

# INTERGOVERNMENTAL FINANCIAL DEPENDENCY AND RELATED RISKS

Volume Two

Proposed Reporting by Local Governments

With Recommended Modifications to Reporting Standards



Prepared and Offered in the Public Interest By:  
Cherry, Bekaert & Holland, L.L.P.  
Government Services Group



# INTERGOVERNMENTAL FINANCIAL DEPENDENCY AND RELATED RISKS

In Three Volumes

Volume Two

Proposed Reporting by Local Governments

With Recommended Modifications to Reporting Standards



**Prepared and offered in the Public Interest by Cherry, Bekaert & Holland L.L.P.**

**Firm Headquarters – Richmond, Virginia  
1700 Bayberry Court – Suite 300  
Richmond, VA 23226**

One of the Top 30 CPA firms in the nation, Cherry, Bekaert & Holland, L.L.P. (CB&H) offers strategic financial and assurance solutions to help state and local government entities meet the evolving demands of today's public sector.

CB&H's Government Services Group is dedicated to providing traditional audit and compliance services, as well as such specialized services as risk management services and performance audits. Through these innovative and customized solutions, CB&H Government Services Group has established a leading reputation for providing quality service and value-added advice to state and local governments throughout the Southeast.

**Orders:** Individuals or organizations may obtain a printed and electronic disk copy of all three volumes of this Report at the cost of \$45, including shipping and handling, by contacting the Cherry, Bekaert & Holland Order Department at the following:

Cherry, Bekaert & Holland, L.L.P.  
Attn. Order Department  
1700 Bayberry Court – Suite 300  
Richmond, Virginia 23226

Telephone Orders: 1-804-673-4224 Ext. 741

For information on prices for multiple sets, or individual volumes, also please contact the Order Department.

An electronic version of all three volumes of this Report may be downloaded at no charge by going to [www.cbh.com/intergovernmentalreport](http://www.cbh.com/intergovernmentalreport).

**Publication Information:**

Published by: Cherry, Bekaert & Holland, L.L.P.

Principal Author and Editor: Edward J. Mazur, Senior Advisor for Governmental Financial Management.

Copyright © 2009 Cherry, Bekaert & Holland, L.L.P. and Edward J. Mazur. All Rights Reserved. Except as noted herein, no part of this publication may be reproduced without the written permission of Cherry, Bekaert & Holland, L.L.P. and Edward J. Mazur, c/o Cherry, Bekaert and Holland, 1700 Bayberry Court--Suite 300, Richmond, Virginia 23226. Limited photocopying from the downloaded electronic version of the Report is permitted if the published text remains unchanged. In addition, the Illustrations and the Preparation Guidance found in the Appendices may be reproduced without further permission.

Edition: First

Portions of various GASB documents, copyright by the Governmental Accounting Standards Board, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116, are reproduced with permission.

SOP 94-6 -- Copyright 1994 by the American Institute of Certified Public Accountants, Inc. All rights reserved. Used with permission.

Report of the Task Force on Risks and Uncertainties - Copyright 1987 by the American Institute of Certified Public Accountants, Inc. All rights reserved. Used with permission.

## Contents of Volume Two

### Proposed Reporting by Local Governments With Recommended Modifications to Reporting Standards

	<u>Page</u>
Preface	7
Acknowledgements	7
Executive Summary	9
Notice of Request for Written Comments and Invitation to Test the Proposed Reporting	11
Summary of Recommended Reporting Requirements	13
Recommended Reporting Requirements and Modifications to Reporting Standards	17
Introduction	17
Scope and Applicability of Recommended Modifications to Reporting Standards	17
Amendments to GASB Statement No. 34 and Statement No. 40	18
Management's Discussion and Analysis	18
Notes to the Financial Statements	21
Required Supplementary Information	22
Amendments to GASB Statement No. 44	22
Statistical Section	22
Appendix A: Basis for Recommended Reporting Requirements	27
Appendix B: Illustrations Applying the Recommended Reporting Requirements to a Local Government	35
Appendix C: Preparation Guidance for the Local Government Illustrations	97
Appendix D: Background	113

**Note:**

This Report has been prepared in three Volumes to facilitate ease of use by different readers. Volumes One and Two differ only with respect to Appendix B: "Illustrations Applying the Recommended Report Requirements," and Appendix C: "Preparation Guidance," which are tailored to state governments and local governments, respectively. Both Volumes One and Two are referenced to Volume Three, which contains additional background information used in the preparation of the Report.

## Contents of Volume One

### Proposed Reporting by State Governments With Recommended Modifications to Reporting Standards

	<u>Page</u>
Preface	7
Acknowledgements	7
Executive Summary	9
Notice of Request for Written Comments and Invitation to Test the Proposed Reporting	11
Summary of Recommended Reporting Requirements	13
Recommended Reporting Requirements and Modifications to Reporting Standards	17
Appendix A: Basis for Recommended Reporting Requirements	27
Appendix B: Illustrations Applying the Recommended Reporting Requirements to a State Government	35
Appendix C: Preparation Guidance for the State Government Illustrations	103
Appendix D: Background	121

## Contents of Volume Three

### Supplemental Appendices

	<u>Page</u>
Executive Summary	7
Supplemental Appendix A: Literature Research	9
Supplemental Appendix B: GASB Sponsored Independent Research Project	25
Supplemental Appendix C: Fiscal Wake-Up-Call Tour	49
Supplemental Appendix D: GAO Study of State and Local Government Fiscal Challenges	51
Supplemental Appendix E: GASB April 2007 “Intergovernmental Financial Dependency Risk (Project) Prospectus”	53
Supplemental Appendix F: Association of Budgeting and Financial Management Conference Summary of Responses to GASB by ABFM Members	61
Supplemental Appendix G: Works Cited and Additional Readings	65
Supplemental Appendix H: Relevant Quotations	73

---

## Preface

---

“The three levels of government in the United States transfer significant amounts of revenues. Although often viewed as separate elements of society by the citizenry, these governments are intertwined through series of overlapping programs and activities that are material, often vital to the provision of services, and almost always complex. Even when the direct operating activities of one level of government seem to be isolated from another level of government, they often occur within the communities of another government, and therefore, impact the economic welfare and resources of that community.”

Quotation taken from the “Intergovernmental Financial Dependency Risk Prospectus,” presented to the Government Accounting Standards Board by GASB staff, dated March 19, 2007.

---

## Acknowledgements

---

**Sincere gratitude is expressed to the following individuals and groups for their contributions to improved financial reporting, and for their positive influence on the ideas and recommendations put forth in this Report.**

**The Honorable David M. Walker**, President and CEO, Peter G. Peterson Foundation, and Former Comptroller General of the United States — for courageous leadership and inspiration.

