

FINANCIAL MANAGEMENT FOR GEORGIA LOCAL UNITS OF ADMINISTRATION

Date Issued	Effective Date	Section	Title:
April 30, 2005	April 30, 2005	II	Financial Reporting
Revision No.	Date Revised	Chapter	Title:
1	April 2009	22D	Notes to the Basic Financial Statements

NATURE AND PURPOSE

Financial statements alone do not provide all of the information required for fair presentation of a Local Unit of Administration's (LUA) financial position and results of operations in conformity with generally accepted accounting principles (GAAP). Additional information is needed, often too detailed for presentation on the face of the financial statements. The notes to the basic financial statements provide this additional information, and form an integral part of the basic financial statements.

GAAP require that the notes to the basic financial statements contain all disclosures necessary to prevent the financial statements from being misleading. Such a concept is qualitative, and cannot be reduced to a simple checklist of required disclosures. However, the 2011 GASB *Codification*, Section 2300 Notes to the Financial Statements, provides a list of note disclosures that specifically is tailored to LUA financial reporting. This list provides a starting point for the financial statement preparer wishing to evaluate the adequacy of their notes to the basic financial statements.

In June 2001, the GASB issued GASB Statement No. 38, Certain Financial Statement Note Disclosures (GASBS 38). This statement added additional disclosures and deleted other disclosures. The requirements of this statement are incorporated into this chapter. This chapter generally summarizes the disclosure requirements.

ORGANIZATION AND PRESENTATION OF NOTE DISCLOSURES

As indicated above, the notes to the basic financial statements are an integral part of basic financial statements. Therefore, they should be included as part of the basic financial statements formatted directly after these statements. Moreover, the format of the table of contents should indicate clearly that the notes are part of the basic financial statements, and each basic financial statement should contain a reference to the notes (e.g., "the notes to the basic financial statements are an integral part of this statement"). In addition, if a LUA presents required supplementary information (RSI) (e.g., the general fund's budget to actual financial schedule); the RSI will include a second set of separate note disclosures. Normally, the latter is very brief.

Note disclosures should be organized and presented in a logical order. The order of presentation will vary depending on each individual LUA's disclosures. The 2011 GASB *Codification*, Section 2300.106, provides guidance on one possible sequence of note disclosures. Financial statement preparers, however, are free to modify this suggested sequence, as needed, to provide the most meaningful disclosure in a given set of circumstances. The following is a suggested order of presentation:

- Summary of significant accounting policies (SSAP)
- Restatement notes (if applicable)
- Budgetary and legal compliance notes
- Detailed notes
- Other notes

GAAP are established under the presumption that the notes contain any material information needed to present fairly the financial statements. Therefore, as a rule, LUAs should not present notes that indicate only that a given type of disclosure is not necessary (i.e., negative assurance). For example, if the LUA has no related party transactions, a note is not needed stating that there were no such transactions during the period.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A LUA's accounting policies are the specific accounting principles -- and methods of applying those principles -- judged by the LUA's management to be appropriate in the circumstances to present fairly the financial position and results of operations in conformity with GAAP. APB Opinion No. 22, *Disclosure of Accounting Policies*, requires financial statement preparers to include a description of all significant accounting policies as an integral part of the financial statements. For LUAs, the SSAP most often takes the form of a group of separate "sub notes" addressing a variety of topics. Because the SSAP is designed to provide the reader with information on the LUA's accounting policies rather than on specific transactions, dollar amounts normally are not presented in the SSAP. Generally when dollar amounts are presented in a note, the note is a detailed note.

APB Opinion No. 22, as applied to LUAs, requires that the SSAP disclose those accounting principles and methods that involve:

- Any selection of an accounting treatment when GAAP permit more than one approach (e.g., the method used to depreciate capital assets)
- Principles and practices peculiar to LUA accounting (e.g., modified accrual basis of accounting)
- Unusual or innovative applications of GAAP
- The valuation bases of assets

LUA Description. Often, the LUA will begin the SSAP with a brief description of the LUA. This description will reference the school board and indicate the geographic area for which it provides educational services. In reports prepared by the Georgia Department of Audits and Accounts, the LUA Description and Reporting Entity are presented as the first section in the Notes to the Financial Statements, before the Summary of Significant Accounting Policies.

