater number of years, such as roads, bridges, dams, in addition to water and sewer systems. The new reporting model provides that infrastructure reporting include at least those assets acquired after June 30, 1980. The new model also provides for two methods of reporting infrastructure depreciation. Under either method, the infrastructure asset must be researched, inventoried, and capitalized at historical or estimated cost (at least at the level of networks and subsystems) on the county's fixed asset system.

f. Budgetary Comparison Schedules

In the past, budgetary comparisons were based solely on the final amended budget. Under the new governmental financial reporting model, information on the original budget is also presented. In addition, the new model eliminates aggregated budget presentations (e.g., totals for all budgeted special revenue funds) in favor of comparisons for the general fund and each individual major fund.

g. Major Fund Focus

The new governmental financial reporting model focus is on major funds. Major funds are defined as the general fund and other funds that (1) are at least 10% of the total assets, liabilities, revenues, and expenses for all the funds of that category type (total governmental or total enterprise funds), and (2) are at least 5% of the total assets, liabilities, revenues, and expenses of the total for all governmental and enterprise funds combined. In addition to the funds that meet the major fund criteria, any other governmental or enterprise fund that the government believes is particularly important to financial statement users may be reported as a major fund.

h. Long-Term Debt

Long-term debt is no longer shown as a separate governmental account group but is reported in the government-wide statements as liabilities for both governmental and business-type reporting. The notes to the financial statements also require more detail about long-term liabilities, including identifying separate information on long-term debt (such as bonds, notes, loans, and leases payable) and other long-term liabilities (such as compensated absences, and claims and judgments).

i. Net (Expense)/Revenue by Function

Net (expense)/revenue by function is defined as the expenses of functions (or some lower classification level presented in the Statement of Activities), reduced by program revenues relating to those functions.

The Statement of Activities should present the operations of the reporting government in a format that reports the net (expense)/revenue of its individual functions. The governmental activities should be presented at least at the level of detail required in the governmental fund statement of revenues, expenditure, and changes in fund balances, at a minimum by function. Governments should present business-type activities at least by segment.

j. Eliminations

Eliminations are adjustments that should be made in the government-wide financial statements to minimize the “grossing-up” and “doubling-up” effect caused by some internal transactions.

Eliminations are required in both the Statement of Net Assets and the Statement of Activities. There are several types of internal or interfund activities that should be considered for elimination. These activities are Internal Service Fund (ISF) activities, interfund activities similar to ISF charges, interfund services provided and used, allocations of overhead expenses, and transfers.

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

Eliminations should be made in the Statement of Net Assets to minimize the grossing-up effect on assets and liabilities with the governmental and business-type activities columns of the primary government.

Amounts owed between the funds included in the governmental activities column are eliminated, as are amounts owed between funds included in the business-type activities column.

The only internal balances (receivables and payables) that remain in the statement are those owed by a fund included in the governmental activities column to a fund included in the business-type activities column. The net residual amount is presented as an "internal balance" and eliminated in the total primary government column.

k. Net Assets

Net Assets are defined as the difference between the government's assets and its liabilities. This term is used in lieu of fund balance or equity.

The net assets are divided into three components: invested in capital assets, net of related debt; restricted net assets (distinguishing between major categories of restrictions); and unrestricted net assets.

- Invested in Capital Assets, Net of Related Debt — This component is the capital asset balances, including restricted capital assets less both accumulated depreciation and outstanding balances of any capital-related debt.
    - **NOTE:** If capital assets do not have any related debt, the title should be "Invested in Capital Assets." If a significant portion of related debt has not yet been expended on capital assets, that portion of the unspent debt should be included within the same net assets component as the unspent debt proceeds (e.g. restricted for capital projects).
- Restricted Net Assets — Net assets should be reported as restricted when constraints placed on net assets are either:
- Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
- Imposed by law through constitutional provisions or enabling legislation.
    - **NOTE:** No category of restricted net assets can be negative. When the liabilities that relate to the restricted assets exceed those assets, no balance should be reported and the negative amount should be reported as a reduction of unrestricted net assets. Board designations are not considered "restricted assets" for the purpose of the Statement of Net Assets.
- Unrestricted Net Assets — This is the default category. If any remaining assets do not fit into the other categories, they are reported in this section.

l. Special and Extraordinary Items

Special Items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence (e.g., sales of certain general government capital assets, significant forgiveness of debt).