**John B. Montoro**, Partner and Director of Government Services, and **William H. Cole**, Government Services Partner, Cherry, Bekaert & Holland, LLP — for their technical insight, support, and trust.

The **Chairman and Members** of the Governmental Accounting Standards Board — for acknowledging the risks of intergovernmental financial dependency, and for fostering an environment where on-going study, research, discussion, and deliberation on this and other important issues of our time are consistently encouraged and supported.

The **Director of Research and Technical Activities**, and **the entire staff** of the Governmental Accounting Standards Board — for their extraordinary and learned efforts, patience, and objectivity in support of standards setting for state and local governments.

**Henry S. Wulf**, Assistant Division Chief for Recurring Programs (Retired), and **Christopher Pece**, Chief, Public Finance Analysis Branch B — Governments Division, U.S. Census Bureau — for sharing, so willingly, their knowledge and expertise on how to access and apply the treasure trove of information collected, organized, and made available by the U.S. Census Bureau.

**Susan J. Irving**, Director for Federal Budget Analysis, and **the staff** within the Strategic Issues Department at the U.S. Government Accountability Office — for sharing their knowledge and expertise on the U.S. fiscal position, the long-term outlook, and on how intergovernmental financial dependency might be effectively considered and communicated in a comprehensive manner.

**Stanley J. Czerwinski**, Director of Intergovernmental Relations, and **his colleagues** within the U.S. Government Accountability Office — for sharing their insights on the fiscal challenges facing state and local governments, and their insights on how intergovernmental financial dependency might be effectively communicated.

**The Honorable David A. Von Moll**, Comptroller of the Commonwealth of Virginia, and **the staff** of the Department of Accounts — for supporting the testing of the proposed reporting requirements against the 2006 Comprehensive Annual Financial Report of the Commonwealth, and for establishing an outstanding and progressive record of constant improvements to the financial management and reporting practices of the Commonwealth.



**External Reviewers** — With special thanks and appreciation to **those individuals**, external to the Firm, who reviewed this Report in draft form, and who generously provided helpful and insightful comments and suggestions.

**The Professional Staff Interns of Cherry, Bekaert & Holland** — for their outstanding research skills, ability to quickly absorb new concepts and information, compilation and report development skills, and for their positive and youthful enthusiasm for this subject and the future of American governments.

<b>Taylor Powell *</b>	Virginia Polytechnic Institute and State University
<b>Katie Yuhase *</b>	Virginia Polytechnic Institute and State University
<b>Amy Rudder *</b>	Virginia Commonwealth University
<b>Brandy Wyatt</b>	Virginia Commonwealth University
<b>Doug Walck</b>	University of Richmond
<b>Evan Lehner</b>	University of Richmond
<b>Ryan Holman</b>	James Madison University
<b>Venicia Villafana</b>	Virginia Commonwealth University
<b>William Wirthman</b>	University of Richmond
<b>Zach Morris</b>	James Madison University

\* project leaders

With special acknowledgement given to the leadership and project coordination efforts carried out by **Taylor Powell**, to the creativity and persistence in accessing Federal Government files exhibited by **Katie Yuhase**, and to the organization and presentation skills of **Amy Rudder**.

Finally, thanks and appreciation is given to **Greg Miller**, Staff Accountant, and **other CB&H staff** for their assistance in preparing the Report for publication.

### **About the Principal Author and Editor**

**Edward J. Mazur** currently serves as Senior Advisor for Governmental Financial Management for Cherry, Bekaert & Holland. He has served on both the Governmental Accounting Standards Board and the Federal Accounting Standards Advisory Board. Mazur was confirmed by the U.S. Senate in 1991, to be the first Controller appointed by the President under the Chief Financial Officers Act of 1990, and headed the Office of Federal Financial Management within the Office of Management and Budget. He served four Governors as State Comptroller for the Commonwealth of Virginia between 1980 and 1991, and as President of the National Association of State Auditors, Comptrollers, and Treasurers, and the National Association of State Comptrollers. During his career, he has also served in the Washington office of the American Institute of CPAs, and in senior financial management positions with Virginia State University and Virginia Commonwealth University. He is a Certified Public Accountant, and holds an MBA from Wharton and a BS degree in Mechanical Engineering from the University of Connecticut.



## Executive Summary

*“Rapidly changing demographics in the nation are building up increasing demands for promised social security and medical benefits, while at the same time the country’s growth in its productive workforce is declining. Changes in the use of debt financing by citizens and the Federal Government, and the absence of national savings are creating other potentially conflicting circumstances. While to some extent, conflicting and countervailing forces have always been present in American society, their current arrangement and extraordinary size are without precedent. As these forces play out they will impact government at each level directly, and as each level of government reacts it will in turn impact other levels of government.”*

- GASB, “Project Proposal and Potential Prospectus Information Regarding Reporting and/or Disclosure of Intergovernmental Dependency and Related Risks,” December 12, 2005.

There is a problem today with the external financial reports prepared by state and local governments. The specific information they contain about revenues received from other governments, such as the Federal Government, is difficult to identify. There is virtually no information about the degree to which these governments rely on support from other governments. And, there is no information about how payments from other governments to individuals and businesses, and the financial and economic activity of other governments, impact state and local governments. In the absence of that information, the leaders and stakeholders of state and local governments are significantly disadvantaged, and lack ready accessibility to important information needed to protect and guide the interests of their respective jurisdictions.

The principal purpose of this Report is to encourage and guide the reporting of information concerning intergovernmental financial dependency and related risks within the audited, comprehensive annual financial reports (CAFRs) of our Nation’s state and local governments. Those CAFRs provide a uniformly recognized and accepted vehicle for centralizing critical financial and economic information about state and local government — notwithstanding the fact that the users of CAFRs may be able to go to other sources for information about intergovernmental financial activity. As indicated throughout this report, the size of, and reliance upon, intergovernmental revenues and other flows is so great as to make the presence of such information within CAFRs (in the words adopted by the GASB) both “essential to a user’s understanding of financial position or inflows and outflows of resources,” of the reporting government, and “essential (or useful) for placing the basic financial statements and notes to basic financial statements in an appropriate operational, economic, or historical context.”

To that end, this Report is intended to directly assist the Nation’s 50 state comptrollers and those who serve as finance directors for the more than 87,000 cities, towns, counties, school districts, and other local government entities. That assistance is provided through the inclusion, within this Report, of:

- Specific proposed and recommended reporting requirements;
- The conceptual and technical basis for those requirements;
- Illustrations of individual recommended reporting and disclosure elements for both a state government and a local municipal government;
- Detailed guidance for the preparation of the recommended reporting, and disclosure elements for both state governments and local municipal governments; and
- A discussion of the underlying forces that are driving the need to report intergovernmental financial dependency, and a summary of various recent professional efforts that formed a foundation for how and why this Report was developed.