Applicability of Private Sector Guidance. GAAP requires a disclosure regarding the utilization of private sector GAAP guidance if a LUA uses business-type activities. LUAs have the option of consistently implementing private-sector guidance issued after November 30, 1989, for both business-type activities and enterprise funds, provided the standards so adopted do not conflict with or contradict the GASB's own guidance. GAAP specifically indicate that the SSAP should mention whether this option has been selected

Reporting Entity. Occasionally, a LUA's reporting entity may include a separate legal entity (i.e., certain charter schools as component units). To ensure that financial statement users understand what entities are included, the 2011 GASB *Codification*, Section 2100, provides note disclosure requirements related to the reporting entity. Normally, this note should be presented as the first sub note in the SSAP. If not presented in the SSAP, this disclosure should be formatted as the first note. This approach allows the reader to gain an understanding of the reporting entity before reading the other notes to the financial statements. In audits published by the Georgia Department of Audits and Accounts, the LUA Description and Reporting Entity are presented as the first section in the Notes to the Financial Statements, before the Summary of Significant Accounting Policies.

All LUAs are required to present an "entity note" regardless of whether any component units are included within the reporting entity. The disclosure should include:

- A description of the component units included within the financial reporting entity;
- A description of the relationship between the component units and the primary government;
- A discussion of the criteria for including component units within the financial reporting entity;
- A discussion of how component units are reported (i.e., blended versus discrete presentation); and
- Information on how to obtain the separately issued financial statements of component units.

Although these criteria normally are taken directly from the 2009 GASB *Codification*, Sections 2100.108 -.112, they should be described rather than just referenced.

Start-up Charter Schools would be included and this fact should be disclosed.

Basis of Presentation. Because fund accounting is unique to governments, a brief explanation of this accounting convention is appropriate. All of a LUA's individual funds are classified by the three fund categories, governmental, proprietary and fiduciary. A brief description of these categories is appropriate. Chapter 6 discusses LUA fund accounting. In addition, GASBS 38 requires descriptions of the activities accounted for in each major fund, internal service fund type and the fiduciary fund types (e.g., school clubs).

Government-wide and Fund Financial Statements. The government-wide financial statements do not, in fact, incorporate all funds and component units of a LUA. Specifically, GAAP direct the exclusion of fiduciary funds from the government-wide presentations. Therefore, to avoid any potential confusion regarding the scope of the government-wide presentations, the SSAP should disclose the omission of fiduciary funds. It also should be clear that the assets, liabilities and equity of the internal service funds are combined within the governmental activities column in the government-wide statement of net assets. This disclosure often describes the two required government-wide financial statements. Also, the definition of the three types of program revenues is appropriate here.

Finally, this note should disclose the fact that all of a LUA's funds are included at the fund financial reporting level and that discretely presented component units are excluded.

Measurement Focus/Basis of Accounting. Because governmental accounting requires the use of two different measurement focuses and the use of both accrual and modified accrual accounting depending upon the financial reporting level, the SSAP should include a description of the measurement focus that applies to each fund type followed by an explanation of the basis of accounting used.

Chapter 7 describes the measurement focus and the bases of accounting that LUAs use.

Reconciliation of Government-Wide and Fund Financial Statements. Because the government-wide and fund presentations are designed to function as a single, integrated set of financial statements, GAAP require that a summary reconciliation be provided between the total column reported on the governmental fund balance sheet and the governmental activities column reported in the government-wide statement of net assets. Also required is the reconciliation of the net changes in fund balances from the governmental fund operating statement to the changes in net assets on the government-wide statement of activity. The reconciliations may be presented on the face of the governmental fund financial statements or in accompanying schedules. A government may choose to present more detailed information on the various elements of this reconciliation in the notes to the basic financial statements. LUAs normally present this note disclosure when reconciliation items are aggregated in the reconciliation (e.g., when capital outlay purchases and depreciation expense are netted) and the note disaggregates the amounts.