Extraordinary items are those items that are both unusual in nature and infrequent in occurrence (e.g., costs incurred by natural disaster, terrorist act, environmental disaster).

Special and extraordinary items are to be reported separately on the bottom of the Statement of Activities, in the same manner as general revenue, with costs appropriately classified within the governmental and business-type activities.

m. Interfund Activity

Interfund activity is a resource flow between funds including resources between a primary government and its blended component units. This term is used in lieu of interfund transactions.

IG.06 Implementation Tools

a. Trust and Agency Analysis Matrix

Characteristics	Agency Fund*	Private Purpose Trust*	Investment Trust*	Pension Trust*	Special Revenue	Permanent Fund
Non-county	Y	Y	Y	Y	N	N
Temporary	Y	/	/	N	/	N
Custodial only	Y	Y	Y	/	N	N
Cash pool External parties share	N	N	Y	N	N	N
Pension assets	N	N	N	Y	N	N
Trust arrangement	N	Y	N	N	N	/
Degree of management involvement	N	Y	Y	/	Y	Y
Must maintain principal	N	/	N	N	N	Y
**Truly Fiduciary only — county does not get the money*						
LEGEND:	**Y = YES**	**N = NO**	**/ = Maybe YES and/or NO**			

b. Crosswalk: From old financial statements to new fund financial statements to government-wide financial statements

FUND CATEGORY	FUND BASIS FINANCIAL STATEMENT CHANGES From CAFR to new fund statements *(Reference GASB No. 34 ¶12 -62)*	Refer to GASB Statement
Governmental Funds	Major fund focus	No. 34 ¶75, 76 No. 37 ¶15.b
	Added: Permanent Fund	No. 54 ¶35
	Do not report GLTDAG or GFAAG	No. 34 ¶63
	New Requirement to report Special Items	No. 34 ¶ 9
	Budget to actual can be statement or RSI	No. 34 ¶130
	Original and final budget must be shown	No 34 ¶ 130
	Recommended combining statement for non-major funds (GFOA requirement for certificate)	No.34 illus. H-1, H-5 No. 54 ¶22, exhib. 2
	Display of fund balance classifications	No 54 ¶22,25
Proprietary Funds	Major fund focus for Enterprise Funds only (Not Internal Service Fund)	No.34 ¶75,76,96 No.37 ¶15.b
	Special Items	No.34 ¶89
	Direct method Statement of Cash Flows	No. 34 ¶105
	New definitions of Enterprise Funds and Internal Service Funds	No 34 ¶ 67,68
	Changed Titles (three components of Net Assets)	No. 34 ¶98
	Net Assets or Balance Sheet format allowed	No. 34 ¶91
	Classified Balance Sheet	No. 34¶97
	Retained Earnings changes to Net Assets	
	Contributed Capital goes away	
Fiduciary Funds	County does not benefit; purely custodial	No. 34 ¶69
	Expendable and Non-Expendable Trust Funds go away	No 34 ¶63
	Add Private-Purpose Trust Fund	No. 34 ¶72
	All use economic resource measurement focus	No. 34 ¶107 No. 34 ¶24
	Changed financial statement titles	No.34 ¶106
Overall	Reconcile fun financial statements to government-wide financial statements	No.34.¶77, 85, 105
	Changes in Intergovernmental Activity (Transfers)	No.34 ¶112
Governmental Funds	Change measurement focus to economic resources and full accrual basis	No. 34 ¶12e
	Add Capital Assets	No. 34 ¶18-19 No.37 ¶6
	Add depreciation	No. 34 ¶21–22
	Convert “Fund Balances” to “Net Assets”	No. 34 ¶32–37 No. 34 ¶10–16
	Add general long term debt	No. 34 ¶12e
Proprietary Funds	“Business Type” activities column for Enterprise Funds only	No. 34 ¶12d
	ISF Activity is allocated to other activities	No. 34 ¶62
	Report “business type activities at least by segment	No. 37 ¶10,17
Fiduciary Funds	Not shown in government-wide financial statements	No. 34 ¶12b
Overall	Report overall government without funds /fund types	No. 34 ¶12a, 13
	Distinguish component units activity	No.34 ¶12c, 14
	Intra-entity activity reclassified	No. 34 ¶61,112
	Decide on depreciation approach	No 34 ¶23
	New financial statements : Statement of Net Assets	No. 34 ¶30
	New financial statements: Statement of Activities	No. 34 ¶38
	Classified Net Assets Statement recommended	No. 34.¶31
	Three components of Net Assets	No 34 ¶32
	Report by function “Net Cost”	No. 34 ¶38,41,48
	Decide appropriate level of detail	No. 34 ¶40
	Decide whether or not to allocate indirect expenses	No. 34 ¶42–46
	Classify revenues by program and general	No. 34 ¶47,48,50,51,52 No. 37 ¶13
	Segregate contributions special items and transfers on Statement of Net Assets	No. 34 ¶53–56
	Display general revenues after net cost by function	No. 34 ¶52,54
	Eliminate internal balances for Statement of Net Assets	No. 34 ¶58
	Eliminate internal activities for Statement of Activities	No. 34 ¶59

