

**UNIFORM REPORTING FORMAT
FOR FINANCIAL STATEMENTS FOR
COUNTIES AND LOCAL UNITS OF
GOVERNMENT
IN MICHIGAN**

After the Adoption of GASB 34

**MICHIGAN DEPARTMENT OF TREASURY
BUREAU OF LOCAL GOVERNMENT SERVICES
LOCAL AUDIT AND FINANCE DIVISION**

ACKNOWLEDGMENTS

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The Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan is issued pursuant to the requirements of P.A. 2 of 1968, as amended, and P.A. 71 of 1919, as amended.

EFFECTIVE DATES

In June 1999, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments." This statement changed the reporting model for State and Local governments. All governmental entities must adopt the financial statement reporting model and prospective reporting of infrastructure for periods beginning after June 15 of either year 2001, 2002, or 2003 depending upon the size of their revenues for the base year, with the larger entities (based on revenues) adopting first (2001). GASB Statement No. 34 changes the format of GAAP financial statements effective in three phases as follows:

- ❑ Phase 1 governments--with annual revenue of \$100 million or more--periods beginning after June 15, 2001 (ending June 30, 2002 and after).
- ❑ Phase 2 governments--with annual revenue of \$10 million or more but less than \$100 million--periods beginning after June 15, 2002 (ending June 30, 2003 and after).
- ❑ Phase 3 governments--with total annual revenues of less than \$10 million--periods beginning after June 15, 2003 (ending June 30, 2004 and after).
- ❑ Component units must adopt the reporting model the same year as the primary government.

Michigan Department of Treasury **STRONGLY** recommends full implementation of GASB Statement 34. Michigan local units of government that are going to meet all requirements of GASB No. 34 should adhere to the above schedule.

Units of governments with revenues under \$10 million a year have the option of whether or not to adopt retroactive capitalization of major general infrastructure going back to 1980. All government entities are required to capitalize newly acquired or constructed infrastructure beginning with their GASB 34 implementation date.

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I. INTRODUCTION

Every local governmental unit (including county, city, village and township) should prepare and issue an annual financial report in a format that can be easily read and understood. The basic source for guidance on the requirements for issuance of this annual financial report is the Governmental Accounting Standards Board (GASB). The Codification of Governmental Accounting and Financial Reporting Standards published by the GASB (“Codification”) section 1900 discusses the financial reporting pyramid. This section describes the minimum level of external financial reporting for local units of government in Michigan as:

- The Basic Financial Statements (as defined by the GASB Codification); plus
- Component units to be reported in statements in front of the notes (this is one option per the GASB, rather than a requirement); and
- Each individual fund to be reported on, either in a statement in front of the notes or in additional information.

In addition to this manual, there are several other documents that the governmental financial officials must be familiar with to adequately prepare an annual financial report for a local unit of government in Michigan. These include:

- The GASB Codification, including Section 2100, *Defining the Reporting Entity*. The entity being reported on **must** include all funds, commissions, and authorities of the local governmental unit (regardless of extraneous facts, such as the U.S. Census Bureau treating an entity as an autonomous agency). The Michigan Committee on Governmental Accounting (MCGAA) has issued Statements No. 4 and 5, applying the principles of GASB No. 14 to local units specific to Michigan.
- The *Bulletin for Audits of Local Units of Governments in Michigan* (this *Bulletin* includes guidance on preparing the “Report to the State Treasurer on Auditing Procedures”).
- Uniform Accounting Procedures Manual
- Uniform Chart of Accounts
- Uniform Budget Manual
- MCGAA Statements
- Numbered Letters
- and Other Treasury Publications

II. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

Public Act 2 of 1968 ([MCL 141.421 to 141.440a](#)) calls for the establishment of a uniform chart of accounts and uniform reports for local units of government. A consistent set of accounting principles must be established and utilized by all local units. To help accomplish this, P.A. 2 ([MCL 141.440a](#)) states that the state treasurer may also publish standard operating procedures and forms for the guidance of local units in establishing and maintaining uniform accounting.

The state treasurer will generally rely on the national standards for generally accepted accounting principles, as established by the Governmental Accounting Standards Board and set forth in the Codification of Governmental Accounting and Financial Reporting Standards.

- ❑ The codification requires the modified accrual basis of accounting to be used for all governmental funds. The full accrual basis is to be used for proprietary funds, fiduciary funds, and the government-wide statements.
- ❑ The codification also states that the budget to actual comparisons should utilize whatever method of accounting that was used in preparing the budget (for instance, if the budget was prepared on the cash basis, this would be used in reporting the “actual” column on the budget statement).

Any material deviation from any of the GASB principles must be accompanied by an appropriate opinion from the auditor.

In accordance with the provisions of Public Act 2 of 1968, the State Treasurer will clarify the implementation of the GASB Statements for Michigan local units of government by the issuance of MCGAA Statements.

**Required Financial Statement Format
Uniform Chart of Accounts
Uniform Reporting Format**

Combined Statements	Combining Statements
Revenue Taxes Licenses and Permits Federal Grants State Grants Contributions From Local Units Charges for Services Fines and Forfeits Interest and Rents Other Revenue Debt Proceeds Transfers In	Revenue Taxes Current Taxes Income Taxes Penalties and Interest on Taxes Property Tax Administration Fee Other Tax Revenue as Necessary Licenses and Permits License and Permit Revenue as Necessary Federal Grants Federal Grant Revenue as Necessary State Grants State Grant Revenue as Necessary Contributions From Local Units Local Unit Revenue as Necessary Charges for Services Charges Revenue as Necessary Fines and Forfeits Revenue as Necessary Interest and Rents Revenue as Necessary Other Revenue Revenue as Necessary Debt Proceeds Transfers In Identified by Fund

**Required Financial Statement Format
Uniform Chart of Accounts
Uniform Reporting Format**

Combined Statements	Combining Statements
<p>Expenditures</p> <ul style="list-style-type: none"> General Government Public Safety Public Works Health and Welfare Community and Economic Development Recreation and Culture Other Capital Outlay Debt Service Transfers (Out) 	<p>Expenditures</p> <ul style="list-style-type: none"> General Government <ul style="list-style-type: none"> City Council District Court Chief Executive Mayor Elections Other Activities as Needed Cemetery Public Safety <ul style="list-style-type: none"> Police Fire Public Works <ul style="list-style-type: none"> DPW Street Expenditure Categories as Needed Water and/or Sewer Systems Community and Economic Development <ul style="list-style-type: none"> Redevelopment and Housing Zoning Recreation and Culture <ul style="list-style-type: none"> Parks Library Other <ul style="list-style-type: none"> Insurance Capital Outlay Debt Service <ul style="list-style-type: none"> Principal Interest Transfers (Out) <ul style="list-style-type: none"> Identified by Fund

III. ANNUAL FINANCIAL REPORTS FOR LOCAL UNITS OF GOVERNMENT IN MICHIGAN

Local units of government in Michigan should include the following information in their annual audited financial statements.

- A. Auditor's Report
- B. Management's Discussion and Analysis (Exhibit I)
- C. Basic Financial Statements
 - 1. Government-Wide Statement of Net Assets (Exhibit II)
 - 2. Government-Wide Statement of Activities (Exhibit III)
 - 3. Governmental Fund Balance Sheet (Exhibit IV)
 - 4. Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance (Exhibit V)
 - 5. Proprietary Fund Statement of Net Assets (or Balance Sheet) (Exhibit VI)
 - 6. Proprietary Fund Statement of Revenues, Expenses, and Changes in Net Assets (Exhibit VII)
 - 7. Proprietary Fund Statement of Cash Flows (Exhibit VIII)
 - 8. Fiduciary Fund Statement of Net Assets (Exhibit IX)
 - 9. Fiduciary Fund Statement of Changes in Plan Net Assets (Exhibit X)
 - 10. Component Unit Statement of Net Assets (Exhibit XI)
 - 11. Component Unit Statement of Activities (Exhibit XII)
 - 12. Notes to Financial Statements (Exhibit XIII).
- D. Supplemental Information and Additional Information must be audited at least to the extent necessary to state that in the auditor's opinion the supplemental data is fairly stated in all material respects in relation to the basic statements:
 - 1. Required Supplementary Information (defined by GASB Condification)
 - a. Budgetary Comparison Schedule--General Fund (Major Special Revenue Funds) (Exhibit XIV)
 - b. Infrastructure Reporting (for those communities using the modified approach to depreciation) (Exhibit XV)
 - c. Retirement System Schedule of Funding Progress (Exhibit XVI)
 - 2. Additional Information (Combining Statements and Schedules)
 - a. Combining Statements--where a governmental unit has individual funds not already presented in front of the footnotes (i.e., where "other governmental funds," "other enterprise funds," or "internal service funds" column has been used in the fund-based statements). If the number of funds is excessive or other problems are apparent, contact Local Audit and Finance Division for prior written approval of alternative presentation.
 - i) Combining Balance Sheet (Exhibit XVII)
 - ii) Combining Statement of Revenues, Expenditures and Changes in Fund Balance (Exhibit XVIII)
 - b. Required Reporting Categories for Major Street, Local Street and Municipal Street Funds (Exhibit XIX)
 - c. Schedules--Schedule of Indebtedness should be presented for each debt issued if sufficient details are not presented in the footnotes as herein described.

Following the model-reporting format are six appendices:

Appendix A	Additional examples of note disclosure descriptions of component units
Appendix B	Additional examples of pension disclosures
Appendix C	Statements for a special purpose government engaging only in a single type of activity
Appendix D	Management's Discussion and Analysis--Basic Information and Questionnaire
Appendix E	Basic Financial Statements Outline
Appendix F	Effective Dates

SAMPLE
Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

The Township as a Whole

The Township's combined net assets increased 5% from a year ago – increasing from 149.7 thousand to 157.7 thousand. In contrast, last year's net assets increased by only 3%. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced the more modest increase, of approximately \$2 thousand during the year (4% increase). This was the result of continued strength in our building permits and property value growth. The business-type activities experienced a \$6 thousand increase in net assets, primarily as a result of new water and sewer tap ins. A building moratorium was removed during the year that resulted in tap ins occurring in developments that would have been ready for connection in prior years. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	1998	1997	1998	1997	1998	1997
Current Assets	\$ 45.2	\$ 40.9	\$ 6.8	\$ 5.2	\$ 52.0	\$ 46.1
Noncurrent Assets	33.9	33.9	109.0	106.7	142.9	140.6
Total Assets	79.1	74.8	115.8	111.9	194.9	186.7
Long-Term Debt Outstanding	(2.9)	(2.9)	(12.2)	(16.4)	(15.1)	(19.3)
Other Liabilities	(18.6)	(16.3)	(3.5)	(1.4)	(22.1)	(17.7)
Total Liabilities	(21.5)	(19.2)	(15.7)	(17.8)	(37.2)	(37.0)
Net Assets						
Invested in Capital Assets--Net of Debt	30.4	30.9	77.9	73.1	108.3	104.0
Restricted	15.3	13.7	16.6	17.0	31.9	30.7
Unrestricted (Deficit)	11.9	11.0	5.6	4.0	17.5	15.0
Total Net Assets	\$ 57.6	\$ 55.6	\$ 100.1	\$ 94.1	\$ 157.7	\$ 149.7

Unrestricted net assets--the part of net assets that can be used to finance day to day operations, increased by \$900 for the governmental activities. This represents an increase of approximately 1½%. The current level of unrestricted net assets for our governmental activities stands at \$11,900, or about 48% of expenditures. This is within the targeted range set by the Township Board during its last budget process.