Revenues Susceptible to Accrual. The 2011 GASB *Codification*, Section 1600.108, requires that the SSAP indicate clearly, which primary revenue sources have been treated as "susceptible to accrual." At a minimum, this disclosure normally references property taxes, special purpose local option sales taxes and state Quality Basic Education (QBE) aid.

Chapter 32 discusses Georgia Statutes as they relate to operating budgets.

Flow Assumption for Restricted Assets. In practice, it is common for LUAs to have the option of using either restricted or unrestricted resources to make certain payments (such as capital construction costs being financed partially from restricted grants and bond proceeds and partially from the LUA's own resources). Accordingly, LUAs must select a flow assumption to determine which assets (restricted or unrestricted) are being used when both restricted and unrestricted assets are available for the same purpose. GAAP require that this flow assumption be disclosed in the SSAP.

Cash and Investments. If a LUA participates in a cash and investment pool, the accounting policy should explain this arrangement, which could include information on how the LUA allocates interest earnings. Although the 2011 GASB *Codification*, Section I50 Investments, requires detailed disclosures for deposits and investments (this disclosure is discussed later in this chapter), the stated basis for investments should be disclosed in the SSAP. The allowable investments under Georgia statutes should be listed here. Finally, if a LUA reports cash equivalents, they should be defined.

Receivables. Normally, the basis of accounting note, included within the SSAP, discloses when

receivables and revenues are recorded and reported. The receivables note should disclose the LUA policy regarding the use of an allowance for uncollectibles.

Restricted Net Assets. Normally, Special Purpose Local Option Sales Tax (SPLOST), general obligation bond proceeds and property taxes levied specifically for retirement of outstanding bond principal, interest and paying agent's fees (e.g., in a debt service fund) are reported as restricted assets in the statement of net assets because their use is limited by applicable bond covenants or statutory provisions. This fact should be explained in the accounting policy notes. The details of assets might be presented in this note or preferably in a detailed note for restricted assets.

Interfund Balances. LUAs sometimes advance resources to other funds that will not be repaid in the current period. For example, the general fund advances operating capital to a newly created internal service fund. In these instances, the SSAP should explain that the fund balance of the loaning governmental fund is reserved at the fund reporting level to indicate it is not available for expenditure.

Inventories. ARB No. 43, Restatement and Revision of Accounting Research Bulletins, Chapter 4, requires a disclosure of the valuation basis of inventories (i.e., cost). In addition, the method used to determine the inventory value should be presented (e.g., first-in, first-out; last-in, first-out). Finally, because governmental funds may use either the purchases or consumption method for recognizing inventory expenditures, the method chosen should be disclosed in the SSAP.

When the purchases method is used, for budgeting purposes, the sub note also should indicate that the inventory asset amount is not available for expenditures because it has been charged to expenditures when purchased rather than when used. Chapter 12 presents information about inventories.

If the LUA recognizes revenues from commodities, it should be clear that the amount of the value of commodities unused at year-end is reported as deferred revenues.

Prepaid Items. Although not required by GAAP for governmental fund types, LUAs may capitalize prepaid items (e.g., prepaid insurance) and charge these costs to the appropriate fiscal period. When prepaid items are capitalized, a sub note could explain this policy and indicate that a portion of fund balance equal to the prepaid items is reserved to indicate that it is not available for expenditures.

Capital Assets. The SSAP needs to include various disclosures regarding a LUA's capital assets. Many of the disclosures are required because of the variety of accounting treatments allowed. Because capital assets purchased by governmental fund types are reported differently from those purchased by proprietary fund types at the fund reporting level, the sub note should explain both accounting treatments. This disclosure also may include the LUA's accounting for betterments (i.e., improvements to capital assets that extend their useful lives). Betterments are discussed in Chapter 37.

The valuation bases for both purchased capital assets and donated capital assets should be disclosed. In addition, GAAP require the disclosures of a LUA's depreciation policy including the depreciation method used and the capital assets estimated useful lives. The LUAs capitalization threshold must be disclosed.

Accounting for capital assets is discussed in Chapter 16.