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APPENDIX G GASB 34 REPORTING CHAPTER FINANCIAL STATEMENTS FOR COUNTIES

R.01 Introduction

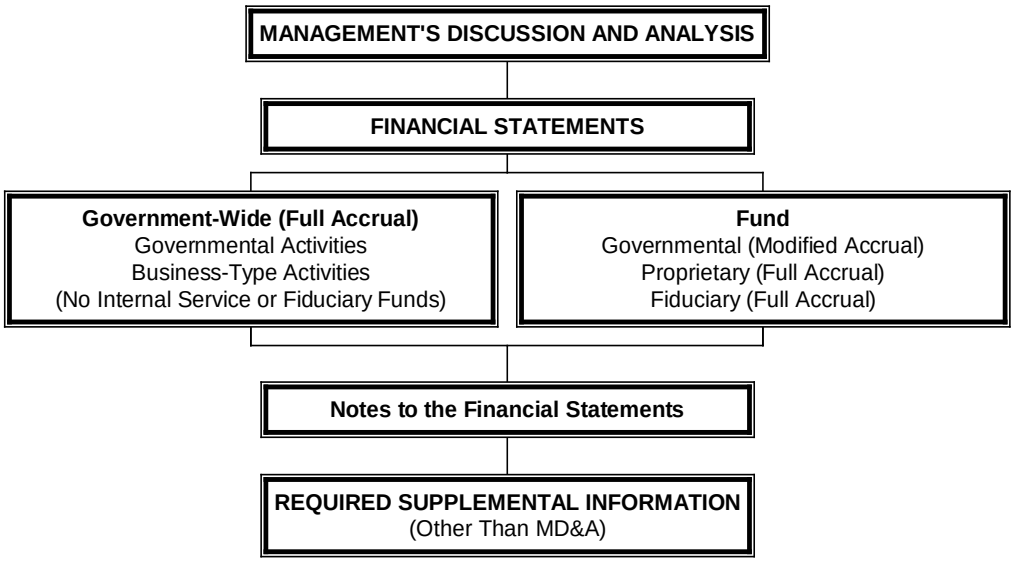
This chapter provides practical guidance to assist in the preparation and presentation of financial statements for California counties as prescribed by the Governmental Accounting Standards Board (GASB). Some of the major reporting aspects are described in this chapter to assist financial statement preparers in the application of the reporting model. Readers should keep in mind that the information presented is non-authoritative and is not intended to interpret or prescribe the application of GASB standards.

R.02 Effective Dates

The effective dates for this chapter coincide with the effective dates of GASB Statement No. 34, which varies for each individual county, depending on the financial size of the agency and its fiscal year, as set forth in the following chart. (The chart assumes a fiscal year beginning July 1 and ending June 30). Also, there are different effective dates for implementing prospective reporting of infrastructure (assets added or deleted from the effective date of the reporting model) versus retroactive reporting of infrastructure back to assets acquired after June 30, 1980.