The voluntary application of, and experimentation with, all or a selected portion of the recommended reporting requirements by those responsible for the preparation and issuance of comprehensive, annual financial reports by state and local governments can ultimately bring the following significant benefits to the users of such reports:

A. All users of such reports would understand:

- The government’s reliance upon direct and indirect intergovernmental flows;

- The government’s exposure to changes in intergovernmental flows, and in the investment income and asset values associated with holding the debt of other governments; and
  - Trends in key national and state-level economic indicators relevant to the sustainability of intergovernmental financial flows.
- B. Bondholders, analysts, credit rating agencies, government research organizations, citizens, and other report users would no longer have to contend with the current inadequate reporting of intergovernmental financial dependency and related risks created by:
- Intergovernmental revenues and, the expenses they fund, not being separately recognized in Government-wide Financial Statements;
  - The highly aggregated reporting of intergovernmental revenues separately recognized in Fund Financial Statements;
  - The absence, or infrequent reporting, of the size and reliance upon intergovernmental revenues in Management’s Discussion and Analysis;
  - The absence, within the notes to the financial statements, of disclosures related to the risks associated with intergovernmental financial dependency; and
  - The absence, within the Statistical Section, of trend and other information addressing key dependency factors.
- C. Governors, mayors, council members, selectmen, supervisors, and other elected officials charged with governing, would be provided with information necessary to ensure that:
- The threats and risks associated with intergovernmental financial dependency would be consciously anticipated;
  - Increased internal and public visibility regarding such threats and risks could be established within each state or local government jurisdiction; and
  - Collaborative initiatives to address threats and risks could be created, and a shared leadership among the state, local, and Federal levels of government could be exerted on a timely basis.

Although the recommended reporting requirements are intended for incorporation within the CAFRs of state and local governments, such governments, in their early application of, or experimentation with, the reporting of intergovernmental dependency and related risks, may choose to present this information as a freestanding supplement to their annual CAFRs. Given consideration of the possible need to amend selected recordation practices, or to otherwise evolve a capacity to prepare the recommended reporting, individual governments may wish to focus their initial attention on the recommended reporting for presentation within “notes to the financial statements.” The Preparation Guidance found in the Appendices should significantly speed and facilitate preparation of the recommended disclosures. This guidance includes estimates of hours of preparation experienced in creating the Illustrations presented in the Appendices.

Finally, this Report is also intended to provide substantive and relevant information to the members and staff of the Governmental Accounting Standards Board, who have had the reporting of intergovernmental financial dependency and related risks under various steps of consideration since 2005. To that end, this Report was purposely structured to contain discussions and content understood to be of importance to the GASB during its consideration, research, deliberations, due process procedures, and ultimate standards setting on matters that it chooses to place on its agenda. The content and approaches within the Report intended to be of particular service to the GASB include:

- A conscious effort to abide by the guidance found in GASB Concepts Statement No. 3, *Communications Methods in General Purpose External Financial Reports that Contain Basic Financial Statements*, in structuring the placement of recommended reporting and disclosure elements;
- A reliance upon, and a building of, relationships between the proposed reporting requirements and past reporting standards and other concepts statements issued by the GASB, the FASB, and the FASAB;
- An intentional effort to blend the purpose and content of this report with past efforts of the GASB relating to this subject, in a manner, hopefully, that extends to the GASB an opportunity to more readily consider how, and at what effort, intergovernmental financial dependency and related risks might be most effectively reported; and
- A conscious effort to be sensitive to the established means and extent to which the various sections of comprehensive annual financial reports gain and benefit from auditor association.

## Notice of Request for Written Comments and Invitation to Test the Proposed Reporting

### NOTICE TO RECIPIENTS

Preparers and Auditors of state and local governments are responsible for adhering to the standards of state and local governmental accounting and financial reporting issued by the Governmental Accounting Standards Board (GASB), and which are developed to: (1) result in useful information for users of financial reports, and (2) guide and educate the public, including issuers, auditors, and users of those financial reports.

In soliciting comments on issues addressed in this Report, it is hoped that the resulting discussions and exchanging of ideas concerning the reporting of intergovernmental financial dependency and related risks by state and local governments will eventually be of benefit to reporting state and local governments, and to the Governmental Accounting Standards Board.

We invite your comments on all matters in this Report. You are encouraged to comment on any aspects with which you agree, as well as any with which you disagree. To facilitate the analysis of responses to this Report, it would be helpful if you explain the reasons for your views, including alternatives that you believe should be considered when reporting on intergovernmental financial dependency and related risk by state and local governments.

**Requirements for written comments:** Any individual or organization wishing to provide written comments on Intergovernmental Financial Dependency and Related Risks (the Report) are invited to do so. Written comments may be submitted via email to [emazur@cbh.com](mailto:emazur@cbh.com). Alternatively, comments may be mailed to the following:

Cherry, Bekaert & Holland, L.L.P.  
Attn. Ed Mazur  
RE: Intergovernmental Reporting Project  
1700 Bayberry Court – Suite 300  
Richmond, Virginia 23226

### OTHER INFORMATION

**Public files:** Written comments will become part of a public file and will be available for inspection at the Richmond Office of Cherry, Bekaert & Holland. Copies of those materials may be obtained for a specified charge.

## INVITATION TO TEST THE PROPOSED REPORTING

Individual state and local government preparers are encouraged to experiment with and test the proposed reporting of intergovernmental financial dependency and related risks. The objectives of such experimentation are to:

- Discover issues practitioners might have in applying the proposed reporting,
- Better understand and evaluate the time and effort associated with implementation and ongoing application of the proposed reporting requirements, and
- Provide accelerated availability of new information concerning intergovernmental financial dependency and related risks to elected and appointed officials of state and local governments.

A reporting on such experimentation and testing by individual state and local governments is encouraged. Any reported information provided will, without attribution if so requested, be made available to other state and local governments interested in strengthening their reporting of intergovernmental financial dependency and related risks, and will also be made available to the staff of the Governmental Accounting Standards Board.