Compensated Absences. The 2011 GASB *Codification*, Section C60 Compensated Absences, provides guidance regarding the accounting treatment for compensated absences. An accounting policy note should indicate clearly that the total liability is reported on the government-wide statement of net assets but only reported at the fund level when due. The compensated absence liability for proprietary fund types should be accrued as earned, consistent with the accrual basis of accounting, and the disclosure should indicate this fact when both governmental and proprietary fund types are included in the financial statements.

Long-term Obligations. It is suggested that the SSAP contain an explanation of the rationale for classifying long-term obligations as fund liabilities.

Bond Discounts, Bond Premiums, Issuance Costs, and Deferred Bond Refunding Amounts. The SSAP should include an explanation of the treatment accorded bond discounts, bond premiums and issuance costs, for governmental and proprietary fund types, as appropriate. For proprietary funds and reporting governmental fund activities at the government-wide financial reporting, APB opinion No. 21, Interest on Receivables and Payables, provides the appropriate guidance on display and amortization.

Fund Equity. An explanation of the components of fund equity often is included in the SSAP. However, the details of the restrictions, reserves and designations should be presented in a separate disclosure.

Operating Revenues and Expenses. If a LUA reports enterprise funds, the notes should define operating revenues and expenses.

Interfund Activity. Since a LUA maintains numerous funds, the SSAP should explain the various types of interfund transactions as applicable. The 2011 GASB *Codification*, Sections 1800.103 and 1800.106, provide the classification for the various types of interfund transactions. Chapter 13 defines the various types of interfund transactions.

Estimates. This disclosure must indicate that the LUA's management uses estimates in the amounts included in the financial statements and actual amounts may differ from these estimates.

Comparative Data. Although not required by GAAP, a sub note could be included in the SSAP explaining that comparative data are presented in the financial statements to allow the reader to make appropriate comparisons with prior periods.

STEWARDSHIP, COMPLIANCE AND RESPONSIBILITY

Legal Compliance. Financial statement preparers are required by GAAP to provide certain disclosures to demonstrate compliance with finance-related legal and contractual provisions. Because of the importance of legal compliance in the public sector, it is appropriate that such disclosures immediately follow the SSAP. The 2011 GASB *Codification*, Section 1200.112, requires the disclosure of material violations of legal requirements. GASBS 38 also requires LUAs to disclose what action they took to address these violations.

Such violations can occur, for example, if sufficient care is not taken to ensure compliance with Federal grant requirements. Since appropriated budgets limit the amount a LUA may legally expend, certain budgetary disclosures also are required to demonstrate compliance or to report noncompliance.

Budgetary Data. The SSAP should include various disclosures about the reporting entity's budget and budget process. The SSAP for budgets should provide:

- A description of the budgetary basis of accounting.
- An indication of the funds for which appropriated budgets have been adopted
- Details regarding appropriations
- An indication of the legal level of budgetary control (although GAAP no longer requires this disclosure, it is still recommended to be included).

If the LUA presents its budgetary comparison statement as a basic financial statement, the following notes are applicable. However, if the LUA presents its budgetary comparison statement as required supplementary information (RSI) (most Georgia LUAs will present this statement as RSI), these notes will be presented as notes to RSI.

When a LUA adopts a budget on a basis, which differs from GAAP, the 2011 GASB *Codification*, Section 2400.109, requires that the nature and amount of the adjustments necessary to convert the actual GAAP data to the budgetary basis be reported either on the face of the budgetary comparison statement or in the notes to the statement. Unless the reconciliation is quite simple, note disclosure is the more appropriate alternative.

Since under GASBS 34 there are two sets of notes, one to the basic financial statements and one for the RSI, the reconciliation would appear in the notes where the fund's budgetary data is presented. For the general fund and any major budgeted special revenue funds, the reconciliation would be presented in the notes to RSI. All other reconciliations would be presented in the notes to the basic financial statements. When the reconciliation is required, it is suggested that the differences be classified in a manner consistent with the 2011 GASB *Codification*, Section 2400.113 - .119 (i.e., basis, timing, entity and perspective differences), although this specific terminology need not be used.

The data that should be reconciled are not indicated clearly in GAAP. Generally, there are at least two alternatives for this presentation.