Total Revenues	Basic Model Prospective Infrastructure Reporting	Retroactive Infrastructure Reporting
	Effective for Fiscal Year	
$100 million or more	FY 2001–02	FY 2005–06
$10 to $100 million	FY 2002–03	FY 2006–07
Under $10 million	FY 2004–04	Not Required

Description of Financial Statements



R.03 Introduction

The purpose of this section is to provide the reader with a basic understanding of the minimum requirements for basic financial statements, which include: Management's Discussion and Analysis (MD&A); Government-Wide Financial Statements; Fund Financial Statements; Notes to the Financial Statements; and Required Supplementary Information (other than MD&A). This section is not intended to duplicate information included in Governmental Accounting Standards Board (GASB) pronouncements. The reader should look to the official GASB literature for more detailed guidance.

R.04 Management's Discussion and Analysis (MD&A)

The basic financial statements should be preceded by the MD&A, which is required supplementary information (RSI). The MD&A should provide an objective and easily readable analysis of the county's financial activities based on currently known facts, decisions, or conditions. The MD&A provides financial managers with the opportunity to present both a short-term and a long-term analysis of the county's activities.

R.05 Government-Wide Financial Statements

The government-wide financial statements consist of a Statement of Net Assets and a Statement of Activities. These statements should include report information about the overall government (county) without displaying individual funds or fund types; exclude information about fiduciary activities, including component units that are fiduciary in nature (such as certain public employee retirement systems); distinguish between the primary government (county) and its discretely presented component units; distinguish between governmental activities and business-type activities of the primary government (county); and measure and report all assets (both financial and capital), liabilities, revenues, expenses, gains, and losses using the economic resources measurement focus and accrual basis of accounting.

The statement of net assets should report all financial and capital resources. Counties are encouraged to present the statement in a format that displays assets less liabilities equal net assets, although the traditional balance sheet format (assets equal liabilities plus net assets) may be used. Counties are encouraged to present assets and liabilities in order of their relative liquidity. The difference between a county's assets and liabilities is its net assets. Net assets should be displayed in three components: invested in capital assets, net of related debt; restricted net assets (distinguishing between major categories of restrictions); and unrestricted net assets.

The operations of the reporting government (county) should be presented in a format that reports the net (expense) revenue of its individual functions. This format identifies the extent to which each function of the government (county) draws from the general revenues of the government (county) or is self-financing through fees and intergovernmental aid. General revenues, contributions to term and permanent endowments, contributions to permanent fund principal, special and extraordinary items, and transfers should be reported separately after the total net expenses of the county's functions, ultimately arriving at the "change in net assets" for the period.

Counties are permitted but not required to allocate indirect expenses to other functions. If indirect expenses are allocated, direct and indirect expenses should be presented in separate columns to enhance comparability of direct expenses between governments that allocate indirect expenses and those that do not.

Depreciation expense for capital assets that can be specifically identified with a function should be included in its direct expenses, whereas depreciation expense for general infrastructure assets should not be allocated to the various functions. Rather, general infrastructure assets depreciation expense should be reported as a direct expense of the function used for related maintenance expenses associated with these assets. Interest on general long-term liabilities generally should be considered an indirect expense except in those limited instances when borrowing is essential to the creation or continuing existence of a program and it would be misleading to exclude the interest from direct expenses of that program.

R.06 Fund Financial Statements

The fund financial statements should be used to report additional and detailed information about the primary government (county). Counties should report governmental, proprietary, and fiduciary funds to the extent that they have activities that meet the criteria for using those funds.

A. Governmental and Proprietary Fund Financial Statements

Separate financial statements should be presented for the primary government's (county's) governmental and proprietary funds. The focus of governmental and proprietary fund financial statements is on major funds. Fund statements should present the financial information of each major fund in a separate column. Non-major funds should be aggregated and displayed in a single column. Counties should present a summary reconciliation to the government-wide financial statements at the bottom of the fund financial statements or in an accompanying schedule.