If you have an interest in conducting experimentation and testing of the proposed reporting set forth in this Report, please contact:

Edward J. Mazur  
Senior Advisor for Governmental Financial Management

Cherry, Bekaert & Holland, L.L.P.  
1700 Bayberry Court – Suite 300  
Richmond, VA 23226  
804.673.5731 Direct  
804.673.4224 Office  
804.240.8672 Cell  
804.673.4290 Fax  
[emazur@cbh.com](mailto:emazur@cbh.com)

## Summary of Recommended Reporting Requirements

This proposed reporting on intergovernmental financial dependency and related risks would significantly enhance the transparency of financial reports issued by state and local governments by providing information not currently disclosed in the following four sections of the Comprehensive Annual Financial Report (CAFR): 1) Management's Discussion and Analysis (MD&A), 2) Notes to the Financial Statements, 3) Required Supplementary Information, and 4) Statistical Section. The reporting changes proposed by this Report, if applied voluntarily by state and local governments, would ensure that their leadership and annual report users would understand:

- a.) The government's reliance upon direct and indirect intergovernmental flows;
- b.) The government's exposure to changes in intergovernmental flows, and in the investment income and investment asset values associated with holding the debt of other governments; and
- c.) Trends in key national- and state-level economic indicators relevant to the sustainability of intergovernmental financial flows.

If adopted, in whole or in part, by the Governmental Accounting Standards Board, the reporting changes proposed by this report would amend applicable disclosures and RSI requirements of Statements No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, as amended; No. 40, *Deposit and Investment Risk Disclosures*; and No. 44, *Economic Condition Reporting: The Statistical Section*.

### Summary of Proposed Reporting Requirements

The proposed reporting requirements, if adopted by the Governmental Accounting Standards Board, would amend Statements No. 34, No. 40, and No. 44, to require the comprehensive reporting and disclosure of intergovernmental financial dependency and related risks information within the CAFR of a state or local government. Under these proposed reporting requirements:

- MD&A should include:
  - A narrative summarizing the reported financial position of each government (Federal, state, and/or local) providing revenues to the reporting government;
  - A current and prior year summary schedule of Expenditures of Federal Awards for the five Federal Departments providing the largest amount of Federal Awards, to include an explanation of all significant changes between the current and prior year reporting periods;
  - A summary of all grants flowing to localities from their state government, to include an explanation of all significant changes between the current and prior year reporting periods;
  - A discussion and/or schedule presenting the number of employees and amounts of personal services dollars funded in whole or in part by the Federal Government or, where applicable, state government, to include the dollar amount, percentage of the primary government's total payroll that is funded by the Federal Government, and personal services expense per FTE;
  - A schedule presenting a summary of all payments to individuals within the reporting government's jurisdiction made by Federal Government departments, to include an explanation of all significant changes between the current and prior year reporting periods;
  - A schedule presenting a summary of all payments to individuals made by Federal Government programs, to include an explanation of all significant changes between the current and prior year reporting periods;
  - A schedule presenting a summary of payments under Federal procurement contracts to business establishments within the reporting government's jurisdiction made by Federal Government programs, to include an explanation of all significant changes between the current and prior reporting periods;
  - A schedule presenting a summary of all grants flowing to localities within a state made by Federal Government departments, to include an explanation of all significant changes between the current and prior year reporting periods;
  - A schedule presenting a summary of all buildings in the reporting government's jurisdiction leased by the Federal Government and other governments;

- A schedule presenting a summary of all buildings in the reporting government's jurisdiction owned by the Federal Government and other governments;
- A schedule presenting a summary listing of all military bases under the U.S. Department of Defense in the reporting government's jurisdiction;
- A narrative disclosing changes to the Federal and state laws enacted during the current fiscal year that will become effective in subsequent fiscal years and result in a financial impact on specific programs of the reporting government;
- A narrative disclosing significant changes in current year funding from the Federal or state government due to changes in Federal or state law becoming effective during, or for, the current year; and
- A narrative presenting the fluctuation of the state's exports, imports, and balance of trade with non-U.S. entities.
- Notes to the financial statements should include:
  - a current and prior year summary Schedule of Expenditures of Federal Awards for the individual programs, arranged by department, that provide 80% of Federal Awards; to include an explanation of all significant changes between the current and prior reporting periods,
  - a schedule illustrating the relationship between intergovernmental revenues and total revenues, to include Operating Grants and Contributions and Capital Grants and Contributions disaggregated to illustrate amounts provided by the Federal Government, and by the state government and/or by local governments for the primary government as well as for discrete component units,
  - a reconciliation of total Federal and other government grants and contributions reported in the Government-wide Statement of Activities for Governmental Activities, Business-type Activities, and Component Units to the Total Federal and other government revenues reported in the Statement of Governmental Funds,
  - a schedule presenting total U.S. Treasury and Agency Securities held by state or local governments, and
  - disclosures of the reported financial position of governments upon which the reporting government is financially dependent.
- Required Supplementary Information should include:
  - a schedule presenting all Federal and other government revenues within Operating and Capital Grants and Contributions, as well as the percentage of expenses funded by the Federal and other governments.
- The Statistical Section should include:
  - A schedule within the Federal Awards to the Reporting Government sub-section presenting a 10-year summary Schedule of Expenditures of Federal Awards for the 5 Federal Departments providing the largest amount of awards, to include an explanation of all significant changes in annual percentage increases or decreases between reporting periods;
  - A schedule within the Federal Awards to the Reporting Government sub-section presenting a 10-year summary Schedule of Expenditures of Federal Awards for the individual programs, arranged by department, that provide 80 percent of Federal Awards, to include all significant changes in annual percentage increases or decreases between reporting periods;
  - A 10-year schedule, within the Demographic and Economic information sub-section, presenting the total debt obligations of the Federal Government held directly or through pooling arrangements by the state and/or local government;
  - A 10-year schedule of publicly held U.S. debt securities, within the Demographic and Economic Information sub-section, by primary holders;
  - A 10-year schedule of major, foreign holders of publicly traded U.S. Securities within the Demographic and Economic category sub-section,
  - A 10-year schedule of publicly traded U.S. Securities maturity dates within the Demographic and Economic Information sub-section;
  - A 10-year schedule, within the Demographic and Economic information sub-section, presenting the monetary fluctuations of the U.S. dollar in comparison with other major, foreign currencies;
  - A 10-year schedule, within the Demographic and Economic information sub-section, presenting the national savings rate of the United States; and
  - A 10-year schedule, within the Demographic and Economic information sub-section, presenting the U.S. Balance of Trade.

## **How the Reporting Requirements Proposed in this Report will Improve Financial Reporting**

These proposed requirements are intended to enhance information contained in the financial statements and give users of the financial statements increased knowledge and clarity. Users of the financial statements will have an improved understanding of the reporting government's dependency on flows of revenues from other governments, as well as the risks that arise from this intergovernmental financial dependency. Users of the financial statements will also have an improved understanding of investments made in the debt obligations of other governments, as well as the risks associated with such holdings.