SAMPLE
Management's Discussion and Analysis

The following table shows the changes of the net assets (in thousands of dollars) as of the current date to the prior year:

	Governmental Activities		Business-Type Activities		Total	
	1998	1997	1998	1997	1998	1997
Program Revenues						
Charges for Services	\$ 5.9	\$ 5.2	\$ 11.3	\$ 9.6	\$ 17.2	\$ 14.8
Operating Grants and Contributions	0.1	0.1	-	-	0.1	0.1
Capital Grants and Contributions	0.1	-	5.4	5.4	5.5	5.4
General Revenues						
Property Taxes	4.6	4.3	-	-	4.6	4.3
State-Shared Revenues	13.3	12.4	-	-	13.3	12.4
Unrestricted Investment Earnings	2.0	1.4	1.1	1.2	3.1	2.6
Franchise Fees	0.3	0.2	-	-	0.3	0.2
Transfers and Other Revenue	0.2	0.1	-	-	0.2	0.1
Total Revenues	<u>26.5</u>	<u>23.7</u>	<u>17.8</u>	<u>16.2</u>	<u>44.3</u>	<u>39.9</u>
Program Expenses						
General Government	5.6	5.2	-	-	5.6	5.2
Public Safety	15.7	15.3	-	-	15.7	15.3
Public Works	1.8	1.3	-	-	1.8	1.3
Health and Welfare	-	-	-	-	-	-
Community and Economic Development	1.3	1.1	-	-	1.3	1.1
Recreation and Culture	-	-	-	-	-	-
Interest on Long-Term Debt	0.1	0.1	-	-	0.1	0.1
Water and Sewer	-	-	11.8	11.3	11.8	11.4
Total Expenses	<u>24.5</u>	<u>23.0</u>	<u>11.8</u>	<u>11.3</u>	<u>36.3</u>	<u>34.4</u>
Change in Net Assets	<u>\$ 2.0</u>	<u>\$ 0.7</u>	<u>\$ 6.0</u>	<u>\$ 4.8</u>	<u>\$ 8.0</u>	<u>\$ 5.5</u>

The Township's net assets continue to remain healthy. With new residents moving in, the total revenues grew slightly faster than inflation while we were able to hold down expenses to less than a 1 % increase. As a result, net assets grew by \$8,000.

Governmental Activities

The Township's total governmental revenues increased by approximately \$2.8 thousand, primarily due to the continuing increase in state-shared sales taxes. The second largest increase, compared to the prior year, was interest income. It was due to the higher interest rates enjoyed during the year.

**SAMPLE
Management's Discussion and Analysis**

Expenses increased by only about \$1,500 during the year. This was primarily the result of close budget monitoring throughout the year.

During the year, the Township continued to set money aside to fund future employee sick and vacation pay, as well retiree health care. This is important to the Township, because future taxpayers should not be asked to shoulder the burden of benefit payments that were earned in the present.

Business-Type Activities

The Township's business-type activities consist of the Water and Sewer Fund. We provide water to approximately 90% of Township residents, which comes from the Big City water system. We provide sewage treatment to approximately 80% of township residents, through the Big City sewage treatment plant. In 1998, it was a very dry year which resulted in record high usage in the water system. In addition, the Township's water loss was the lowest in its history. These two facts combined resulted in an operating income, compared to operating losses in each of the last five years. This allowed us to delay a needed water rate increase to 1999, rather than 1998.

The Township's Funds

Our analysis of the Township's major funds begins on page 5, following the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds for 1998 include the General Fund, the Public Safety Fund, and the Library Renovation Fund.

The General Fund pays for most of the Township's governmental services. The most significant are police and fire, which incurred expenses of approximately \$13,600 in 1998. These two services are partially supported by a special Public Safety millage which is recorded in the Public Safety Fund. This fund records the receipts from the special millage and the transfer to the General Fund. The amount transferred to the General Fund is supported by a detailed calculation of the current year costs of the specific police and fire personnel positions hired in response to the millage, as well as specific capital outlay approved by the Township Board. During the current year, this amounted to approximately \$4.7 thousand. The remaining \$8,900 cost of the police and fire departments are funded by other general revenue sources of the General Fund.

General Fund Budgetary Highlights

Over the course of the year, the Township Board amended the budget to take into account events during the year. The most significant change was to decrease the estimated building permit revenue by \$300. This was a result of building activity tapering off, which had been significant over the past several years. Township departments overall stayed below budget, resulting in total expenditures \$800 below budget. This allowed the General Fund's fund balance to increase from \$2,900 a year ago to \$4,100 at December 31, 1998.

**SAMPLE
Management's Discussion and Analysis**

Capital Asset and Debt Administration

At the end of 1998, the Township had \$126,000 invested in a broad range of capital assets, including buildings, police and fire equipment, and water and sewer lines. In addition, the Township has invested significantly in roads within the Township. These assets are not reported in the Township's financial statements because of Michigan law, which makes these roads the property of the Big Brother County Road Commission (along with the responsibility to maintain them).

Economic Factors and Next Year's Budgets and Rates

The Township's budget for 1999 calls for a freeze on property tax rates. This can be accomplished because of the strong growth in our tax base. Because of the impact of Proposal A, however, the Township needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Township will grow less than by inflation, before considering new property additions.

As discussed above, we anticipate that the water rates will have to increase somewhat in 1999. We are in the process of evaluating the amount of increase that will be needed and will likely have a public hearing in 1999 to discuss the need for such an increase.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

Government Wide Statement of Net Assets
December 31, 20XX

	Primary Government			Component
	Governmental	Business-Type	Total	Units
	Activities	Activities		
ASSETS				
Cash and Cash Equivalents				
Investments				
Receivables (Net)				
Internal Balances				
Inventories				
Assets Restricted by Bond Indentures				
Capital Assets--Net				
Total Assets				
LIABILITIES				
Accounts Payable				
Accrued and Other Liabilities				
Deferred Revenue				
Noncurrent Liabilities				
Due Within One Year				
Due in More Than One Year				
Total Liabilities				
NET ASSETS				
Invested in Capital Assets				
Net of Related Debt				
Restricted for				
Streets and Highways				
Debt Service				
Capital Projects				
Other Purposes				
Unrestricted				
Total Net Assets				

Preparer note: A balance sheet format is also allowable.

The Notes to Financial Statements are an integral part of this statement.

		Program Revenues		Net (Expense) Revenue and Changes in Net Assets				
Functions/Programs	Expenses		Operating	Capital	Primary Government		Component Units	
		Charges for Services	Grants and Contributions	Grants and Contributions	Governmental Activities	Business-Type Activities		Total
Primary Government								
General Government								
Public Safety								
Public Works								
Health and Welfare								
Community and Economic Development								
Recreation and Culture								
Interest on Long-Term Debt								
Total Governmental Activities								
Business-Type Activities								
Water and Sewer								
Total Primary Government								
Component Units								
L.D.F.A.								
Economic Development Corporation								
Total Component Units								
		General Revenues						
		Property Taxes						
		State-Shared Revenues						
		Unrestricted Investment Earnings						
		Franchise Fees						
		Miscellaneous						
		<i>Special Item</i> --Gain on Sale of Park Land						
		Transfers						
		Total General Revenues--Special Items and Transfers						
		Change in Net Assets						
		Net Assets--Beginning						
		Net Assets--Ending						

The Notes to Financial Statements are an integral part of this statement.

Governmental Fund Balance Sheet
December 31, 20XX

	General Fund	Fire Millage Fund	Drake Road S.A.D. Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents					
Investments					
Receivables--Net					
Due From Other Funds					
Receivable From Other Governments					
Inventories					
Total Assets					
LIABILITIES					
Accounts Payable					
Due to Other Funds					
Payable to Other Governments					
Deferred Revenue					
Total Liabilities					
FUND BALANCES					
Reserved for					
Capital Projects					
Debt Service					
Other Purposes					
Unreserved					
Total Fund Balances					

Amounts reported for governmental activities in the statement of net assets are different because:

- * Capital assets used in governmental activities are not financial resources and are not reported in the funds.
- * Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures.
- * Long-term liabilities are not due and payable in the current period and are not reported in the funds.

Net Assets of Governmental Activities

The Notes to Financial Statements are an integral part of this statement.

Governmental Fund Statement of Revenue, Expenditures, and Changes in Fund Balance
Year Ended December 31, 20XX

	General Fund	Fire Millage Fund	Drake Road S.A.D. Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues					
Taxes and Penalties					
Licenses and Permits					
Federal Grants					
State Grants					
Charges for Services					
Fines and Forfeits					
Interest and Rentals					
Other Revenue					
Total Revenues					
Expenditures					
Current					
General Government					
Public Safety					
Public Works					
Health and Welfare					
Recreation and Cultural					
Other					
Capital Outlay					
Debt Service					
Total Expenditures					
Excess of Revenues Over (Under Expenditures					
Other Financing Sources (Uses)					
Transfers In					
Transfers (Out)					
Bond Proceeds					
Total Other Financing Sources (Uses)					
Excess of Revenue and Other Sources Over (Under)					
Expenditures and Other Uses					
Fund Balance--January 1, 20XX					
Fund Balance--December 31, 20XX					

Amounts reported for governmental activities in the statement of activities are different because:

*Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

*Special assessment revenues are recorded in the statement of activities when the project is substantially complete; they are not reported in the funds if collected by year end or within 60 days of year end.

*Repayments of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt).

*Bond proceeds are not reported as financing sources on the statement of activities.

*Increases in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities.

Change in Net Assets of Governmental Activities

The Notes to Financial Statements are an integral part of this statement.

Proprietary Fund Statement of Net Assets
December 31, 20XX

	Water and Sewer Fund	Internal Service Funds
ASSETS		
Current Assets		
Cash and Cash Equivalents		
Investments		
Receivables--Net		
Due From Other Governments		
Inventories		
Total Current Assets		
Noncurrent Assets		
Restricted Cash and Cash Equivalents		
Capital Assets		
Total Noncurrent Assets		
Total Assets		
LIABILITIES		
Current Liabilities		
Accounts Payable		
Due to Other Funds		
Current Portion of Noncurrent Liabilities		
Total Current Liabilities		
Noncurrent Liabilities		
Current Liabilities Payable From Restricted Assets		
Compensated Absences		
Claims and Judgments		
Bonds, Notes and Loans Payable		
Total Noncurrent Liabilities		
Total Liabilities		
NET ASSETS		
Invested in Capital Assets--Net of Related Debt		
Restricted for Debt Service		
Unrestricted		
Total Net Assets		

The Notes to Financial Statements are an integral part of this statement.

Proprietary Fund Statement of Revenue, Expenses and Changes in Net Assets
Year Ended December 31, 20XX

	Water and Sewer Fund	Internal Service Fund
Operating Revenues		
Water Sales		
Sewage Disposal Services		
Penalties and Interest Charges		
Installation and Other Miscellaneous Charges		
Total Operating Revenues		
Operating Expenses		
Personal Services		
Contractual Services		
Utilities		
Repairs and Maintenance		
Other Supplies and Expenses		
Depreciation		
Total Operating Expenses		
Operating Income (Loss)		
Nonoperating Revenues (Expenses)		
Interest and Investment Revenue		
Gain on Sale of Assets		
Interest Expense		
Miscellaneous Expense		
Total Nonoperating Revenue (Expense)		
Income (Loss) Before Contributions and Transfers (Out)		
Capital Contributions		
Transfers (Out)		
Change in Net Assets		
Total Net Assets--Beginning		
Total Net Assets--Ending		

The Notes to Financial Statements are an integral part of this statement.