B. Required Financial Statements for Governmental Funds

Governmental fund reporting focuses primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation. The governmental fund category includes the general fund, special revenue funds, capital projects funds, debt service funds, and permanent funds.

The financial statements required for governmental funds are the Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances.

Financial statements for governmental funds should be presented using the current financial resources measurement focus and the modified accrual basis of accounting.

General capital assets are capital assets of the county that are not specifically related to activities reported in proprietary or fiduciary funds. They should not be reported as assets in governmental funds, but should be reported in the governmental activities column in the government-wide statement of net assets. Similarly, general long-term liabilities should not be reported as liabilities in governmental funds, but should be reported in the governmental activities column in the government-wide statement of net assets.

The balance sheet should report information about the current financial resources (assets, liabilities, and fund balances) of each major governmental fund and for non- major governmental funds in the aggregate. A total column should be presented. Assets, liabilities, and fund balances of governmental funds should be displayed in a balance sheet format (assets equal liabilities plus fund balances). Governmental fund balances should be segregated into fund balance classification amounts. Encumbrance amounts should not be displayed on the face of the financial statements. Counties are required to present a summary reconciliation at the bottom of this statement or in an accompanying schedule.

The statement of revenues, expenditures, and changes in fund balances should report information about the inflows, outflows, and balances of current financial resources of each major governmental fund and for the non-major governmental funds in the aggregate. A total column should be presented. Revenues should be classified in this statement by major revenue source and expenditures should be classified at a minimum by function. This statement should present a separate subtotal for revenues, expenditures, and the excess (deficiency) of revenues over expenditures. Operating financing sources and uses, including detailed transfers and detailed special and extraordinary items should be reported separately after the excess (deficiency) of revenues over expenditures, ultimately arriving at the change in fund balances. The fund balances at the beginning of the period are then combined with the change in fund balances to arrive at fund balances at the end of the period. Counties are required to present a summary reconciliation at the bottom of this statement or in an accompanying schedule.

C. Required Financial Statements for Proprietary Funds

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

The financial statements required for proprietary funds: are the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Fund Net Assets; and the Statement of Cash Flows. Financial statements for proprietary funds should be presented using the economic resources measurement focus and the accrual basis of accounting. Proprietary fund statements should present the financial information for each major enterprise fund in a separate column. Non-major enterprise funds should be aggregated and displayed in a single column, and a combined total column should be presented for all enterprise funds. Major fund reporting requirements do not apply to internal service funds. The combined totals for all internal service funds should be reported in separate column(s) on the face of the proprietary fund financial statements, to the right of the enterprise funds total column.

The statement of net assets should be presented in a classified format to distinguish between current and long-term assets and liabilities. Counties may use either a net assets format (assets less liabilities equal net assets) or a balance sheet format (assets equal liabilities plus net assets). Net assets should be displayed in three broad components: invested in capital assets, net of related debt; restricted net assets (distinguishing between major categories of restrictions); and unrestricted net assets.

The statement of revenues, expenses, and changes in fund net assets is the operating statement for proprietary funds. Revenues should be reported by major source and should identify revenues used as security for revenue bonds. This statement should also distinguish between operating and non-operating revenues and expenses and should present a separate subtotal for operating revenues, operating expenses, and operating income. Non-operating revenues and expenses should be reported after operating income. Revenues from capital contributions and additions to the principal of permanent and term endowments, special and extraordinary items, and transfers should be reported separately, after non-operating revenues and expenses, ultimately arriving at the increase (decrease) in net assets. The net assets at the beginning of the period are then combined with the increase (decrease) in net assets to arrive at net assets at the end of the period.

Counties are required to prepare the statement of cash flows using the direct method of presenting cash flows from operating activities (including a reconciliation of operating cash flows to operating income).

D. Required Financial Statements for Fiduciary Funds and Component Units of a Fiduciary Nature

Fiduciary fund reporting focuses primarily on net assets and changes in net assets. Fiduciary funds should be used to report assets that are held in a trustee or agency capacity for others and therefore cannot be used to support the county's own programs. The fiduciary fund category includes pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and agency funds.