\*\*\*THIS PAGE INTENTIONALLY LEFT BLANK\*\*\*

# Recommended Reporting Requirements and Modifications to Reporting Standards

## Introduction

1. The proposed requirements, if voluntarily applied by state and local governments, would ensure that their leadership and annual report users would understand, both for the primary government and its discretely presented component units:
  - a.) The government's reliance upon direct and indirect intergovernmental flows;
  - b.) The government's exposure to changes in intergovernmental flows, and in investment income and investment asset values associated with holding the debt of other governments; and
  - c.) Trends in key national- and state-level economic indicators relevant to the sustainability of intergovernmental financial flows.
2. The recommended reporting requirements can be individually justified under currently established GASB Standards and Concept Statements, as described in the notes at the end of this section, and as further described in the Appendix providing "The Basis for Recommended Requirements." However, individual state and local governments wishing to apply, or experiment with, the reporting of intergovernmental financial dependency and related risks, may choose to select those disclosures most relevant to their circumstances and information needs. Selecting from among the recommended reporting requirements may also be necessary in the early years of application, when there is a need to amend selected recordation practices or to otherwise evolve a capacity to prepare the recommended reporting. The Appendix providing "Preparation Guidance" should significantly speed and facilitate preparation of the recommended disclosures. This guidance includes estimates of hours of preparation experienced in creating the Illustrations presented in the Appendices.
3. If adopted, in whole or in part, by the Governmental Accounting Standards Board, the proposed requirements would amend the management's discussion and analysis (MD&A), note disclosures, required supplementary information (RSI), and statistical section standards of Statements No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, as amended; No. 40, *Deposit and Investment Risk Disclosures*; and No. 44, *Economic Condition Reporting: The Statistical Section*. These proposed requirements are intended to improve the transparency and decision usefulness of reported information about intergovernmental financial dependency and related risks. They will also promote increased comparability across state and local governments when reporting on this subject.

(Note: See Supplemental Appendix: E, "GASB April 2007, Intergovernmental Dependency Risks (Project) Prospectus," Intergovernmental Financial Dependency and Related Risks — Volume Three, for information concerning the Board's consideration of this topic in April 2007.)

## Scope and Applicability of Recommended Modifications to Reporting Standards

4. The proposed requirements would modify, consistent with paragraph 4 of GASB Statement No. 37, "*Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus*," the examples of relevant detail to be presented in association with disclosures called for in paragraphs 11(c) and 11(h) of GASB Statement 34, as well as the examples of relevant information called for in GASB Statement No. 44. In addition, paragraphs 113 – 123 of Statement No. 34, would require amendment to include the additional recommended notes of disclosure, and paragraphs 129 – 133 of Statement No. 34, would require amendment to include additional recommended required Supplementary information. Further, paragraphs 11 – 13 of Statement No. 40, would require amendment to delete the current exclusion of "investments issued or explicitly guaranteed by the U. S. government." The proposed reporting requirements and modifications to reporting standards presented below are intended to permit the reporting of intergovernmental financial dependency and related risks in the most comprehensive and thorough manner possible, consistent with existing standards and concepts statements. It is understood, and acknowledged, that individual

recommended reporting requirements, depending on the circumstances of reporting governments and a consideration of materiality, may not be necessary for the effective reporting of intergovernmental financial dependency and related risks. It is also acknowledged that any consideration of these recommendations by the Governmental Accounting Standard Board would involve the full application of the Board's due process requirements, which, in part, would both encourage and require the expression of views by the preparer, auditor, and user communities.

5. The proposed requirements exclude consideration of other likely instances of intergovernmental financial dependency and related risks to include, but not be limited to, those pertaining to a state conforming its tax code to the IRS tax code, Federal tax expenditures or allowable deductions impacting state tax revenues, payments in lieu of taxes made by Federal or state agencies operating within local government jurisdictions, impact payments made to local governments by military bases, Federal ownership of land or land-use rights within a state for non-military purposes, tribal ownership of land within a state, and mandating of specific programs, performance requirements, and related support costs by one level of government to another.

#### **Amendments to GASB Statement No. 34**

### **Management's Discussion and Analysis**

#### **Financial Position of Other Governments Providing Assistance**

6. Governments should provide a narrative to appear in "Management's Discussion and Analysis" summarizing the reported financial position of each government (Federal, state, and/or local) providing significant financial assistance (e.g. the reported financial position of the Federal Government, as presented in the audited Financial Report of the United States Government for the Federal Fiscal Year covering the largest portion of the reporting government's Fiscal Year, or which is otherwise available in support of the CAFR publication date of the reporting government). This should be accompanied by a discussion of the degree to which the reporting government is financially dependent, directly or indirectly, on financial flows from the providing government.<sup>1</sup> (For relation of recommended requirement to current Generally Accepted Accounting Principles (GAAP), see Note (a) at end of section.)

#### **Awards Received from Other Levels of Government**

7. Governments should provide in "Management's Discussion and Analysis" a summary Schedule of Expenditures of Federal Awards for the Five Federal Departments providing the largest amount of Federal Awards, to include an explanation of all significant changes between the current and prior reporting periods (e.g. increases from one year to the next, greater than \$100 million and decreases greater than \$50 million).<sup>2</sup> Governments receiving funds (e.g. awards) from levels of governments in addition to the Federal Government, as in the case of local governments receiving state awards, should also provide a summary of state funds received for the state programs providing the largest amount of awards, to include an explanation of all significant changes between the current and prior reporting periods.<sup>3</sup> (For relation of recommended requirement to current GAAP, see Note (a) at end of section.)

#### **Employee Positions Supported by Other Governments**

8. Governments should provide a discussion and/or schedule in "Management's Discussion and Analysis" that presents the number of employees and amounts of personal services dollars funded, in whole or in part, by the Federal Government, or, where applicable, by the state government, to include the dollar amount, percentage of the primary

<sup>1</sup> See State Government Illustration No. 1 and 18 –Narrative Disclosing the Financial Condition of the United States Government, and Note Disclosing the Financial Position of the United States Government , Volume One

See Local Government Illustration No. 1 and 18 –Narrative Disclosing the Financial Condition of the Commonwealth of Virginia, and Note Disclosing the Financial Condition of the Commonwealth of Virginia, Volume Two

<sup>2</sup> See State or Local Government Illustration No. 2 – Narrative to the Summary Schedule of Expenditures of Federal Awards, by Major Departments, Volumes One and Two, respectively

<sup>3</sup> See Local Government Illustration No. 3 – Schedule Presenting Commonwealth of Virginia Funds Flowing to Sample City, Volume Two

government's total payroll that is funded by the Federal or state government, and a personal services expense per FTE.<sup>4</sup> (For relation of recommended requirement to current GAAP, see Note (b) at end of section.)