	Water and Sewer Fund	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts From Customers		
Payments to Suppliers		
Payments to Employees		
Internal Activity--Payments to Other Funds		
Claims Paid to Outsiders		
Other Receipts (Payments)		
Net Cash Provided (Used) by Operating Activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating Subsidies and Transfers to Other Funds		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds From Capital Debt		
Capital Contributions		
Purchases of Capital Assets		
Principal and Interest Paid on Capital Debt		
Other Receipts (Payments)		
Net Cash Provided (Used) by Capital and Related Financing Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds From Sales and Maturities of Investments		
Interest and Dividends		
Net Cash Provided by Investing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents		
Balances--Beginning of the Year		
Balances--End of the Year		
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Operating Income (Loss)		
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities		
Depreciation Expense		
Change in Assets and Liabilities		
Receivables--Net		
Inventories		
Accounts and Other Payables		
Accrued Expenses		
Net Cash Provided by Operating Activities		

The Notes to Financial Statements are an integral part of this statement.

Fiduciary Funds--Statement of Net Assets
December 31, 20XX

	Pension and Other Employee Benefit Fund Type	Agency Fund Type (Property Tax Collection Fund)
ASSETS		
Cash and Cash Equivalents		
Due From Other Funds		
Investments--at Fair Value		
U.S. Government Obligations		
Municipal Bonds		
Corporate Bonds		
Corporate Stocks		
Other Investments		
Total Investments		
Total Assets		
LIABILITIES		
Accounts Payable		
Due to Other Governmental Units		
Refunds Payable and Others		
Total Liabilities		
NET ASSETS		
Held in Trust for Pension Benefits		

The Notes to Financial Statements are an integral part of this statement.

Fiduciary Funds--Statement of Changes in Net Assets
Year Ended December 31, 20XX

	Pension and Other Employee Benefit Fund Type
ADDITIONS	
Contributions	
Employer	
Plan Members	
Total Contributions	
Investment Income	
Net Appreciation (Depreciation) in Fair Value of Investments	
Interest	
Dividends	
Total Investment Income	
Less Investment Expense	
Net Investment Income	
Total Additions	
DEDUCTIONS	
Benefits	
Refunds of Contributions	
Administrative Expenses	
Other Deductions	
Total Deductions	
Change in Net Assets	
Net Assets--Beginning of the Year	
Net Assets--End of the Year	

The Notes to Financial Statements are an integral part of this statement.

Statement of Net Assets--Component Units
December 31, 20XX

	Downtown Development Authoriy	Economic Development Corporation	Total Component Units
ASSETS			
Cash and Cash Equivalents			
Investments			
Receivables (Net)			
Internal Balances			
Inventories			
Assets Restricted by Bond Indentures			
Capital Assets--Net			
Total Assets			
LIABILITIES			
Accounts Payable			
Accrued and Other Liabilities			
Deferred Revenue			
Noncurrent Liabilities			
Due Within One Year			
Due in More Than One Year			
Total Liabilities			
NET ASSETS			
Invested in Capital Assets--Net of Related Debt			
Restricted for			
Streets and Highways			
Debt Service			
Capital Projects			
Other Purposes			
Unrestricted			
Total Net Assets			

The Notes to Financial Statements are an integral part of this statement.

Statement of Activities--Component Units
Year Ended December 31, 20XX

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Downtown Development Authority	Economic Development Corporation	Total
Downtown Development Authority							
General Government							
Public Safety							
Public Works							
Health and Welfare							
Culture and Recreation							
Interest on Long-Term Debt							
Total Downtown Development Authority							
Economic Development Corporation							
Total Primary Government							
	General Revenues						
	Property Taxes						
	Unrestricted Interest and Investment Earnings						
	Miscellaneous						
	Total General Revenues						
	Change in Net Assets						
	Net Assets--Beginning						
	Net Assets--Ending						

The Notes to Financial Statements are an integral part of this statement.

**Notes to Financial Statements
December 31, 20XX**

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Local Governmental Unit conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Local Governmental Unit:

A. Reporting Entity

The Local Governmental Unit is governed by an elected seven-member council (Board). The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

Blended Component Units--(Include a description here of each blended component unit, the GASB 14 criteria for including it as a blended component unit, and the fund type it is reported in.)

Discretely Presented Component Units--(Include a description here of each discretely presented component unit, and the GASB 14 criteria for including it as a component unit. In addition, provide an address for the reader to obtain a complete financial report for each component unit.)

Jointly Governed Organization--(Include a description of any related party transactions with jointly governed organizations.) (Informational Note: Appendix A has example expanded note disclosures.)

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Notes to Financial Statements
December 31, 20XX**

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within XX days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

(Revenues are recognized in the accounting period in which they become susceptible to accrual--that is, when they become both measurable and available to finance expenditures of the fiscal period. Briefly describe the major revenue types for which receivables are recorded on the current-accounting period's balance sheet. For example: Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period.) All other revenue items are considered to be available only when cash is received by the government.

ILLUSTRATION: Taxes Receivable--Current or Property Taxes (Per MCGAA Statement 9)

The Local Governmental Unit property tax is levied on each December 1st on the taxable valuation of property (as defined by State statutes) located in the Local Governmental Unit as of the preceding December 31st.

Although the Local Governmental Unit 2001 ad valorem tax is levied and collectible on December 1, 2001, it is the Local Governmental Unit's policy to recognize revenue from the current tax levy in the subsequent year OR the current year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2001 taxable valuation of the Local Governmental Unit totaled \$XX.X million, on which ad valorem taxes levied consisted of X.XXXX mills for the Local Governmental Unit operating purposes, X.XXXX mills for ambulance services, X.XXXX mills for debt service, raising \$XX.X million for operating, \$X.X million for ambulance services, and \$X.X million for debt service. These amounts are recognized in the respective General, Special Revenue and Debt Service Fund financial statements as taxes receivable--current or as tax revenue.

Notes to Financial Statements
December 31, 20XX

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

(Briefly describe each major governmental fund. For example: The Major Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.)

The government reports the following major proprietary funds:

(Briefly describe each major enterprise fund. For example: The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.)

Additionally, the government reports the following fund types:

Internal service funds account for major machinery and equipment purchases and maintenance, as well as risk management services provided to other departments of the government on a cost reimbursement basis.

The pension trust fund accounts for the activities of the police and fire employees retirement system which accumulates resources for pension benefit payments to qualified police and fire employees.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to (to also) follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The water and sewer fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Notes to Financial Statements
December 31, 20XX

D. Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments--Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the Health Fund and Mental Health Fund [choose appropriate funds] is generally allocated to the General Fund.

Receivables and Payables--In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items--Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets--The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets, as well as amounts on deposit at the county being held for the construction or debt service of the Local Unit of Government's water and sewer lines.

Capital Assets--Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, \$xxx of interest expense was capitalized as part of the cost of assets under construction.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building Improvements	15 to 30 years
Water and Sewer Lines	50 to 75 years
Roads	10 to 30 years
Other Infrastructure	X to X years
Vehicles	3 to 5 years
Office Equipment	5 to 7 years
Computer Equipment	3 to 7 years

Notes to Financial Statements
December 31, 20XX

Compensated Absences (Vacation and Sick Leave)--It is the government's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

Long-Term Obligations--In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity--In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data/Reclassifications--Comparative total data for the prior year have been presented only for individual enterprise funds in the fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 2--RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

(Use this note to explain any differences between the statements that are not clearly laid out on the face of the statements.)

NOTE 3--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information--Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds (*list any exceptions*). All annual appropriations lapse at fiscal year end. (*Briefly describe the budget cycle, including any required dates for department appropriation requests, submission of a budget to the governing body, and adoption.*)

The budget document presents information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department level. (*i.e., The level at which expenditures may not legally exceed appropriations. If appropriate, describe any legal authority for the city manager or department heads to make transfers of appropriations within or between departments. If there were significant budget amendments during the year, they should be described briefly.*)

Notes to Financial Statements
December 31, 20XX

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year. (Alternative: Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.)

Excess of Expenditures Over Appropriations in Budgeted Funds--During the year, the Local Governmental Unit incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Budget Item</u>	<u>Budget Appropriation</u>	<u>Actual Expenditure</u>
General Fund--Treasurer's Department		
Fire Fund--Salaries and Wages		

(Note: The above list of expenditures in excess of budgeted appropriations should be at the same level of detail as the governing body's adopted budget.)

Fund Deficits--The Local Governmental Unit has accumulated fund balance/retained earning deficits in the following individual funds: (Consider disclosing the plans to eliminate the deficit, or state that a plan is being filed with the Local Audit and Finance Division.)

(Informational Note: Violations of Public Act 275 of 1980 ([MCL 141.921](#)) should be disclosed in the notes to the financial statements. For example, the Local Government Unit failed to formulate and file a deficit elimination plan within 90 days after the beginning of a fiscal year to correct a deficit condition that existed at the end of the previous fiscal year must be disclosed. The independent auditor should report the following noncompliance matters:

1. All fund deficits are to be disclosed in the basic financial statements or notes thereto.
2. Deficits in each individual fund (not fund type) are to be considered when applying this section. Materiality should not be a determining factor in deciding which fund deficits are to be disclosed.
3. For reporting fund deficits, the term "fund deficit" is defined as below:
 - a. for governmental fund types and fiduciary fund types--unreserved portion of fund balance.
 - b. for proprietary fund types--unrestricted net assets.
4. If a fund deficit or surplus arises because of a change in generally accepted accounting principles, appropriate note disclosure should be made.
5. In addition to the disclosures required above, the independent CPA should make appropriate comments on these noncompliance areas and recommendations for proper compliance by the local governmental unit.)

Legal Non-Compliance/Violation of Finance Related Provisions--The Local Governmental Unit has not provided for the funding of the Bond Retirement Reserve account for the Water Fund as of December 31, 20XX. The 1998 Revenue Bond Ordinance, Section 10, requires the sum of \$XXX,XXX to be set aside as of December 31, 20XX.

(Informational Note: Violations of local governmental unit charters or ordinances may spell out legal funding requirements. Any violations of these requirements must be disclosed. Recent amendments to PA 20 of 1943 ([MCL 129.91 et seq.](#)) require the governmental unit's legislative body to formally approve investment policies to conform to this public act.

Notes to Financial Statements December 31, 20XX

The following items would be violations of an order issued under the Municipal Finance Act, PA 202 of 1943, as amended, (MCL 141.2101 et seq.) or its requirements, the Revised Municipal Finance Act (PA 34 of 2001, [MCL 141.2101-141.2821](#)) or its requirements, and should be reported in the notes to the financial statements. Violations of an order issued under the Emergency Municipal Loan Act, PA 243 of 1980, as amended, ([MCL 141.931 through MCL 141.942](#)) should also be reported in the notes to the financial statements:

- 1) Commingling of debt service funds
- 2) Loans obtained by the local unit without Department of Treasury approval
- 3) Interfund borrowing of debt service money
- 4) Failure to set aside money as required by a Tax Anticipation Note or State Revenue Sharing Notes
- 5) Use of debt service money for other than debt service payments
- 6) Excess tax levies for the debt service purposes
- 7) Transfer of excess debt funds to the local unit's operating funds, if other debt is outstanding

Other Areas of Noncompliance:

- 1) Failure to establish or maintain the Uniform Chart of Accounts in a formal accounting system in accordance with PA 2 of 1968, as amended, ([MCL 141.421](#))
- 2) Noncompliance with the budgeting act as required by PA 2 of 1968, as amended, (MCL 141.421 through MCL 141.440a)
- 3) Failure to adopt and follow a credit card policy as required by PA 266 of 1995 ([MCL 129.241 through MCL 129.247](#))
- 4) Failure to adopt an investment policy in accordance with PA 20 of 1943, as amended, ([MCL 129.95](#))

NOTE 4--DEPOSITS AND INVESTMENTS

[Michigan Compiled Laws, Section 129.91](#), authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Local Governmental Unit Board has designated two banks for the deposit of Local Unit funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above.