The financial statements required for fiduciary funds are the Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets. Fiduciary fund financial statements should include information about all fiduciary funds of the primary government, as well as component units that are fiduciary in nature. The statements should provide a separate column for each fund type, i.e., pension (and other employee benefits) trust funds, investment trust funds, private-purpose trusts, and agency funds. Financial statements of fiduciary funds should be reported using the economic resources measurement focus and the accrual basis of accounting, except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment healthcare plans.

The statement of fiduciary net assets should include information about the assets, liabilities, and net assets for each fiduciary fund type. The components of net assets are not required to be presented in the statement of fiduciary net assets. Agency fund assets equaling liabilities should be included in this statement.

The statement of changes in fiduciary net assets should include information the additions to, deductions from, and net increase (or decrease) for the year in net assets for each fiduciary fund type. The statement should provide information about significant year-to-year changes in net assets. Agency funds are not included in this statement.

R.07 Notes to the Financial Statements

The notes to the financial statements should communicate information essential for fair presentation of the financial statements that is not displayed on the face of the financial statements. As such, the notes are an integral part of the basic financial statements.

The notes should focus on the primary government (county); specifically, its governmental activities, business-type activities, major funds, and non-major funds in the aggregate. Information about the county's discretely presented component units should be presented. Guidance available to counties when considering the appropriate level of note disclosures necessary for adequate financial reporting can be found in GASB literature, including the following types of note disclosures:

- Significant accounting policies
- Details on capital assets of the primary government (county)
- Details on long-term liabilities of the primary government (county)
- Details on capital assets and long-term liabilities of the component units
- Collections not capitalized
- Donor-restricted endowments
- Segment information
- Component unit financial data

R.08 Required Supplementary Information Other than MD&A

Guidance available to counties when considering the appropriate required supplementary information necessary for adequate financial reporting can be found in GASB literature, including the following types of required supplementary information:

- Budgetary comparison schedules
- Modified approach for reporting infrastructure

R.09 Optional Reporting

Generally accepted accounting principles (GAAP) provide some options in the preparation of financial statements and RSI. The following options should be carefully considered during the preparation of financial statements. The number in parenthesis refers to the applicable paragraph number found in GASB Statement No. 34.

A. Budgetary Comparisons — Required Supplementary Information or Basic Financial Statements (130)

Budgetary comparison schedules should be presented as RSI (required supplementary information) for the general fund and for each major special revenue fund that has a legally adopted annual budget. Counties may elect to report the budgetary comparison information in a budgetary comparison statement as part of the basic financial statements, rather than as RSI.

The auditor-controller should carefully consider whether the budgetary comparison should be prepared as a basic financial statement or displayed in a separate schedule as RSI. If the information is treated as a basic financial statement, then the document should be titled a "statement" and included with other financial statements. If the document is considered to be RSI, then it is a "schedule" and should be titled as such.

B. Determination of Major and Non-Major Funds (76)

In addition to reporting funds that meet the major fund criteria, any other governmental or enterprise fund that the county's officials believe is particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a major fund.

C. Combining Statements for Non-Major Funds Are Optional (Paragraph 36, Footnote No. 36)

Combining statements for non-major funds are not required, but may be presented as RSI.

D. Modified Approach to Depreciating Certain Infrastructure Assets (23)

Infrastructure assets that are part of a network or subsystem of a network are not required to be depreciated as long as two requirements are met: first, the county manages the eligible infrastructure assets using an asset management system as outlined by GASB; second, the county documents that the eligible infrastructure assets are being preserved approximately at (or above) a condition level established and disclosed by the county. Details of the requirements are included in the applicable GASB Codification section.

E. Statement of Net Assets Format (30)

Counties are encouraged to present the statement of net assets in a format that displays assets less liabilities equal net assets, although the traditional balance sheet format (assets equal liabilities plus net assets) may be used. Regardless of format used, the statement should report the difference between assets and liabilities as net assets, not fund balances or equity.