- Operating statement approach (i.e., excess (deficiency) of revenues and other financial sources over (under) expenditures and other financing uses)
- Balance sheet approach (i.e., fund balance)

The 2011 GASB *Codification*, Section 2400.103, requires the note disclosure of any individual funds that have expenditures over appropriations at the legal level of budgetary control (e.g., the function total). LUAs should disclose the individual fund, the legal level of control and the amount of over expenditure. GASB Statement No. 37, An Omnibus Statement (GASBS 37) requires this disclosure be placed in the notes to RSI if the over expenditure relates to funds presented in the RSI budgetary comparison statement. If the over expenditure relates to any other budgeted funds, the disclosure appears in the notes to the basic financial statement.

Deficit Fund Equities. GAAP require that the LUA disclose any individual fund balance deficits reported at year end.

DETAILED NOTES -- ALL FUND TYPES

The notes to the financial statements should include detailed disclosures of all assets, liabilities and net assets/fund equities essential for fair presentation at the basic financial statements level. It also may be necessary to provide details of selected accounts to give the reader of the financial statements a better understanding of the statement disclosures. The following discussion reviews disclosures that LUAs should present in the notes to the basic financial statements but is not intended to represent a preferred order or grouping of those disclosures.

Cash and Investments. The 2011 GASB *Codification*, Section C20 Cash Deposits with Financial Institutions, requires five types of disclosure regarding cash deposits with financial institutions:

- Legal and contractual provisions governing deposits;
- Policies governing deposits;
- Exposure to custodial credit risk as of the date of the statement of position;
- Defaults and recovery of prior-period losses; and
- Exposure to foreign currency risk.

The 2011 GASB *Codification*, Section I50 Investments, requires the following types of disclosures regarding investments:

- Participation in external investment pools;
- Information concerning realized gains and losses (when disclosed);
- Legal and contractual provisions governing investments;
- Summary of investment policies;
- Exposure to custodial credit risk as of the date of the statement of position;
- Defaults and recovery of prior-period losses;

- Other credit risk exposure;
- Interest rate risk and; and
- Foreign currency risk

Receivables. GASBS 38 requires that LUAs include in its' notes the details of aggregated receivables and liabilities when aggregation has obscured the major components. Finally, any receivable balance not expected to be collected with 12 months must be disclosed. If applicable, the amount of the allowance for uncollectibles also should be presented.

Property Taxes. GAAP require that the notes to the financial statements disclose lien dates, levy dates, due dates, and collection dates on the LUA's property tax calendar.

Sales Taxes. Many LUAs are approved to levy a special purpose local option sales tax (SPLOST). These taxes normally are used for school construction or debt service on school construction. The disclosure should include the following:

- The current amount of SPLOST collected during the reporting year.
- The total amount allowed to be collected from the SPLOST.
- The final date of SPLOST collection.

The above information should be presented for each active SPLOST.

Capital Assets. In addition to the inclusion of accounting policies for capital assets, some additional disclosures for capital assets are required. The 2011 GASB *Codification*, Section 2300.111, requires a disclosure of changes in capital assets. In addition, APB Opinion No. 12, Omnibus Opinion, requires disclosure in the notes of the separate classes of capital assets and the amount of accumulated depreciation, if not disclosed on the balance sheet. The disclosure of changes in capital assets may be more specific and include separate columns for the transfer from the construction in progress account to the other asset classes. In addition, both the changes in the asset classes as well as the accumulated depreciation must be disclosed separately. Finally, the amount of the current year's depreciation expense reported on the statement of activities must be disclosed by function in the notes to the basic financial statements.

Deferred Revenues. Although not required by GAAP, a definition of deferred revenues may be provided in a separate disclosure. Often, however, this definition is included in the revenue recognition accounting policy. The disclosure also could include the amount of deferred revenues by type, if not presented on the balance sheet.

Construction and Other Significant Commitments. Disclosure is required by the 2011 GASB *Codification*, Section 2300.106k, of significant long-term commitments not recognized in the financial statements. The most common disclosures of this type are construction commitments. Construction commitment disclosures should identify the type of project and selected details (e.g., project authorization, remaining commitment, required future financing) regarding the commitments.