The Local Governmental Unit's deposits and investment policy are in accordance with statutory authority (explain any differences).

Notes to Financial Statements
December 31, 20XX

At year-end, the Local Unit's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-Type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and Cash Equivalents					
Investments					
Restricted Assets					
Total	\$ -	\$ -	\$ -	\$ -	\$ -

The breakdown between deposits and investments is as follows:

	Primary Government	Component Units
Bank Deposits (checking and savings accounts, certificates of deposit)		
Investments in Securities, Mutual Funds and Similar Vehicles		
Petty Cash and Cash on Hand		
Total	\$	\$

The bank balance of the primary government's deposits is \$xxx,xxx, of which \$XX,XXX is covered by federal depository insurance and \$x,xxx is collateralized by with U.S. Treasury securities held by the pledging financial institution's trust department in the government's name. The component units' deposits had a bank balance of \$XX,XXX of which \$XX,XXX was covered by federal depository insurance and \$X,XXX was collateralized.

Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the Local Governmental Unit or its agent in the government's name;
2. Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name; and
3. Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Local Governmental Unit's name.

Notes to Financial Statements
December 31, 20XX

At year-end, the government's investment balances were categorized as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary Government				
U.S. Government Securities				
Commercial Paper				
Repurchase Agreements				
Subtotal				
Investments Not Subject to Categorization				
Mutual Funds				
Bank Investment Pools				
Total Primary Government				
Component Units				
Bank Investment Pools				

(Provide additional disclosures for any derivatives, for any instances during the year of significantly higher risk categorization, and of any significant component unit deposit and investment information.)

NOTE 5--RECEIVABLES

Receivables as of year-end for the government's individual major and nonmajor funds, and the internal service and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Fire Special Millage	Special Assess-ment	Water and Sewer	Non-Major and Other Funds	Total
Taxes Receivable						
Accounts						
Special Assessments						
Intergovernmental						
Interest and Other						
Gross Receivables						
Less: Allowance for Uncollectibles						
Net Receivables						

Notes to Financial Statements
December 31, 20XX

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Delinquent Property Taxes		
Special Assessments		
Grant Drawdowns Prior to Meeting all Eligibility Requirements		
Total		

NOTE 6--CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets Not Being Depreciated				
Land				
Construction in Progress				
Subtotal				
Capital Assets Being Depreciated				
Buildings				
Improvements Other Than Buildings				
Machinery and Equipment				
Infrastructure				
Subtotal				
Less Accumulated Depreciation for				
Buildings				
Improvements Other Than Buildings				
Machinery and Equipment				
Infrastructure				
Subtotal				
Net Capital Assets Being Depreciated				
Governmental Activities Capital Total				
Capital Assets--Net of Depreciation				

Notes to Financial Statements
December 31, 20XX

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities				
Capital Assets Not Being Depreciated				
Land				
Construction in Progress				
Subtotal				
Capital Assets Being Depreciated				
Buildings				
Improvements other than buildings				
Machinery and Equipment				
Infrastructure				
Subtotal				
Less Accumulated Depreciation for				
Buildings				
Improvements Other Than Buildings				
Machinery and Equipment				
Infrastructure				
Subtotal				
Net Capital Assets Being Depreciated				
Governmental Activities Capital Total				
Capital Assets--Net of Depreciation				

Notes to Financial Statements
December 31, 20XX

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities

General Government

Public Safety

Public Works

Economic Development

Recreation and Culture

Internal Service Fund Depreciation is Charged to the

Various Functions Based on Their Usage of the Assets

Total Governmental Activities

Business-Type Activities

Water

Sewer

Total Business-Type Activities

Construction Commitments--The government has active construction projects at year-end. The projects include street paving and water line extensions. At year-end the government's commitments with contractors are as follows:

	Spent to Date	Remaining Commitment
Street Projects	<hr/>	
Water Line Extension	<hr/>	
Total	<hr/>	<hr/>

(Similar disclosures should be included here for any discretely presented component units with significant capital asset activity.)

Notes to Financial Statements
December 31, 20XX

NOTE 7--INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due To/From Other Funds		
General	Fire Special Millage	
	Water and Sewer	
Fire Special Millage	Water and Sewer	
Total		
Advances From/To Other Funds		
General	Fire Special Millage	

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Due To/From Primary Government and Component Units		
Primary Government--General	Component Unit--District	

Interfund Transfers

	<u>Transfers (Out)</u>		
	<u>Fire Special</u>	<u>Non-Major</u>	
	<u>Millage Fund</u>	<u>Governmental</u>	<u>Total</u>
Transfers In			
General Fund			
Non-Major Governmental Funds			
Total			

NOTE 8--LEASES

Operating Leases--The government leases office facilities and other equipment under noncancellable operating leases. Total costs for such leases were \$XXX for the current year. The future minimum lease payments for these leases are as follows:

<u>Year Ended June 30</u>	
20X1	
20X2	
20X3	
20X4	
20X5	
20X6-20X8	
Total	

Notes to Financial Statements
December 31, 20XX

Capital Leases--The government has entered into a lease agreement as lessee for financing the purchase of police communications equipment. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date. The future minimum lease obligations and the net present value is as follows:

<u>Year Ended June 30</u>	
20X1	
20X2	
20X3	_____
Total Minimum Lease Payments	
Less: Amount Representing Interest	_____
Present Value	=====

NOTE 9--LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Notes to Financial Statements
December 31, 20XX

Bond and contractual obligation activity can be summarized as follows:

	Interest Rate	Principal Matures	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities						
General Obligation Bonds						
1995 Jail Bonds						
1989 Fire Hall Bonds						
Installment Purchase Agreements						
1998 Fire Truck Purchase						
Special Assessment Bonds						
1993 Road Bonds						
<hr/>						
Total Governmental Activities						
<hr/>						
Business-Type Activities						
General Obligation Bonds						
1981 Sewer Line Bonds						
County Contractual Obligations						
1982 County Water Line						
1985 Township Water Line Extension						
Revenue Bonds						
1996 Retention Basin Bond						
<hr/>						
Total Business-Type Activities						
<hr/>						

Annual debt service requirements to maturity for the above obligations are as follows:

Year End June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
20X1				
20X2				
20X3				
20X4				
20X5				
20X6-20X0				
20X1-20X5				
20X6-20X0				
<hr/>				
Total				
<hr/>				

Notes to Financial Statements
December 31, 20XX

Advance and Current Refundings--During the year, the Local Governmental Unit issued \$XX.X million in general obligation (revenue) bonds with an average interest rate of X.X%. The proceeds of these bonds were used to advance refund \$XX.X million of outstanding (specify) bonds with an average interest rate of X.X%. The net proceeds of \$XX.X million (after payment of \$XX,XXX in underwriting fees, insurance, and other issuance costs) plus an additional \$X.X million of ABC Fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds have been removed from the General Long-Term Debt Account Group. The advance refunding reduced total debt service payments over the next X years by approximately \$XXX,XXX, which represents an economic gain of approximately \$XXX,XXX.

In prior years, the Local Governmental Unit defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the general purpose financial statements. At December 31, 19XX, \$XX.X million of bonds outstanding are considered defeased.

NOTE 10--SEGMENT INFORMATION

The government issued revenue bonds to finance its sewer department, which operates the government's sewage treatment plan, pumping stations, and collection systems. Both the water and sewer departments are accounted for in a single fund. However, investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment. Summary financial information for the sewer department is presented below:

Notes to Financial Statements
December 31, 20XX

Condensed Statement of Net Assets

Assets

Current Assets

Due From Other Funds

Restricted Assets

Capital Assets

Total Assets

Liabilities

Current Liabilities

Due to Other Funds

Current Liabilities Payable From Restricted Assets

Noncurrent Liabilities

Total Liabilities

Net Assets

Invested in Capital Assets

Restricted

Unrestricted

Total Net Assets

Condensed Statement of Revenue, Expenses, and Changes in Net Assets

Sewer Charges (Pledged Against Bonds)

Depreciation Expense

Other Operating Expenses

Operating Income

Nonoperating Revenue (Expense)

Investment Earnings

Interest Expense

Capital Contributions

Changes in Net Assets

Beginning Net Assets

Ending Net Assets

Notes to Financial Statements
December 31, 20XX

Condensed Statement of Cash Flows

Net Cash Provided by (Used in)	
Operating Activities	
Noncapital Financing Activities	
Capital and Related Financing Activities	
Investing Activities	<hr/>
Net Increase (Decrease)	
Beginning Cash and Cash Equivalents	<hr/>
Ending Cash and Cash Equivalents	<hr/> <hr/>

NOTE 11--RESTRICTED ASSETS

The balances of the restricted asset accounts in the enterprise funds are as follows:

Unspent Bond Proceeds	
Revenue Bond Restrictions	
Operations and Maintenance Account	
Improvement and Replacement Account	
Bond Reserve	<hr/>
Total Restricted Assets	<hr/> <hr/>

NOTE 12--RISK MANAGEMENT

The Local Governmental Unit is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Local Governmental Unit has purchased commercial insurance for (specify types of insurance) claims and participates in the ABC, Inc., risk pool for claims relating to (specify); the Local Governmental Unit is uninsured for (specify) claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority, that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the Local Governmental Unit.

Notes to Financial Statements
December 31, 20XX

The Michigan Municipal Risk Management Authority's State Pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

The Michigan Townships Participating Plan operates as an insurance purchasing pool for local units of government in Michigan. The Plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

[For risk retention situations (other than commercial coverage or risk-sharing pools):]

The Local Governmental Unit estimates the liability for (specify) claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

	Year Ended June 30	
	20X1	20X2
Unpaid Claims--Beginning of Year		
Incurred Claims (Including Claims Incurred But Not Reported)		
Claim Payments		
Unpaid Claims--End of Year		

NOTE 13--RELATED PARTY TRANSACTIONS

(Describe the related party transaction and the amount.)

NOTE 14--SUBSEQUENT EVENTS

(Describe the subsequent event.)

NOTE 15--CONTINGENT LIABILITIES

(Describe the contingent liability and the amount or range of potential loss.)

NOTE 16--OTHER POST-EMPLOYMENT BENEFITS

The government has elected to provide post-employment health benefits to certain retirees and their beneficiaries. The government pays the full cost of coverage for these benefits. Also, retirees can purchase coverage for their dependents at the Unit's group rates. Currently, XX retirees are eligible for post-employment health benefits. For the fiscal year ended December 31, 20XX, the Local Governmental Unit made payments for post-employment health benefit premiums of \$XX,XXX. The government obtains health care coverage through private insurers.

(Informational Note: The above footnote example reflects a "pay-as-you-go" approach to the funding of other post-employment benefits. Should the local governmental unit fund the post-employment benefits in a manner similar to that of a pension plan, footnote disclosures similar to a pension plan would be required. Refer to the appropriate GASB disclosures requirements under these circumstances.)