F. Allocation of Indirect Costs on the Statement of Activities (42)

Some functions, such as general government or administration, include expenses that are, in essence, indirect expenses of other functions. Counties are not required to allocate those indirect expenses to other functions. However, some counties may prefer to allocate some indirect expenses or use a full-cost allocation approach among functions.

G. Format and Terminology for Proprietary Fund Financial Statements (91)

Either a statement of net assets or a balance sheet format (where assets equal liabilities plus net assets) may be used for proprietary funds.

Either fund net assets or fund equity may be used as the label for the difference between proprietary fund assets and liabilities.

R.10 Major Reporting Elements

A. Dual Perspective in Presenting Financial Statements

There are two distinct sets of financial statements: government-wide financial statements and fund financial statements. There are significant differences between these two financial statements, including major differences in the amounts displayed in the equity sections of the two reports. A detailed reconciliation between the two statements is required on the fund statements.

Traditional fund reporting for tax-supported (governmental) activities has focused on near-term inflows, outflows and balances of spendable financial resources. This short-term focus is provided in the fund financial statements, while a long-term perspective on these same activities is provided in the government-wide financial statements.

B. Basic Financial Statements, Measurement Focus and Basis of Accounting

- Government-Wide Statements: The government-wide financial statements provide a clear picture of the government as a single, unified entity. They provide operational accountability with a long-term perspective that complements traditional fund-based financial statements.

The government-wide financial statements are consolidated financial statements for all of the agencies' operations on a full accrual basis of accounting. They are not presented on a fund basis; instead, fiscal operations are organized into two major activities, governmental and business-type. Interfund transfers within the two types are eliminated. Internal service fund transactions are eliminated and net balances are included with the governmental display. Only county-controlled operations are displayed. Non-county fiduciary funds are not included.

Following are the primary financial statements:

- The Statement of Net Assets displays assets minus liabilities equals net assets. The equity section includes three components: invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

- The Statement of Activities displays costs by function, net of direct program revenues, such as fees and operating or capital grants, producing a net program cost. General revenues, provided by taxpayers, then offset the net program costs.

- Fund Statements: In meeting stewardship and accountability concerns, there is another set of financial statements presented on a fund basis. The fund statements provide fiscal accountability with a short-term focus. The governmental funds report on the modified accrual basis versus the full accrual basis reported on the government-wide statements. Proprietary funds are reported on the full accrual basis for both types of financial statements.

C. Management Discussion and Analysis

The governmental financial reporting model provides financial report users with a simple narrative introduction, overview, and required explanation and analysis of the basic financial statements in the form of management's discussion and analysis (MD&A). The MD&A is a required part of the "basic" financial statements as required supplementary information (RSI).

D. Fund Types

Fund financial statements report additional detailed information about the primary government. Counties should report governmental, proprietary, and fiduciary funds to the extent that they have activities that meet the criteria for using those funds. The following represents the required fund types:

Governmental Funds (Emphasizing Major Funds)

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

Proprietary Funds

- Enterprise Funds (Emphasizing Major Funds)
- Internal Service Funds

Fiduciary Funds and Similar Component Units

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

E. Capital Assets

Capital assets are accounted for in the county's Capital Assets Accounting System. They are included in the government-wide statements as assets for both governmental and business-type activities. Capital assets ('fixed assets') include land, structures and improvements, equipment, and infrastructure. Generally, these assets are reported at their historical cost and depreciated over their estimated useful lives. These assets are reported in the government-wide statements, but not the fund financial statements. They are reported net of accumulated depreciation for both governmental and business-type activities.

Infrastructure assets include long-lived capital assets that are normally stationary in nature and can be preserved for a significantly greater number of years, such as roads, bridges, dams, and water and sewer systems. The reporting model provides that infrastructure reporting include at least those assets acquired after June 30, 1980. The model also provides for two methods of reporting infrastructure depreciation. Under either method, the infrastructure asset must be capitalized at historical or estimated cost (at least at the level of networks and subsystems) in the county's Capital Assets Accounting System.

F. Budgetary Comparison Schedules

Information on both the original and final amended budgets are presented on budgetary comparison schedules for the general fund and each individual major governmental fund.