Short-term Debt. GASBS 38 requires disclosures for short-term debt (for Georgia LUAs, this disclosure primarily relates to tax anticipation notes). The disclosures must include changes in short-term debt and the purpose of the debt issuance.

Lease Obligations. The 2011 GASB *Codification*, Section L20.125, also provides authoritative guidance on lessee disclosures for capital lease agreements in accordance with SFAS No. 13. The disclosure requirements of SFAS No. 13 for capital leases include:

- General leasing arrangement
- The gross amount of assets recorded under capital leases presented by major asset classes
- Minimum future lease payments in total and for each of the next five years, presenting a deduction for imputed interest to reduce the net minimum future lease payments to their present value

SFAS No. 13 also requires the following disclosures for LUAs participating as lessees in operating leases:

- General leasing arrangements
- The future minimum rental payments in total and for each of the next five years
- Total minimum rentals to be received in the future under noncancelable subleases
- Current year rental costs

Long-term Debt. LUAs are required to present detailed disclosures relating to outstanding long-term debt. Some of the topics that should be included are:

- A description of issues
- Changes in long-term debt
- Debt service requirements to maturity including both principal and interest
- Details regarding advance refunding of debt
- Bonds authorized but unissued

Debt Description. It is suggested that a LUA include a brief description of each outstanding bond issue that could include the following:

- Purpose of bonds
- Original amount of the issue
- Type of debt (e.g., general obligation)
- Amount of annual installments
- Interest rates
- Maturity date range

Changes in Long-term Debt. GAAP requires the presentation of changes in long-term debt be presented by type of debt (e.g., general obligation bonds, capital leases). Note that the changes (i.e., additions and deletions) must be presented separately.

Amortization Schedules. The 2011 GASB *Codification*, Section 2300.106j, mandates the disclosure of debt service requirements to maturity for all long-term debt. At a minimum, this disclosure must include the required payments of principal and interest presented separately for each of the succeeding five years and for each five year increments, thereafter. Debt service to maturity normally is presented by type of debt. The debt service requirements for capital lease obligations should be included with this disclosure. The amounts reported for the long-term also could include compensated absences and claims and judgments.

Debt Refundings. The 2011 GASB *Codification*, Section D20 Debt Refundings, provides guidance on disclosure requirements in the year of an advance refunding as well as in subsequent years. The required disclosures in the year of the advance refunding include:

- The difference between the cash flows required to service the old debt and the cash flows required to service the new debt, adjusted for additional cash (e.g., for issuance costs or payments to the escrow agent), but unadjusted for the time value of money.
- The economic gain or loss resulting from the refunding transaction (i.e., the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate and adjusted for additional cash paid).

When the advance refunding results in an in-substance rather than a legal defeasance of debt, the amount of the defeased debt outstanding at year-end should be reported in the notes in all periods following the advance refunding for which the debt remains outstanding.

Unissued Authorized Debt. Finally, when bonds have been authorized at year-end but remain unissued, a disclosure explaining this fact is appropriate.

Pensions. Substantially all teachers, administrative and clerical personnel employed by local school systems are covered by the Teachers Retirement System of Georgia (TRS), which is a cost-sharing multiple employer defined benefit pension plan.

GAAP requires the following disclosure requirements for employer LUAs that participate in defined contribution pension plans or defined contribution OPEB plans:

- The name of the plan;
- The entity administering the plan;
- An indication that the arrangement is a defined contribution plan;
- A brief description of the plan's provisions and the authority for establishing or amending the plan's provisions;
- Contribution requirements (either as a dollar amount or as a percentage of salary) for the employer, participating employees, and other contributors;
- The authority for amending contribution requirements; and
- Contributions actually made by the employer and plan members.

Interfund Transactions. Two primary types of interfund transactions occur, receivables/payables and transfers. The 2011 GASB *Codification*, Sections 2300.120 and .121, require the disclosure within the basic financial statements of the amounts of interfund receivables and payables for each individual major fund, all non-major funds in the aggregate, internal service funds in the aggregate and fiduciary fund types. GASBS 38 also requires that LUAs disclose the purpose of each of these interfund balances (e.g., for cash flow purposes). Any portion of these receivables and payables that is non-current also must be disclosed. GASBS 38 also requires amounts transferred from other funds to individual major funds, non-major funds in the aggregate, internal service funds in the aggregate and fiduciary fund type. The principal purposes of the interfund transfers also must be disclosed. However, this disclosure only is required if:

- The transfers do not occur on a routine basis or
- The transfers are inconsistent with the activities of the fund making the transfer.