Notes to Financial Statements
December 31, 20XX

NOTE 17--EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

(Informational Note: Due to the complexity of the required disclosures for defined benefit and defined contribution plans, care must be taken to thoroughly read and understand GASB Statement Nos. 25, 26, and 27. Consideration should be given to acquiring the publication entitled: *Implementation Guide: Guide to Implementation of GASB Statements 25, 26, and 27 on Pension Reporting and Disclosure by State and Local Government Plans and Employers - Questions and Answers*. The below footnotes present the required disclosures for participants in the MERS system and in a defined contribution plan. The appendix at the end of this document presents sample notes for stand alone defined benefit plans.)

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

Plan Description--The Local Governmental Unit participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Local Governmental Unit. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: (insert address).

Funding Policy--The obligation to contribute to and maintain the system for these employees was established by negotiation with the Local Governmental Unit's competitive bargaining units and requires a contribution from the employees of ___ percent and ___ percent of gross wages for General, and Police and Fire employees, respectively.

Annual Pension Costs--For year ended 20xx, the Local Governmental Unit's annual pension cost of \$_____ for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 20xx, using the _____ (cite the cost method, such as entry actual age) cost method. Significant actuarial assumptions used include: (i) a _____ investment rate of return; (ii) projected salary increases of ___ percent per year; and (iii) ___ percent per year cost of living adjustments. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is _____ years.

Three year trend information as of June 30 (should be as of the date of the actuaries report) follows:

	<u>20X1</u>	<u>20X2</u>	<u>20X3</u>
Annual Pension Cost			
Percentage of APC Contributed			
Net Pension Obligation			
Actuarial Value of Assets			
Actuarial Accrued Liability			
Unfunded AAL			
Funded Ratio			
Covered Payroll			
UAAL as a Percentage of Covered Payroll			

(Informational Note: Alternatively, the above three-year trend information could be presented in a required supplementary information schedule.)

Notes to Financial Statements
December 31, 20XX

Defined Contribution Pension Plan

The Local Governmental Unit provides pension benefits to all of its full-time employees (or specific employee group, if applicable) through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment (or other date). As established by _____ (authority under which the pension obligation is established), the Local Governmental Unit contributes _____ percent of employees' gross earnings and employee contributions for each employee plus interest allocated to the employee's account are fully vested after _____ years of service.

The Local Governmental Unit's total payroll during the current year was \$_____. The current year contribution was calculated based on covered payroll of \$_____, resulting in an employer contribution of \$_____ and employee contributions of \$_____.

NOTE 18--LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS

The Local Governmental Unit maintains and operates the ABC Landfill, which operations are presented in an enterprise fund. State and Federal laws and regulations require the Local Governmental Unit to place a final cover on its central refuse landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure.

Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the Local Governmental Unit reports a portion of these closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date.

The landfill closure and post-closure care liability of \$X.X million at December 31, 20X1 represented the cumulative amount reported to date based on the use of 45% of the estimated capacity of the currently constructed cells at the landfill. This amount is based on what it would cost to perform all closure and post-closure care in 20X1. Actual costs may be higher because of inflation, changes in technology, or changes in regulations. The estimated total costs of closure and post-closure care remaining to be recognized at December 31, 20X1 is \$X.X million. These costs will be incurred over the estimated remaining life of the portion of the landfill currently in use, which is expected to be five to ten years.

NOTE 19--DEFERRED COMPENSATION PLAN

Sample Unit of Government Board offers all Sample Unit employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof of the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The Administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in Sample Unit of Government's financial statements. (Refer to MCGAA Statement No. 6 for guidance)

Required Supplemental Information

(defined by GASB Codification)

Local Governmental Unit
 Budgetary Comparison Schedule
 General Fund (Major Special Revenue Funds)
 Year Ended December 31, 20XX

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Beginning of Year Fund Balance				
Resources (Inflows)				
Property Taxes				
Federal Grants				
State Grants				
Licenses and Permits				
Fines and Forfeitures				
Charges for Services				
Interest and Rentals				
Transfers From Other Funds				
Amounts Available for Appropriation				
Charges to Appropriations (Outflows)				
General Government				
City Council				
District Court				
City Manager				
Finance				
Treasurer				
Assessing				
Clerk				
Elections				
Community Planning and Development				
Buildings and Grounds				
Public Safety				
Police				
Fire				
EMS				
Inspections				
Public Works				
Street Maintenance				
Street Lighting				
etc...				
Total Charges to Appropriations				
Budgetary Fund Balance--December 31				

Preparer's note: This schedule should be modified to be in the same format and basis of accounting as the budget document presented to the governing body. Further, the total of each functional area (General Government, Public Safety, etc.) and revenue source must agree with the amounts in the fund financial statements.

Condition Rating of the City's Street System

	Percentage of Lane-Miles in Good or Better Condition		
	20X1	20X2	20X3
Main Arterial			
Arterial			
Secondary			
Overall System			

	Percentage of Lane-Miles in Substandard Condition		
	20X1	20X2	20X3
Main Arterial			
Arterial			
Secondary			
Overall System			

Comparison of Needed-to-Actual Maintenance/Preservation

	20W9	20X0	20X1	20X2	20X3
Main Arterial					
Needed					
Actual					
Arterial					
Needed					
Actual					
Secondary					
Needed					
Actual					
Overall System					
Needed					
Actual					
Difference					

NOTE: The condition of the road pavement is measured using the XYZ pavement management system, which is based on a weighted average of six distress factors found in pavement surfaces. The system uses a measurement scale that is based on a condition index ranging from zero for a failed pavement to 100 for a pavement in perfect condition. The condition index is used to classify roads in good or better condition level. No more than 10 percent should be in a substandard condition. Condition assessments are determined every year.

Pension System Schedule of Funding Progress

Refer to GASB 25 and 27 for the components that apply to your specific situation:

Schedule of Funding Progress:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (a-b)	Fund Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
6/30/20X1						
6/30/20X2						
6/30/20X3						
6/30/20X4						
6/30/20X5						
6/30/20X6						

Schedule of Employer Contributions:

Year Ended June 30	Annual Required Contribution	Percentage Contributed
20X1		
20X2		
20X3		
20X4		
20X5		
20X6		

The information presented above was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation is as follows:

Actuarial Cost Method	Entry age
Amortization Method	Level percent, closed
Remaining Amortization Period	23 years
Asset Valuation Method	4-year smoothed market
Actuarial Assumptions	
Investment Rate of Return	7.25%
Projected Salary Increases*	4.5%
*Includes Inflation at	3%
Cost of Living Adjustments	20%

Additional Information

	Special Revenue Funds					Debt Service Funds		Total Non-Major Governmental Funds
	Parks & Recreation	Medical Service	Friend of the Court	Dispatch	Drug Forfeiture	1995 Police Building Bonds	1993 City Hall Bonds	
Assets								
Cash and Cash Equivalents								
Investments								
Taxes Receivable								
Accounts Receivable								
Due From State of Michigan								
Due From Local Units								
Total Assets								
<u>Liabilities and Fund Equity</u>								
Liabilities								
Accounts Payable								
Accrued Liabilities								
Due to State								
Advances From State								
Advances From Other Counties								
Deferred Revenue								
Total Liabilities								
Fund Balance								
Reserved								
Unreserved								
Designated								
Undesignated								
Total Fund Equity								
Total Liabilities and Fund Equity								

Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Non-Major Governmental Funds
For the Year Ended December 31, 20XX

Exhibit XVIII

	Special Revenue Funds					Debt Service Funds		Total Non-Major Governmental Funds
	Parks & Recreation	Medical Service	Friend of the Court	Dispatch	Drug Forfeiture	1995 Police Building Bonds	1993 City Hall Bonds	
Revenues								
Taxes and Penalties								
Charges for Services								
Interest and Rentals								
Other Revenue								
Total Revenues								
Expenditures								
Current								
Judicial								
General Government								
Public Safety								
Recreation and Cultural								
Other								
Debt Service								
Capital Outlay								
Total Expenditures								
Excess of Revenues Over (Under) Expenditures								
Other Financing Sources (Uses)								
Operating Transfers In								
Operating Transfers (Out)								
Bond Proceeds								
Total Other Financing Sources (Uses)								
Excess of Revenue and Other Sources Over (Under)								
Expenditures and Other Uses								
Fund Balance--January 1, 20XX								
Fund Balance--December 31, 20XX								

Local Governmental Unit
 Budgetary Comparison Schedule
 Major Street Fund (Local Street Fund and Municipal Street Fund)
 Year Ended December 31, 20XX

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Beginning of Year Fund Balance				
Resources (Inflows)				
Federal Grants				
State Grants				
Transfers From General Fund				
Interest Earned				
Other				
Amounts Available for Appropriation				
Charges to Appropriations (Outflows)				
Public Works				
Construction				
Routine Maintenance				
Winter Maintenance				
Traffic Services				
Administration				
Other				
Total Charges to Appropriations				
Budgetary Fund Balance--December 31				

Preparer's Note: Budgeting information is only required if the major and local street funds are considered major funds pursuant to GASB 34 requirements. See the "Bulletin for Audits of Local Units" for additional information.

Appendices

Additional Examples of Note Disclosure Descriptions of Component Units

BLENDED COMPONENT UNITS

A blended component unit is a legally separate entity from the Local Governmental Unit, but is so intertwined with the unit that it is, in substance, the same as the Local Governmental Unit. It is reported as part of the Local Governmental Unit and blended into the appropriate fund types and account groups.

(Informational Note: The following are examples of blended and/or discretely presented component units, which may be included in the notes to the financial statements depending on the circumstance.)

Building Authority--The Local Governmental Unit Building Authority is governed by a three-member board appointed by the Local Governmental Unit's governing body. Although it is legally separate from the Local Governmental Unit, the Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the Local Governmental Unit's public buildings.

Public Transit Corporation--The Transit Corporation was incorporated on September 1, 1981 in the State of Michigan, under the provisions of Act 327, Public Acts of 1931, as amended, ([MCL 450.98](#)) and Act 284, Public Acts of 1972, as amended, ([MCL 450.1108](#)). The Transit Corporation is not legally separate, but is administered by an 8-member board elected by a majority of the seated board members present and voting. The Transit Board may not issue debt and the tax levy is subject to County Board of Commissioners' approval. The transit taxes are levied under the taxing authority of the County, as approved by the County electors, and are included as part of the County's total tax levy and are reported in the Public Transit Corporation Fund. The fiscal year of the Transit is October 1 through September 30.

Housing Commission--The Housing Commission was created on March 17, 1975 in the State of Michigan, under the provisions of Public Act 18 of the Extra Session of 1933, as amended, ([MCL 125.651 through 125.709e](#)). A 5-member board appointed by the County Board of Commissioners administers the Housing Commission. Although it is legally separate from the County, the Housing Commission is reported as if it were part of the primary government because its sole purpose is to rehabilitate and make safe inhabited dwellings existing in the County. The County Board of Commissioners approves all grants received by the Housing Commission.

DISCRETELY PRESENTED COMPONENT UNITS

The following component units are reported within the "component units" column in the combined financial statements. The discretely presented component unit is an entity that is legally separate from the Local Governmental Unit, but for which the unit is financially accountable, or its relationship with the unit is such that exclusion would cause the unit's financial statements to be misleading or incomplete.

Downtown Development Authority--The Downtown Development Authority was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of five individuals, is selected by the Local Governmental Unit's Council (Board). In addition, the Authority's budget is subject to approval by the Local Governmental Unit's Council (Board).

Road Commission--The County Road Commission, which is established pursuant to the County Road Law ([MCL 224.1](#)), is governed by an appointed three member board of county road commissioners. The Road Commission may not issue debt or levy a tax without the approval of the County Board of Commissioners. If approval is granted, the Road Commission taxes are levied under the taxing authority of the County, as approved by the County electors, and would be included as a part of the County's total tax levy as well as reported in the County Road Fund.