G. Major Fund Focus

The governmental financial reporting model focus is on major funds. Major funds are defined as the general fund and other funds that are (1) at least 10% of the total assets, liabilities, revenues, and expenses for all the funds of that category type (total governmental or total enterprise funds), and (2) at least 5% of the total assets, liabilities, revenues and expenses of the total for all governmental and enterprise funds combined. In addition to the funds that meet the major fund criteria, any other governmental or enterprise fund that the government believes is particularly important to financial statement users may be reported as a major fund.

H. Long-Term Debt

Long-term debt is accounted for in the county's Debt Accounting Records. It is reported in the government-wide statements as liabilities, for both governmental and business-type reporting. The notes to the financial statements require more detail about long-term liabilities, including identifying separate information on long-term debt (such as bonds, notes, loans, and leases payable) and other long-term liabilities (such as compensated absences, and claims and judgments).

I. Net (Expense) Revenue "Cost" By Function

Net cost by function is defined as the expenses of functions (or some lower classification level presented in the statement of activities), reduced by program revenues relating to those functions.

The Statement of Activities presents the operations of the reporting government in a format that reports the net (expense) revenue of its individual functions. The governmental activities should be presented at least at the level of detail required in the governmental fund statement of revenues, expenditures, and changes in fund balances, at a minimum by function. Governments should present business-type activities at least by segment.

J. Eliminations

Eliminations are adjustments that are made in the government-wide financial statements to minimize the "grossing-up" and "doubling-up" effect caused by some internal transactions.

Eliminations are required in both the Statement of Net Assets and the Statement of Activities. There are several types of internal or interfund activities that should be considered for elimination. These activities are internal service fund (ISF) activities, interfund activities similar to ISF charges, interfund services provided and used, allocations of overhead expenses, and transfers.

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

Eliminations are made in the Statement of Net Assets to minimize the "grossing-up" effect on assets and liabilities with the governmental and business-type activities columns of the primary government.

Amounts owed between the funds included in the governmental activities column are eliminated, as are amounts owed between funds included in the business-type activities column.

The only internal balances (receivables and payables) that remain in the statement are those owed by a fund included in the governmental activities column to a fund included in the business-type activities column. The net residual amount is presented as an "internal balance" and eliminated in the total primary government column.

K. Net Assets

Net assets are defined as the difference between the county's assets and its liabilities. This term is used in lieu of fund balance or equity.

The net assets are divided into three components: invested in capital assets, net of related debt; restricted net assets (distinguishing between major categories of restrictions); and unrestricted net assets.

- Invested in capital assets, net of related debt — This component is the capital asset balances, including restricted capital assets less accumulated depreciation and outstanding balances of any capital related debt.

  NOTE: If capital assets do not have any related debt, the title should be "Invested in capital assets." If a significant portion of related debt has not yet been expended on capital assets, then that portion of the unspent debt should be included within the net assets restricted for capital projects.

- Restricted assets — Net assets should be reported as restricted when constraints placed on net assets are either:
  - Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or
  - Imposed by law through constitutional provisions or enabling legislation

  NOTE: No category of restricted net assets can be negative. When the liabilities that relate to the restricted assets exceed those assets, no balance should be reported and the negative amount should be reported as a reduction of unrestricted net assets. Board designations are not considered "restricted assets" for the purpose of the Statement of Net Assets.

- Unrestricted Assets — This is the default category. If any remaining assets do not fit into the other categories, it is reported in this section.

L. Special and Extraordinary Items

Special items are significant transactions or other events within the control of management that are either unusual in nature or infrequent in occurrence (e.g., sales of certain general government capital assets, significant forgiveness of debt, etc.). Extraordinary items are those items that are both unusual in nature and infrequent in occurrence (e.g., costs incurred by natural disaster, terrorist act, environmental disaster, etc.).

Special and extra ordinary items are to be reported separately on the bottom of the Statement of Activities, in the same manner as general revenue, with costs appropriately classified within the governmental and business-type activities.

M. Interfund Activity

Interfund activity is a resource flow between funds, including between a primary government and its blended component units. This term is used in lieu of interfund transactions.