## **Other Flows and Operations of Other Governments Impacting the Reporting Government**

9. Governments should disclose within "Management's Discussion and Analysis" not only flows of intergovernmental resources received directly into the reporting government, but also significant other flows from, and operations of, other governments that impact directly or indirectly the tax revenues and economic condition of the reporting government. Recommended disclosures of the other flows and operations impacting the reporting government are described below in paragraphs 11–14, and 16 –18.

### ***Special Note to Reader***

10. The recommended disclosures described below in paragraphs 11 – 14 will require drawing down information from the U.S. Census Bureau, as further described in the Appendix providing "Preparation Guidance." There will be a lag between the government's reporting date and the period, or periods, for which information is provided by the U.S. Census Bureau. Although that adversely impacts the timeliness of these recommended disclosures, their potential for informing the reader as to flows that may significantly impact the tax and other revenues of the reporting government override the timeliness concern.

## **Direct Federal Payments to Individuals**

11. Governments should provide a schedule in "Management's Discussion and Analysis" that presents a summary of all direct payments to individuals, within the government's jurisdiction, made by Federal Government departments, to include an explanation of all significant changes between the current and prior reporting periods (e.g. increases from one year to the next greater than \$ 750 million, and decreases greater than \$300 million).<sup>5</sup> (For relation of recommended requirement to current GAAP, see Note (c) at end of section.)

12. Governments should provide a schedule in "Management's Discussion and Analysis" that presents a summary of all direct payments to individuals, within the government's jurisdiction, made by Federal Government programs, to include an explanation of all significant changes between the current and prior reporting periods (e.g. increases from one year to the next greater than \$ 750 million, and decreases greater than \$300 million).<sup>6</sup> (For relation of recommended requirement to current GAAP, see Note (c) at end of section.)

## **Direct Federal Payments to Business Establishments**

13. Governments should provide a schedule in "Management's Discussion and Analysis" that presents a summary of all procurement transactions between business establishments in the reporting government's jurisdiction and Federal Government programs, to include an explanation of all significant changes between the current and prior reporting periods (e.g. increases from one year to the next greater than \$ 750 million, and decreases greater than \$300 million).<sup>7</sup> (For relation of recommended reporting requirement to current GAAP, see Note (c) at end of section.)

---

<sup>4</sup> See State Government Illustration No. 3 – Schedule Presenting the Budgeted Amount of Federally Funded Government Positions in the Commonwealth of Virginia, Volume One.

See Local Government Illustration No. 4 – Note Presenting the Budgeted Amount of Federally Funded Government Positions in the Sample City's Jurisdiction, Volume One

<sup>5</sup> See State Government Illustration No. 4 – Schedule Presenting Federal Payments to Individuals Residing within the Commonwealth of Virginia, by Major Category, Volume One

See Local Government Illustration No. 5 – Schedule Presenting Federal Payments to Individuals Residing within Sample City's Jurisdiction, by Major Category, Volume Two

<sup>6</sup> See State Government Illustration No. 5 – Schedule Presenting Federal Payments to Individuals Residing within the Commonwealth, by Major Program, Volume One

See Local Government Illustration No. 6 – Schedule Presenting Federal Payments to Individuals Residing in Sample City's Jurisdiction, by Major Program, Volume Two

<sup>7</sup> See State Government Illustration No. 6 – Schedule Presenting Federal Procurement Contracts with Commonwealth of Virginia Business Establishments, Volume One

See Local Government Illustration No. 7– Schedule Presenting Federal Procurement Contracts with Sample City Business Establishments, Volume Two

## **Direct Federal Grants to Other Governments within the Jurisdiction of the State**

14. Governments, where applicable, should provide a schedule in “Management’s Discussion and Analysis” that presents the total of all grants flowing directly to localities within the jurisdiction of the state made by Federal Government departments, to include an explanation of all significant changes between the current and prior reporting periods (e.g. increases from one year to the next greater than \$ 20 million, and decreases greater than \$10 million).<sup>8</sup> (For relation of recommended reporting requirement to current GAAP, see Note (c) at end of section.)

### ***Special Note to Reader***

15. The recommended disclosures described below in paragraphs 16 and 17 will require drawing down information from the U.S. Department of General Services, while the information in paragraph 18 will require drawing down information from the U.S. Department of Defense, as further described in the Appendix providing “Preparation Guidance.” There will be a lag between the government’s reporting date and the period, or periods, for which information is provided by the U.S. Departments of General Services and Defense. Although that adversely impacts the timeliness of these recommended disclosures, their potential for informing the reader as to flows and operations that may significantly impact the tax and other revenues of the reporting government override the timeliness concern.

## **Buildings Owned or Leased by Other Levels of Government**

16. Governments should provide a schedule in “Management’s Discussion and Analysis” that presents a summary of all buildings within the reporting government’s jurisdiction leased by the Federal Government, and should report, where available, the annual value of associated lease payments. In the case of local governments, similar information concerning buildings leased by the state government should also be presented. This information can serve as an indicator of the economic impact associated with leases entered into by another level of government.<sup>9</sup> (For relation of recommended reporting requirement to current GAAP, see Note (c) at end of section.)

17. Governments should provide a schedule in “Management’s Discussion and Analysis” that presents a summary of all buildings within the reporting government’s jurisdiction owned by the Federal Government, and should report, where available, the associated assessed value. In the case of local governments, similar information concerning buildings leased by the state government should also be presented. This information can serve as an indicator of the economic impact associated with buildings owned by another level of government.<sup>10</sup> (For relation of recommended reporting requirement to current GAAP, see Note (c) at end of section.)

## **Federal Military Bases**

18. Governments should provide a schedule in “Management’s Discussion and Analysis” that presents a summary statement of all military bases within the reporting government’s jurisdiction under the Department of Defense as an indicator of the impact of economic factors associated with these buildings.<sup>11</sup> (For relation of recommended reporting requirement to current GAAP, see Note (c) at end of section.)