Additional Examples of Note Disclosure Descriptions of Component Units

Economic Development Corporation--The Economic Development Corporation (EDC), which was established pursuant to the provisions of Public Act 338 of 1974 ([MCL 125.1601 through 125.1636](#)), as amended, is governed by a nine-person Board of Directors appointed by the Local Governmental Unit's Council (Board). The EDC may not issue debt without the Local Governmental Unit's Council's (Board's) approval and administers a significant amount of federal economic development grant money received by the Local Governmental Unit's Council (Board).

County Drain Board--Each of the drainage districts established pursuant to the Drain Code of 1956 are separate legal entities with the power to contract; to sue and be sued; to hold, manage, and dispose of real and personal property; etc. The statutory drainage board of Chapter 20 ([MCL 280.461 et seq.](#)) drainage districts consists of the Drain Commissioners, the Chairperson of the County Board of Commissioners, and one other member of the Board of Commissioners. The statutory drainage board of Chapter 5 ([MCL 280.101 et seq.](#)) and Chapter 6 ([MCL 280.121 et seq.](#)) drainage districts consists of the State Director of Agriculture and the drain commissioners of each county involved in the project. The County Drain Commissioner has sole responsibility to administer the drainage district established pursuant to Chapter 3 ([MCL 280.51 et seq.](#)) and Chapter 4 ([MCL 280.71 et seq.](#)) of the Drain Code.

The drainage board or drain commissioners, on behalf of the drainage district, may issue debt and levy special assessments authorized by the Drain Code without the prior approval of the County Board of Commissioners. The full faith and credit of the county may be given for the debt of the drainage district. An augmented drainage board is created for each project petitioned for under the provisions of the Chapter 21 ([MCL 280.511 et seq.](#)) drainage districts. The board consists of the members of the drainage board together with the chairman of the board of supervisors and the chairman of the board of county auditors of each county involved. The statutory drainage board of Chapter 8 ([MCL 280.191 et seq.](#)) drainage districts consists of the Drain Commissioner, the State Director of Agriculture, and the commissioners of each county involved.

Ice Arena and Swimming Pool--The County constructed an ice arena and swimming pool facility in 19XX. The County Board of Commissioners has determined that the most effective and efficient means of operating the facility is to contract with ABC Hockey and Swimming Company, a private, non-profit corporation whose sole purpose is to operate that facility.

Department of Public Works--Pursuant to [Michigan Compiled Law 123.732](#), the county entered into a program of water supply and sanitary sewer facility construction. The Department of Public Works is under the general control of the County Board of Commissioners and under the immediate control of a Board of Public Works which includes the County Drain Commissioner. The Board of Public Works is considered an agency of the County. The Board manages water supply and sanitary sewer system construction projects that are bonded by the County. Bonds issued are authorized by an ordinance or a resolution approved by the Board of Public Works and adopted by the County Board of Commissioners. The financial statements for the Department of Public Works are presented as part of Exhibits A, B, F and G.

District Health Department--(Example of disclosure of jointly operated functions when the local unit's treasurer holds the funds of the organization and the organization is reported in the entity's financial statements.) The ABC/XYZ District Health Department is a joint venture between ABC and XYZ Counties, and was established to provide public health services. The District Health Board has representatives from each county and provides services to ABC and XYZ Counties.

Each County provides annual appropriations and passes through the statutory amounts of cigarette tax funding to subsidize operations. The current funding formula approved by the District Health Board requires ABC and XYZ Counties to provide 29, 30, and 41 percent, respectively. In addition, the treasury functions for the District Health Department rests with the County Treasurer. For this reason, the District Health Department is discretely presented in the County financial statements.

Additional Examples of Note Disclosure Descriptions of Component Units

The ABC/XYZ District Health Department does not issue separate financial statements. Combining component unit statements are included as part of these general purpose financial statements to summarize all the funds and the account group of the District Health Department.

OR

(Example of footnote disclosures of jointly operated functions when the local unit's treasurer does not hold the cash and investments.)

ABC County participates jointly with Sample and XYZ Counties in the operation of Sample/ABC/XYZ District Health Department. All of the financial operations of the District Health Department are recorded in the records of Sample County. The funding formula approved by the members of the Local Units is based pro rata on each unit's population and equalized valuation to the total population and valuation. The current funding formula approved by the District Health Board requires Sample, ABC and XYZ Counties to provide 29, 30, and 41 percent, respectively. ABC County's appropriation to the District Health Department for the calendar year was \$XXX, XXX, which consists of \$XXX, XXX funding formula and \$X, XXX cigarette tax.

Complete financial statements of the individual component units can be obtained from their respective administrative offices or from the Clerk's Office:

County Road Commission
555 East Garfield Avenue
Any Town, MI XXXXX

Drain Commission
234 Main Street
Any Town, MI XXXXX

Public Transit Corporation
319 South Clay Street
Any Town, MI XXXXX

Economic Development Corporation
First Floor, Courthouse
Any Town, MI XXXXX

ABC Hockey and Swimming Company
123 Main Street
Any Town, MI XXXXX

District Health Department
3900 East Sample Road
Sample, Michigan 49022

(Informational Note: If there are any organizations for which the primary government appoints a voting majority, but the entity is excluded because of a lack of financial accountability, the notes must disclose the nature of the primary government's accountability. The notes must disclose which primary government IS financially accountable for the entity, and the Local Governmental Unit's relationship with this primary government. In addition, the notes should disclose any related party transactions.)

(Informational Note: Joint ventures only include those organizations in which the participants retain either an on-going financial interest or an on-going financial responsibility. Include a general description of each joint venture, including:

- 1. Description of the participating government's on-going financial interest (including its equity interest, if applicable) or an on-going financial responsibility. This disclosure should also include information to allow the reader to evaluate whether the joint venture is accumulating significant financial resources or is experiencing fiscal stress that may cause an additional financial benefit to or a burden on the participating government in the future.**
- 2. Disclosure of any related party transactions.**

Additional Examples of Note Disclosure Descriptions of Component Units

3. Information about the availability of separate financial statements of the joint venture.
4. If there is an equity interest, the investment in the joint venture should be recorded (total equity interest, less any portion that is already recorded on the balance sheet, such as an account receivable or payable). For a proprietary fund, the investment is recorded on its balance sheet; for a governmental fund, it is to be recorded in the general fixed assets account group.

For example:

The Local Governmental Unit is a member of the ABC Joint Venture, which provides health services to the residents of the Local Governmental Unit and _____ Units. The participating communities provide annual funding for its operations. During the current year, the Local Governmental Unit contributed approximately \$XXX,XXX for its operations. The Local Governmental Unit is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the year ended December 31, 20XX can be obtained from the administrative offices at: (street, address, city, and state).

JOINT VENTURE

Michigan Planning Commission--The Local Unit, in conjunction with four (4) other Counties, has entered into an agreement which created the Michigan Planning Commission. The Planning Commission's Board is composed of 12 members, of which the County appoints one (1). The County's financial responsibility is to contribute a pro rata share of "local match" funds based on the proportion of State equalized valuation. For the year ended December 31, 20XX, the County's contribution to the Planning Commission was \$10,000.

Joint Workforce Development--The Local County Unit, in conjunction with two (2) other counties, has entered into a Joint Workforce Development Agreement for purposes of detailing and designating functions and responsibilities related to the administration of job training and workforce development programs. Another agreement was also entered into to establish the Chief Elected Officials Board (CEOB), for which County appoints two (2) of the seven (7) members, and also the Private Industry Council/Workforce Development Board (PIC/WDB), who are appointed by the CEOB. These agreements also designate the County Intermediate School District as "grant recipient and administrative entity" for operation of these programs. The School District receives all related funding from State and Federal grants and, as a result, the County has no financial responsibility. The School District is also fully responsible and indemnifies the County from potential liability for disallowed costs.

Joint Building Authority of Sample County--The County and City of ABC under Public Act 31 of 1948 (first extra session), as amended, in 1966 ([MCL 123.951 through MCL 123.965](#)) created the Local County Unit Joint Building Authority. Its primary purpose was to provide a funding vehicle for the acquisition and construction of a building to serve as offices for the governmental units. The Joint Building Authority operates autonomously under an intergovernmental lease and service agreement. It operates and maintains the building for the governmental units charging maintenance fees to each unit. Maintenance fees paid by the County to the Joint Building Authority amounted to \$109,742 and \$16,782 for equipment. The fees are based on a pro-ration of space by unit for the building, which is 83% for the County and 17% for the ABC City. The separately issued financial statements can be obtained at City Joint Building Authority, 123 Main Street, Any Town, Michigan XXXXX.

Additional Examples of Note Disclosure Descriptions of Component Units**RELATED ORGANIZATIONS**

District Library--The Local County Unit in conjunction with the ABC City entered into an agreement to create the ABC District Library. The District Library is a legally separate organization established to provide library services to residents of the County. On August 20XX, voters approved a special millage to fund the District Library.

The District Library consists of the entire geographic area of the County. It is governed by a seven (7) member board, two (2) appointed by the City and five (5) appointed by the County. The County's accountability does not extend beyond this representation and making these appointments. The board is empowered to propose and levy upon approval of the electors a tax for support of the District Library. It may also borrow money and issue bonds pursuant to the District Library Financing Act 265 of 1988 ([MCL 397.281 et seq.](#)). The District Library indemnifies and holds harmless the participating municipalities from all claims and liabilities. The County does levy a tax for the District Library; however, the County does not hold title to any of the District Library's assets, nor does it have rights to any surpluses or responsibility to finance any deficits of the District Library.

Additional Examples of Pension Footnote Disclosures

Defined Benefit Plan (Single Employer--No Separately Issued PERS)

Plan Description--The Local Governmental Unit's Police and Fire Pension Plan is a single-employer defined benefit pension plan that is administered by the Local Governmental Unit Police and Fire Employees' Retirement System (plan administrator). This plan covers XX police and fire employees (specify covered group and number of employees covered). The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At _____, 199_, the date of the most recent actuarial valuation, membership consisted of _____ retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and ____ current active employees. The plan does not issue a separate financial report.

Contributions--Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies. The obligation to contribute to and maintain the system for these employees was established by negotiation with the Local Governmental Unit's competitive bargaining units and requires a contribution from the employees of ____ percent. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

Annual Pension Cost--For the year ended _____, 20XX, the Local Governmental Unit's annual pension cost of \$_____ for the plan was equal to the Local Governmental Unit's required and actual contribution. (Informational Note: if there is a NPO, modify previous sentence and provide a schedule of the current year change in NPO.) The annual required contribution was determined as part of an actuarial valuation at June 30, 199_, using the _____ (cite method - entry actual age, for example) cost method. Significant actuarial assumptions used include: (i) a ____ investment rate of return; (ii) projected salary increases of __ percent per year; and (iii) ____ percent per year cost of living adjustments. Both (i) and (ii) include an inflation component of __ percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is ____ years.

(Informational Note: If there is no NPO, a statement asserting that fact is required.)

Reserves--As of June 30, 20XX, the plan's legally required reserves have been fully funded as follows:

Reserve for Employees' Contributions	\$
Reserve for Retired Benefit Payments	

Six year-trend information as of June 30th as follows:

	<u>20X1</u>	<u>20X2</u>	<u>20X3</u>	<u>20X4</u>	<u>20X5</u>	<u>20X6</u>
Annual Pension Cost						
Percentage of APC Contributed						
Net Pension Obligation						
Actuarial Value of Assets						
Actuarial Accrued Liability						
Unfunded AAL						
Funded Ratio						
Covered Payroll						
UAAL as a Percentage of						
Covered Payroll						

(Informational Note: Trend information is required supplementary information. If the information is not contained in the footnotes, it can be presented as an attachment to the basic financial statements after the footnotes.)