Fund Equity. When the nature and purpose of all restrictions, reserves or designations are not described sufficiently on the balance sheet or the statement of net assets, the notes should provide an adequate description. For example, a LUA could explain the reserve for inventory required by the 2011 GASB *Codification*, Section 1800.142.

OTHER DISCLOSURES

In addition to the SSAP and the detailed notes, other disclosures should be presented that are essential for a fair presentation of a LUA's financial position results of operations and cash flows in conformity with GAAP.

Risk Management. Many LUAs have been choosing to finance all or a portion of their risks rather than to seek traditional commercial insurance coverage. The 2011 GASB *Codification*, Section C50.144 requires the following information to be disclosed:

- A description of the risks of loss to which the LUA is exposed and the ways in which those risks are handled;
- A description of significant reductions in insurance coverage from the prior year by major categories of risk;
 - ! Instances when claims paid exceeded coverage during the period, the total amount of settlements in excess of insurance coverage for each of the past three years;
 - ! If the LUA participates in a risk pool, a description of the nature of the participation including the rights and responsibilities of both the LUA and the pool; and
 - ! If the LUA retains the risk of loss:
 - The basis for estimating the liabilities for unpaid claims,
 - The carrying amount of liabilities for unpaid claims that are presented at present value in the financial statements and the range of discount rates

- used to discount those liabilities,
 - The aggregate outstanding amount of claims liabilities for which annuity contracts have been purchased, and
- ! A reconciliation of changes in the aggregate liabilities for claims for the current year and prior fiscal year.

If the LUA participates in the Georgia Education Workers' Compensation Trust or the Risk Management Program of the Georgia School Boards' Association, specific disclosures should be disclosed. Chapter 39 discusses risk management.

Segment Information - Enterprise Funds. The 2011 GASB *Codification*, Section 2500, Segment Information, requires the inclusion of summary segment financial information. For purposes of this disclosure, a segment is an identifiable activity (or grouping of activities) reported as or within an enterprise fund or an other stand-alone entity for which one or more revenue bonds or other revenue-backed debt instruments (such as certificates of participation) are outstanding. A segment has a specific identifiable revenue stream pledged in support of revenue bonds or other revenue-backed debt and has related expenses, gains and losses, assets, and liabilities that are required to be accounted for separately. Segment disclosure requirements for each segment should be met by identifying the types of goods and services provided by the segment and by providing condensed financial statements in the notes. The following disclosures should be presented in either of these situations for each enterprise fund:

- Type of goods or services provided by the segment
- Condensed statement of net assets
- Condensed statement of revenues, expenses, and changes in net assets
- Condensed statement of cash flows

Related Party Transactions. SFAS No. 57, Related Party Disclosures, requires certain disclosures of related party transactions. SFAS No. 57 requires disclosure of a description of the relationship and of the transactions, their dollar amounts, and the amounts due from or due to the related party. When the report preparer believes a related party transaction exists, the relationship between the reporting entity and the related party first should be evaluated using the criteria of the 2011 GASB *Codification*, Section 2100 Defining the Financial Reporting Entity, to ensure that the related party is not to be included as part of the reporting entity. Normally, Georgia LUAs do not have related party transactions.

Contingent Liabilities. The 2011 GASB *Codification*, Section C50.115, recognized the requirements of SFAS No. 5, Accounting for Contingencies, for the disclosure of loss contingencies. When a loss contingency exists, the likelihood that the future event or events will confirm the loss or impairment of an asset, or the incurrence of a liability, can range from probable to remote. SFAS No. 5 classifies the ranges as follows:

- Probable - the future event or events are likely to occur.
- Reasonably possible - the chance of the future event or events occurring is more than remote but less than likely.