## **Enacted Changes in Federal and/or State Laws**

19. Governments should provide a narrative in “Management’s Discussion and Analysis” identifying changes to Federal law, or, where applicable, state law, enacted prior to the end of the fiscal year that will impact the reporting government subsequent to the end of the fiscal year. The financial impact of these future changes has not been estimated, but a net

<sup>8</sup> See State Government Illustration No. 7 – Schedule Presenting the Five Largest Federal Grant Categories Flowing to Localities within the Commonwealth of Virginia, Volume One

<sup>9</sup> See State Government Illustration No. 8 – Schedule Presenting Federally Leased Buildings within the Commonwealth of Virginia, Volume One  
See Local Government Illustration No. 8 – Schedule Presenting Federally Leased Buildings within the Sample City’s Jurisdiction, Volume Two

<sup>10</sup> See State Government Illustration No. 9 – Schedule Presenting Federally Owned Buildings within the Commonwealth of Virginia, Volume One  
See Local Government Illustration No. 9 – Schedule Presenting Federally Owned Buildings within the Sample City’s Jurisdiction, Volume Two

<sup>11</sup> See State Government Illustration No. 10 – Schedule Presenting Military Bases in the Commonwealth of Virginia, Representing 80% of Total Present Replacement Value, Volume One  
See Local Government Illustration No. 10 – Schedule Presenting Military Bases within the Sample City’s Jurisdiction, Representing 80% of Total Present Replacement Value, Volume Two

fiscal change on programs can be anticipated.<sup>12</sup> (For relation of recommended reporting requirement to current GAAP, see Note (d) at end of section.)

20. Governments should provide a narrative in “Management’s Discussion and Analysis” identifying changes to Federal law, or, where applicable, state law, enacted during the prior fiscal year that resulted in a financial impact on the reporting government’s programs.<sup>13</sup> (For relation of recommended reporting requirement to current GAAP, see Note (d) at end of section.)

## **State Balance of Trade**

21. Governments should provide a narrative in “Management’s Discussion and Analysis” that presents the fluctuation of exports, imports, and balance of trade within the state.<sup>14</sup> (For relation of recommended reporting requirement to current GAAP, see Note (a) at end of section.)

## **Notes to the Financial Statements**

### **Awards from Other Levels of Government**

22. Governments should provide a note to the financial statements that presents, for the current and prior year, a summary Schedule of Expenditures of Federal Awards for the individual Programs, arranged by Department, that provide 80 percent of Federal Awards, to include an explanation of all significant changes between the current and prior reporting periods (e.g. increases from one year to the next greater than \$100 million, and decreases greater than \$50 million).<sup>15</sup> (For relation of recommended reporting requirement to current GAAP, see Note (e) at end of section.)

23. Governments should provide a note to the financial statements that separately presents the reporting government’s (1) Federal Operating Grants and Contributions, and Federal Capital Grants and Contributions; (2) State and/or Local Government Operating Grants and Contributions, and/or State and Local Government Capital Grants and Contributions; and (3) Other Operating Grants and Contributions, and Other Capital Grants and Contributions for the primary government, as well as discrete component units. This note should also present a summary of other remaining sources of revenues, such charges for services and general revenues — exclusive of transfers and special items — together with the percentage relationship of Federal Grants and Contributions and, where applicable, State and Local Government Grants and Contributions, to the total of all program and general revenues reported in the Statement of Activities.<sup>16</sup> (For relation of recommended reporting requirement to current GAAP, see Note (e) at end of section.)

### **Reconciliation of Government-wide and Governmental Funds Statements for Federal and State Funds Flows**

24. Governments should provide a note to the financial statements reconciling Total Federal and, where applicable, State Grants and Contributions reported in the Government-wide Statement of Activities for Governmental Activities, Business-type Activities, and Component Units to the Total Federal and, where applicable, State Revenues reported in the Statement of Governmental Funds.<sup>17</sup> (For relation of recommended reporting requirement to current GAAP, see Note (e) at end of section.)

<sup>12</sup> See State Government Illustration No. 11 – Narrative Disclosing Enacted Significant Changes to Future Year Funding from the Federal Government, Volume One

See Local Government Illustration No. 11 – Narrative Disclosing Enacted Significant Changes to Future Year Funding to the Sample City, Volume Two

<sup>13</sup> See State Government Illustration No. 12 – Narrative Disclosing the Changes from Past Enacted Federal Program Legislation, Volume One

See Local Government Illustration No. 12 – Narrative Disclosing the Changes from Past Enacted State Program Legislation, Volume Two

<sup>14</sup> See State Government Illustration No. 13 – Narrative Disclosing the Economic Impact of the Commonwealth of Virginia’s Balance of Trade, Volume One

See Local Government Illustration No. 13 – Schedule Presenting the Commonwealth of Virginia’s Balance of Trade, Volume Two

<sup>15</sup> See State or Local Government Illustration No. 14 – Note Summarizing Schedule of Expenditures of Federal Awards, by Major Programs, Volumes One and Two, respectively

<sup>16</sup> See State Government Illustration No. 15 – Note to the Basic Financial Statements Illustrating the Relationship Between Intergovernmental Revenues and Total Program and General Revenues, Volume One

See Local Government Illustration No. 15 – Note Presenting a Table Illustrating the Relationship Between Intergovernmental and Total Program and General Revenues, Volume Two

<sup>17</sup> See State Government Illustration No. 16 – Note to the Basic Financial Statements Reconciling Federal Revenues between Government-wide and Governmental Fund Financial Statements Federal Government, Volume One

See Local Government Illustration No. 16 – Note to the Basic Financial Statements Reconciling Federal and State Revenues between Government-wide and



## **Amendment to GASB Statement No. 40**

### **U.S. Treasury Securities Held by the Reporting Government**

25. Governments should provide a note to the financial statements that presents the total debt obligations of the Federal Government held directly or through pooling arrangements by the reporting government for the current and prior year. If investments in the U.S. Government exceed 5 percent, this should also be disclosed within the note to the financial statements as a concentration risk.<sup>18</sup> (For relation of recommended reporting requirement to current GAAP, see Notes (e) and (f) at end of section.)

## **Further Amendments to GASB Statement No. 34**

### **Financial Position of Other Governments Providing Flows and Investment Assets**

26. Governments should provide a note to the financial statements that excerpts and presents financial position and sustainability concerns, or adverse circumstances reported in the published, audited financial statements of the Federal Government and, where applicable, the state government. This note should also include disclosures concerning the concentration of intergovernmental revenues and any related identified risks.<sup>19</sup> (For relation of recommended reporting requirement to current GAAP, see Note (e) at end of section.)

## **Required Supplementary Information**

### **Revenues from Other Governments Supporting Associated Expenditures**

27. Governments should provide a schedule to appear as additional information in the “Required Supplementary Information” section that separately identifies and presents Federal revenues, state revenues, and/or local government revenues reported within Operating and Capital Grants and Contributions, to include the percentage of expenses funded by these revenues.<sup>20</sup> (For relation of recommended reporting requirement to current GAAP, see Note (g) at end of section.)