Additional Examples of Pension Footnote Disclosures

Defined Benefit Pension Plan (Single Employer Plan, With Separately-Issued PERS)

Plan Description--The Local Governmental Unit's Police and Fire Plan is a single-employer defined benefit pension plan that is administered by the Local Governmental Unit Police and Fire Employees Retirement System (specify the plan administrator). This plan covers XX police and fire employees (specify covered group and number of employees covered). The system provides retirement, disability and death benefits to plan members and their beneficiaries. At _____, 199_, the date of the most recent actuarial valuation, membership consisted of _____ retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and ___ current active employees. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the system. The report may be obtained by writing to the system at: (insert address).

Funding Policy--The obligation to contribute to and maintain the system for these employees was established by negotiation with the Local Funding Unit's competitive bargaining units and requires a contribution from the employees of ___ percent of gross wages. The funding policy provides for periodic employer contributions at actuarially determined rates; the current rate is ___ percent of covered payroll.

Annual Pension Cost--For the year ended _____, 199_, the Local Governmental Unit's annual pension cost of \$_____ for the plan was equal to the Local Governmental Unit's required and actual contribution. (Information Note: If there is a NPO, modify previous sentence and provide a schedule of the current year change in NPO.) The annual required contribution was determined as part of an actuarial valuation at June 30, 199_, using the _____ (cite the cost method used; entry actual age, for example) cost method. Significant actuarial assumptions used include: (i) ___ investment rate of return; (ii) projected salary increases of ___ percent per year, and ___ percent per year cost of living adjustments. Both (i) and (ii) include an inflation component of ___ percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 11 years.

(Informational Note: If there is no NPO, a statement asserting that fact is required.)

Reserves--As of June 30, 199_, the plan's legally required reserves have been fully funded as follows:

Reserve for Employees' Contributions	\$
Reserve for Retired Benefit Payments	

Three-year trend information as of June 30 (should be reported as of the actuarial date) follows:

	<u>19X1</u>	<u>19X2</u>	<u>19X3</u>
Annual Pension Cost			
Percentage of APC Contributed			
Net Pension Obligation			

(Informational Note: There is no required supplementary information.)

**Special Purpose Governments Engaged Only in
Governmental Activities or Business-Type Activities**

A special purpose government that engages only in a single type of activity (i.e., only in governmental activities or only business-type activities) can issue a simplified version of the statements. This would apply to entities such as a Library, a DDA, or a joint venture to operate a sewage treatment plant. The statements for a special purpose government that engages only in governmental activities would include:

- MD&A (Exhibit I)
- Governmental Funds Balance Sheet/ Statement of Net Assets (example follows)
- Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities (example follows)
- Notes (Exhibit XIII)
- Budget Statement (Exhibit XIV)

The statements for a special purpose government that engages only in business-type activities would include:

- MD&A (Exhibit I)
- Statement of Net Assets (or Balance Sheet)
- Statement of Revenue, Expenses, and Changes Net Assets
- Notes (Exhibit XIII)

The following examples present a Library's Governmental Funds Balance Sheet/Statement of Net Assets and Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities:

Special Purpose Governments Engaged Only in Governmental Activities

Sample Library Financial Statement
Governmental Funds Balance Sheet/Statement of Net Assets

	General Fund Modified Accrual		Statement of
	Basis	Adjustments	Net Assets
Assets			
Cash and Cash Equivalents	\$ 2,126,045		\$ 2,126,045
Receivables--Property Taxes	2,541,976	\$ 25,000	2,566,976
Fixed Assets	-	11,772,174	11,772,174
Total Assets	\$ 4,668,021	\$ 11,797,174	\$ 16,465,195
Liabilities			
Accounts Payable and Accrued Liabilities	\$ 155,592		\$ 155,592
Accrued Interest Payable		\$ 70,500	70,500
Deferred Revenue	3,276,004		3,276,004
Long-Term Liabilities			
Bonds Payable--Due Within One Year		350,000	350,000
Bonds Payable--Due After One Year		6,700,000	6,700,000
Accumulated Employee Benefits	-	28,479	28,479
Total Liabilities	3,431,596	7,148,979	10,580,575
Fund Balance/Net Assets			
Fund Balances--Unreserved			
Designated for Capital Improvement	827,000	(827,000)	
Undesignated	409,425	(409,425)	-
Total Fund Equities	1,236,425	(1,236,425)	-
Total Liabilities and Fund Balance	\$ 4,668,021		
Net Assets			
Invested in Capital Assets--Net of Related Debt		4,722,174	4,722,174
Restricted			
Unrestricted		1,162,446	1,162,446
Total Net Assets		\$ 5,884,620	\$ 5,884,620

Special Purpose Governments Engaged Only in Governmental Activities

Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities

	General Fund Modified Accrual Basis	Adjustments	Statement of Net Assets
Revenue			
Property Tax	\$ 2,951,225	\$ 2,500	\$ 2,953,725
State Aid	56,993		56,993
Penal Fines	69,993		69,993
Interest on Investments	100,455		100,455
Contributions and Donations	19,927		19,927
Library Fines and Fees	77,385		77,385
Rentals	2,300		2,300
Other Miscellaneous	45,746	-	45,746
Total Revenue	3,324,024	2,500	3,326,524
Expenditures			
Salaries	1,226,496		1,226,496
Fringe Benefits	196,382		196,382
Supplies	94,784		94,784
Library Books and Materials	353,716		353,716
Professional and Contractual Services	129,766		129,766
Communications	49,248		49,248
Conferences, Workshops and Travel	23,769		23,769
Community Relations	1,562		1,562
Printing and Publishing	27,970		27,970
Insurance and Bonds	31,104		31,104
Utilities	88,075		88,075
Building Repair and Maintenance	45,077		45,077
Rentals	1,945		1,945
Capital Outlay	11,330	(11,330)	
Depreciation		356,218	356,218
Property Tax Refund	3,192		3,192
Debt Service			
Principal	350,000	(350,000)	
Interest	97,350	-	97,350
Total Expenditures	2,731,766	(5,112)	2,726,654
Excess of Revenue Over Expenditures	592,258	7,612	599,870
Fund Balance--Beginning of Year	644,167	4,640,583	5,284,750
Fund Balance--End of Year	\$ 1,236,425	\$ 4,648,195	\$ 5,884,620

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
GASB Statement 34, Paragraph 11

Management's discussion and analysis (MD&A) should introduce the basic financial statements and provide an analytical overview of the local unit of government's financial activities. Although it is required supplementary information, local governmental units are required to present the MD&A before the basic financial statements.

The MD&A is management's analysis, and therefore, should reflect what management believes to be the unique and distinctive features of the annual financial activity and the activity's relationship to the local government's mission.

The MD&A should provide an objective and easily readable analysis of the local government unit's financial activities based on currently known facts, decisions, or conditions. It should discuss current-year results in comparison with prior year, placing emphasis on the current year. The focus should be on the primary government, distinguishing between information for the primary government and that of its component units. Determining whether to discuss matters related to a component is a matter of professional judgement and should be based on the individual 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 units separately issued financial statements. (Note: In the first year of implementation, the prior year statements do not have to be restated to provide the following disclosures):

At a minimum, MD&A should include:

- Brief discussion of the basic financial statements
 - Including the relationship of the statements to each other
 - And the significant differences in the information provided
 - Analysis that assists in understanding why measurements and results reported in fund financial statements either reinforce in the government-wide statements or provide additional information
- Condensed financial information from the government-wide financial statements comparing current year to prior year
 - Total assets--capital and other assets
 - Total liabilities--long-term and other liabilities
 - Total net assets--distinguish between invested in capital assets, net of related debt, restricted amounts, and unrestricted amounts
 - Program revenues by major source
 - General revenues by major source
 - Total revenues
 - Program expenses, by function
 - Total expenses
 - Excess (deficiency) before contributions to endowments or permanent fund principal, special and extraordinary items, and transfers
 - Contributions
 - Special and extraordinary items
 - Transfers
 - Change in net assets
 - Ending net assets
- Analysis of the government's overall financial position and results of operations
 - Both governmental and business-type activities
 - Include reasons for significant changes, not simply amounts or percents
 - Important economic factors that significantly affected operating results
- Analysis of balances and transactions of individual funds
 - Reasons for significant changes in fund balances or fund net assets
 - Whether restrictions, commitments, or other limitations significantly affect the availability of fund resources

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

- Analysis of significant variations between original and final budget amounts and between final budget amounts and actual budget results for the general fund
 - Currently known reasons for those variations that are expected to have a significant affect on future services or liquidity
- Description of significant capital asset and long-term debt activity
 - Discussion of commitments made for capital expenditures, changes in credit ratings, and debt limitations
- Governments that use the infrastructure asset modified approach, discussion of
 - Significant changes in assessed condition of eligible infrastructure assets from previous condition assessments
 - How the current assessed condition compares with the government's established condition level
 - Significant differences from estimated annual amount to maintain infrastructure assets compared to actual amounts spent
- Discussion of currently known facts, decisions, or conditions expected to have a significant effect on financial position or results of operations
- Paragraph 138a of GASB 34 indicates that the MD&A requirements (for government business entities only) apply only to the extent applicable.

- | |
|---|
| <ul style="list-style-type: none"> ❑ MD&A must not be the auditor's ❑ Give a questionnaire to a local unit official to answer in writing ✓ Auditor could edit the document provided ❑ Auditor's responsibility ✓ MD&A must be consistent with the financial statements ✓ If it is materially wrong, there may be a paragraph in the auditor's opinion |
|---|

Questionnaire for Preparation of MD&A

Attached is a draft of the financial statements of the local unit. Please look it over and provide the answers in writing.

1. Do you believe the local unit's financial position has improved or deteriorated during the year?

Looking at the governmental activities, what factors do you believe led to the improvement or deterioration of the local unit's financial position?

Looking at the business-type activities, what factors do you believe led to the improvement or deterioration of the local unit's financial position?

2. Were there any significant changes during the year in the tax base?
3. Were there any other significant economic events (new taxpayers, tax abatements, etc.)?
4. If any individual fund experienced changes in fund balance, could you explain the reasons for this?
5. Are there any individual funds that have restrictions or other limitations on the availability of fund resources?

6. Explain any significant variances between the original budget and the final budget.

Explain any significant variances between the final budget and actual results.

Are any of those factors expected to have an impact on future services or liquidity?

7. Briefly describe any significant capital assets or long-term debt activity during the year.

Are there currently commitments for capital expenditures?

Are there currently any changes in credit rating?

Are there currently any changes in debt limitations?

8. Based on currently known facts, decisions or conditions, is there any reason to believe that the local unit may experience a change in its financial position or results of operations?

9. **(Only answer if the alternative method is used to report infrastructure)** Are there any significant changes in the condition assessment of eligible assets from the previous assessment?

How does the current condition compare with the condition level that has been established?

Are there any significant differences from the estimated annual amount to maintain eligible infrastructure assets compared with the actual amounts spent during the year?