- Remote - the chance of the future event or events occurring is slight.

Under SFAS No. 5, when it is reasonably possible that a contingent liability may result in a loss, this fact should be disclosed in the notes to the financial statements. Generally, pending litigation and the potential loss of grant funds resulting from a pending grant audit are the most common contingencies disclosed.

When the chance of a contingent liability resulting in a loss is only remote, no disclosure is ordinarily necessary.

Joint Ventures. The 2011 GASB *Codification*, Section J50.109, requires the inclusion of the following disclosures within the notes to the financial statements when this information is not displayed on the financial statements.

- A general description of each joint venture that includes:
 - The participants' ongoing financial interest or ongoing financial responsibility.
 - Availability of separate financial statements.

On-behalf Payments. When a government makes payments for fringe benefits or salaries to a third party on behalf of another government's employees, the employer government is required to disclose in the notes to its financial statements the related amounts recognized in its financial statements. In Georgia, the State of Georgia makes payments on behalf of all LUAs to the Georgia Department of Community Health for health insurance, to the Teachers Retirement System of Georgia and to the Public School Employees Retirement System for certain retirement payments.

The note should indicate which governments have been making on-behalf payments and the amount of these payments.

Extraordinary Items. GASBS 34 requires LUAs to report extraordinary items, when applicable. APB Opinion No. 30 provides guidance regarding what data need to be reported as extraordinary items. When such events or transactions occur, they should be explained in the notes.

Prior Period Adjustments. SFAS No. 16 and the GASB pronouncement transition language provide general guidance on the proper use of prior period adjustments. Such adjustments, whether resulting from the correction of an error or the implementation of a new authoritative standard, should be explained in the notes. Although sometimes necessary, these should be avoided in the normal course of business, as an internal control weakness may exist.

Subsequent Events. The LUA should disclose any significant events directly affecting it that occurred between the end of the period covered by the financial statements (i.e., the year ended June 30) and the statement completion date. The two items normally included in this disclosure are the issuance of debt and the settlement of material litigation.

Other Employee Benefits. LUAs often disclose details of various employee benefits other than the pension plans.

Postretirement Benefits. The 2011 GASB *Codification*, Section P50 requires LUAs covering their employees' postretirement benefits to disclose:

- A description of the other postemployment benefits (OPEB) provided, employee groups covered, eligibility requirements, and the employer and participant obligations to contribute (i.e., the approximate percentage of the total obligation to contribute that is borne by the employer and the participants, respectively, or the dollar or percentage contribution rates).
- A description of the statutory, contractual, or other authority under which OPEB provisions and obligations to contribute are established.
- A description of the accounting and financing or funding policies followed for OPEB.
 - The contributions might be funded on a pay-as-you-go basis or advance-funded.
 - If OPEB are advance-funded on an actuarially determined basis, the government employer should disclose the actuarial cost method and significant actuarial assumptions used to determine funding requirements, and the method used to value plan assets.
- The OPEB expenditures/expenses recognized for the period and certain related data.
 - If OPEB are financed on a pay-as-you-go basis, the amount of OPEB expenditures/expenses recognized during the period by the employer and the number of participants currently eligible to receive benefits.
 - If expenditures/expenses cannot readily be separated from expenditures/expenses for similar types of benefits provided to active employees and their dependents, employers should use reasonable methods to approximate OPEB expenditures/expenses.
 - If a reasonable approximation cannot be made, employers should state that OPEB expenditures/expenses cannot be estimated reasonably.
 - If OPEB are advance-funded on an actuarially determined basis, the number of active plan participants, the employer's actuarially required and actual contributions for the period, the amount of the net assets available for OPEB, and the actuarial accrued liability and unfunded actuarial accrued liability for OPEB according to the actuarial cost method in use.
- A description of any significant matters that affect the comparability of the disclosures required by this standard with those for the previous period.

As discussed earlier, the SSAP should include the accounting policy for compensated absences, consistent with the 2011 GASB *Codification*, Section C60 Compensated Absences. However, a

detailed disclosure could be presented that explains how employees earn benefits and when they are paid. Optionally, this additional information could be joined with the accounting policy disclosure in the SSAP.