BASIC FINANCIAL STATEMENTS

1. Government Wide Statement of Net Assets (Exhibit II)

- a. The government-wide financial statements exclude fiduciary activities, including component units that are fiduciary in nature. (GASB No. 34, paragraph 12)
- b. Measure and report all assets, liabilities, revenues, expenses, gains, and losses using the economic resources measurement focus and the accrual basis of accounting. (GASB No. 34, paragraph 12)
- c. The government-wide financial statements will contain separate rows and columns for each of the following (if applicable): (GASB No. 34, paragraphs 14-15)
 - Governmental activities
 - Business-type activities
 - Discretely presented component units
- d. The government-wide financial statements should contain a total column for the primary government (GASB No. 34, paragraph 14)
- e. Assets and liabilities should be presented in order of their relative liquidity or in a classified format. (GASB No. 34, paragraph 31)
 - Liabilities, whose average maturities are greater than one year, should be reported in two components--the amount due within one year and the amount due in more than one year.
- f. The difference between assets and liabilities should be reported as net assets and should be displayed in the following three components (if applicable): (GASB No. 34, paragraph 32)
 - 1) Invested in capital assets net of related debt
 - 2) Restricted
 - 3) Unrestricted
- g. When permanent endowments or permanent fund principal amounts are included, "restricted net assets" should be displayed in two additional components--expendable and non-expendable. (GASB No. 34, paragraph 35)
- h. Designations of net assets must be excluded from the statement of net assets. (GASB No. 34, paragraph 37)

2. Government-Wide Statement of Activities (Exhibit III)

- a. The operations of the reporting government should be presented in a format that reports the net (expense) revenue of its individual functions. (GASB No. 34, paragraph 38)
- b. General revenues, contributions to term and permanent endowments, special and extraordinary items, and transfers reported separately after total net expenses of the government's functions. (GASB No. 34 paragraph 38)
- c. Governmental activities should be presented at least at the level of detail required in the governmental fund financial statements--at a minimum by function. (GASB No. 34, paragraph 39)
- d. All expenses should be reported by function, except for those considered extraordinary or special. (GASB No. 34, paragraph 41)
- e. Direct expenses should be presented for each function. If direct expenses are allocated, direct and indirect expenses should be presented in separate columns. (GASB No. 34, paragraphs 41 and 42)
- f. Depreciation expense on assets specifically identified with a function should be included in its direct expenses. Depreciation expense on shared capital assets should be ratably included in the direct expenses of the appropriate functions. (GASB No. 34, paragraph 44)
 - If a separate line is used to report unallocated depreciation, such as depreciation on a capital asset that essentially serves all functions, it should be clearly indicated on the face of the statement that this line item excludes direct depreciation expenses of the various programs.
- g. Depreciation expense on general infrastructure assets should not be allocated to the various functions, but reported as a direct expense of the most relevant function. (GASB No. 34, paragraph 45)
- h. Interest on long-term debt should be included in direct expenses in those limited instances where applicable or as a separate line item that, when applicable, clearly indicates that it excludes direct interest expenses reported as a function expense. (GASB No. 34, paragraph 46)
 - When applicable, the amount of interest expense included as a direct function expense should be disclosed.
- i. Program revenues should be separately reported in the following three categories: GASB No. 34, paragraph 48)
 - 1) Charges for services
 - 2) Program-specific operating grants and contributions
 - 3) Program-specific capital grants and contributions

- j. General revenues should be reported after total net expense of the government's functions. It should include all taxes reported by type of tax, e.g., sales, property, franchise, and income. (GASB No. 34, paragraph 52)
- k. The following should be reported in the same manner as general revenue, but separate from: (GASB No. 34, paragraph 53)
 - Contributions to term and permanent endowments
 - Contributions to permanent fund principal
 - Special and extraordinary items
 - Transfers between governmental and business-type activities
- l. Gains and losses resulting from involuntary conversions on non-monetary assets (e.g., property or equipment) to monetary assets (e.g., insurance proceeds) should be reported as either a special or extraordinary item, as appropriate. (FASB No. 30, paragraph 4 and GASB No. 34, paragraphs 55 and 56)

3. Governmental Fund Balance Sheet (Exhibit IV)

- a. Governmental Fund financial statements are classified as follows: (GASB No. 34, paragraph 63)
 - General fund
 - Special revenue funds
 - Capital projects funds
 - Debt service funds
 - Permanent funds
- b. Governmental Fund financial statements (as well as proprietary funds) should contain a column for each major fund with a single column for the aggregate of non-major funds and a total column (GASB No. 34, paragraph 75)
- c. Governmental Fund balance sheets should present a summary reconciliation to the government-wide financial statements at the bottom of the fund financial statements or in an accompanying schedule. (GASB No. 34, paragraph 77)
- d. The governmental fund balances should be segregated into reserved and unreserved amounts. (GASB No. 34, paragraph 84)
- e. Should disclose the purposes of the reservations of fund balances for the combined non-major funds and display the unreserved fund balances by fund type in the balance sheet. (GASB No. 34, paragraph 84)

4. Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance (Exhibit V)

- a. Present the major sources of revenues (e.g., property, sales, and franchise tax revenue, revenue from licenses, fees, and permits; interest income) in accordance with GASB Codification Section 1800.115.
- b. Proceeds of long-term debt (including capital leases), issuance premium or discount, payments to bond escrow agents, transfers, and sale of capital assets should be shown separately from fund revenues as "other financing sources." (GASB No. 34, paragraph 88)
- c. Expenditures should be classified by function or program, and by character; current, capital outlays and debt service. (GASB Codification Section 1800.116-.117 and.120)
- d. Debt issue costs, such as underwriter and attorneys fees (if any), should be reported as expenditures. (GASB No. 34, paragraph 87)
- e. A summary reconciliation to the government-wide financial statement of activities should be presented at the bottom of the fund financial statements or in an accompanying schedule. (GASB No. 34, paragraph 77)
- f. Separately report special items (significant transactions within the control of management that are either unusual in nature or infrequent in occurrence) after other financing sources or uses and before extraordinary items. (GASB No. 34, paragraph 89)
- g. Separately identify within the appropriate revenue or expenditure category or disclose in the notes to financial statement items that are either unusual or infrequent, but not within the control of management. (GASB No. 34, paragraph 89)

5. Proprietary Fund Statement of Net Assets (or Balance Sheet) (Exhibit VI)

- a. Present assets and liabilities in a classified format (GASB No. 34, paragraph 97)
- b. Included a single column for all internal service funds to the right of the total enterprise funds column.(GASB No. 34, paragraph 96)
- c. Present net assets in the following three components (if applicable)
 - 1) Invested in capital assets net of related debt
 - 2) Restricted
 - 3) Unrestricted
- d. Capital contributions should not be reported as a separate component of net assets. (GASB No. 34, paragraph 98)
- e. Designations of net assets should not be reported in the statement of net assets. (GASB No. 34, paragraph 37)
- f. Report assets with use restrictions as restricted assets. (GASB No. 34, paragraph 99)

6. Proprietary Fund Statement of Revenues, Expenses, and Changes in Net Assets (Exhibit VII)

- a. Present revenues by major source, identifying revenues used as security for revenue bonds (GASB No. 34, paragraph 100)
- b. Distinguish between operating and non-operating revenues and expenses (GASB No. 34, paragraph 100)
- c. Present subtotals for operating revenues, operating expenses, and operating income (GASB No. 34, paragraph 100)
- d. Present non-operating revenues and expenses after operating income (GASB No. 34, paragraph 100)
- e. Report revenues from capital contributions and additions to the principal of permanent and term endowments, special and extraordinary items, and transfers separately, after non-operating revenues and expenses (GASB No. 34, paragraph 100)

7. Proprietary Fund Statement of Cash Flows (Exhibit VIII)

- a. Classify cash receipts and cash payments as resulting from the following activities: (GASB No. 9, paragraph 15).
 - 1) Operating activities
 - 2) Non-capital financing activities
 - 3) Capital and related financing activities
 - 4) Investing activities
- b. The direct method should be used to present cash flows from operating activities (GASB No. 34, paragraph 105)
- c. Separately report the net effect of cash flows of each of the above categories above on cash and cash equivalents during the period in a manner that reconciles beginning and ending cash and cash equivalents (GASB No. 9, paragraph 30 and 35).
- d. Show total amounts of cash and cash equivalents at the beginning and end of the period in a manner where they can be easily traceable to similarly titled line items or subtotals shown in the combined balance sheet (GASB No. 9, paragraph 8)
- e. Separately report the following classes of operating cash receipts and payments: (GASB Codification Section 2450.128)
 - 1) Cash receipts from customers
 - 2) Cash receipts from interfund services provided
 - 3) Other operating cash receipts, if any
 - 4) Cash payments to other suppliers of goods and services
 - 5) Cash payments to employees for service
 - 6) Cash payments for interfund services used, including payments in lieu of taxes that are payments for, and equivalent to, services provided
 - 7) Other operating cash payments, if any
- f. Include a separate schedule reconciling operating income to net cash flow from operating activities (GASB No. 34, paragraph 105)
 - The schedule should separately report all major classes of reconciling items including, at a minimum, changes in receivables, inventory, and payables. (GASB Codification Section 2450.129)

- g. Include a separate schedule of information about all investing, capital, and financing activities that affect recognized assets or liabilities but do not result in cash receipts or payments in the period. (GASB No. 9, paragraph 37)

8. Fiduciary Fund Statement of Net Assets (Exhibit IX)

- a. Include a single column for each fiduciary fund type--pension trust, investment trust, private-purpose trust, and agency funds (if applicable). (GASB No. 34, paragraph 106).
- b. Use the economic resources measurement focus and the accrual basis of accounting excluding certain pension and post-employment items. (GASB No. 34, paragraph 107)

9. Fiduciary Fund Statement of Changes in Plan Net Assets--Pension Trust Fund (Exhibit X)

- a. Exclude the reporting of agency funds in the statement of changes in fiduciary net assets. (GASB No. 34, paragraph 110).

10. Component Unit Balance Sheet (Exhibit XI)

11. Component Unit Statement of Revenues, Expenditures, and Changes in Fund Balance (Exhibit XII)

EFFECTIVE DATE

- Effective date is based on a government's total annual revenues in the first fiscal year ending after June 15, 1999.
- Total annual revenues includes all revenues (not other financing sources) of the primary government's governmental and enterprise funds.

<u>Total Annual Revenues</u>	<u>Periods Beginning After</u>
➤ Phase 1--\$100 million or more	June 15, 2001
➤ Phase 2--\$10 million but less than \$100 million	June 15, 2002
➤ Phase 3--Less than \$10 million	June 15, 2003

REPORTING GENERAL INFRASTRUCTURE ASSETS AT TRANSITION**GASB Statement 34, Paragraphs 148-151**

- Prospective reporting is required beginning at effective date of GASB Statement 34

<u>Total Annual Revenues</u>	<u>Periods Beginning After</u>
➤ Phase 1--\$100 million or more	June 15, 2001
➤ Phase 2--\$10 million but less than \$100 million	June 15, 2002
➤ Phase 3--Less than \$10 million	June 15, 2003

- Retroactive reporting of major general infrastructure assets is encouraged at that date
- Retroactive reporting of major general infrastructure assets is required as follows:

<u>Total Annual Revenues</u>	<u>Periods Beginning After</u>
➤ Phase 1--\$100 million or more	June 15, 2005
➤ Phase 2--\$10 million but less than \$100 million	June 15, 2006
➤ Phase 3--Less than \$10 million	Encouraged but not required

- Actual historical cost of major infrastructure assets acquired, or significantly reconstructed or significantly improved in fiscal years ending after June 30, 1980.
- If actual historical cost is not practical because of inadequate records, use estimated historical cost as described in paragraphs 155 through 166.
- While applying transition provisions, these note disclosures are required
 - Description of infrastructure assets being reported and those that are not
 - Description of infrastructure assets which are to be reported using the modified approach