## **Amendments to GASB Statement No. 44**

### **Statistical Section**

#### **Awards from Other Levels of Government**

28. Governments should provide a schedule in the “Statistical Section” that presents a 10-year summary Schedule of Expenditures of Federal Awards for the Five Federal Departments providing the largest amount of awards, to include an explanation of all significant changes in annual percentage increases or decreases between reporting periods (e.g. increases and decreases from one year to the next, in total department funding greater than \$500 million).<sup>21</sup> (For relation of recommended reporting requirement to current GAAP, see Note (h) at end of section.)

29. Governments should provide a schedule in the “Demographic and Economic Information” sub-subsection of the “Statistical Section”, that presents a 10-year summary Schedule of Expenditures of Federal Awards for the individual

---

Governmental Fund Financial Statements, Volume Two

<sup>18</sup> See State or Local Government Illustration No. 17 – Note Presenting the Total U.S. Treasury and Agency Securities of Fair Value Held Directly or Through Pooling Arrangements, Volumes One and Two, respectively

<sup>19</sup> See State Government Illustration No. 18 – Note Disclosing the Financial Position of the United States Government, Volume One

See Local Government Illustration No. 18 – Note Disclosing the Financial Condition of the Commonwealth of Virginia, Volume Two

<sup>20</sup> See State or Local Government Illustration No. 19 – Schedule of Federal Revenue Amounts within Total Operating and Capital Grants and Contributions, Volumes One and Two, respectively

<sup>21</sup> See State or Local Government Illustration No. 20 – 10-Year Summary Schedule of Expenditures of Federal Awards, by Major Departments, Volumes One and Two, respectively



programs, arranged by department, that provide 80 percent of Federal Awards, to include all significant changes in annual percentage increases or decreases between reporting periods (e.g. increases and decreases from one year to the next, in total department funding greater than \$500 million). Governments receiving funds (e.g. awards) from levels of government in addition to the Federal Government, as in the case of local governments receiving state funds, should also provide a schedule in the “Statistical Section” that presents a 10-year summary of state awards for the state programs providing the largest amount of awards, to include an explanation of all significant changes in annual percentage increases or decreases between reporting periods.<sup>22</sup> (For relation of recommended reporting requirement to current GAAP, see Note (h) at end of section.)

### **U.S. Treasury Securities Held by Reporting Government**

30. Governments should provide a 10-year schedule in the “Demographic and Economic Information” subsection of the “Statistical Section” that presents the total debt obligations of the Federal Government held directly or through pooling arrangements by the reporting government.<sup>23</sup> (For relation of recommended reporting requirement to current GAAP, see Notes (f) and (h) at end of section.)

### ***Special Note to Reader***

31. The recommended disclosures described below in paragraphs 26 – 32 are currently not presented within one readily accessible report prepared and issued by the Federal Government. If, in the future, this information becomes available within one Federal report, then state and local governments would have the option of simply highlighting the proposed information within their CAFRs, and referring the reader to the Federal report for more detail. Until that occurs, however, it is recommended that these disclosures be presented by each individual state and local government, due to the essential nature of this information in providing context to the financial position of the reporting government.

### **U.S. Publicly Held Debt Securities**

32. Governments should provide a 10-year schedule in the “Demographic and Economic Information” subsection of the “Statistical Section” that presents the publicly-held debt securities of the Federal Government.<sup>24</sup> (For relation of recommended reporting requirement to current GAAP, see Notes (h) and (i) at end of section.)

33. Governments should provide a 10-year schedule in the “Demographic and Economic Information” subsection of the “Statistical Section” that presents the estimated ownership of publicly-traded U.S. debt securities.<sup>25</sup> (For relation of recommended reporting requirement to current GAAP, see Notes (f) and (h) at end of section.)

34. Governments should provide, when available, a 10-year schedule in the “Demographic and Economic Information” subsection of the “Statistical Section” that presents the major foreign holders of publicly traded U.S. securities.<sup>26</sup> (For relation of recommended reporting requirement to current GAAP, see Notes (f) and (h) at end of section.)

35. Governments should provide a 10-year schedule, in the “Demographic and Economic Information” subsection of the “Statistical Section” that presented the publicly-traded U.S. securities maturity dates.<sup>27</sup> (For relation of recommended reporting requirement to current GAAP, see Notes (f) and (i) at end of section.)

---

<sup>22</sup> See State or Local Government Illustration No. 21 – 10-Year Summary Schedule of Expenditures of Federal Awards, by Major Programs, Volumes One and Two, respectively

<sup>23</sup> See State or Local Government Illustration No. 22 – 10-Year Schedule Presenting the Total U.S. Treasury and Agency Securities at Fair Value Held Directly or Through Pooling Arrangements, Volumes One and Two, respectively

<sup>24</sup> See State or Local Government Illustration No. 23 – 10-Year Schedule Presenting the Total Amount of Federal Public Debt Securities, Volumes One and Two, respectively

<sup>25</sup> See State or Local Government Illustration No. 24 – 10-Year Schedule Presenting the Estimated Ownership of U.S. Public Debt Securities, Volumes One and Two, respectively

<sup>26</sup> See State or Local Government Illustration No. 25 – 10-Year Schedule Presenting the Major Foreign Holders of U.S. Public Debt Securities, Volumes One and Two, respectively

<sup>27</sup> See State or Local Government Illustration No. 26 – 10-Year Schedule Presenting the Maturity of Marketable Debt Outstanding, Volumes One and Two, respectively

## Major U.S. Economic Indicators

36. Governments should provide a 10-year schedule in the “Demographic and Economic Information” subsection of the “Statistical Section” that presents the monetary fluctuations of the U.S. dollar in comparison with major foreign currencies.<sup>28</sup> (For relation of recommended reporting requirement to current GAAP, see Note (h) at end of section.)

37. Governments should provide a 10-year schedule in the “Demographic and Economic Information” subsection of the “Statistical Section” that presents the U.S. savings rate.<sup>29</sup> (For relation of recommended reporting requirement to current GAAP, see Note (h) at end of section.)

38. Governments should provide a 10-year schedule in the “Demographic and Economic Information” subsection of the “Statistical Section” that presents the U.S. Balance of Trade.<sup>30</sup> (For relation of recommended reporting requirement to current GAAP, see Note (h) at end of section.)

### Notes:

(a) Presenting this as a narrative within Management’s Discussion and Analysis is consistent with GASB Statement No. 34, “Basic Financial Statements — and Management’s Discussion and Analysis — for State and Local Governments,” par. 11 (c), which calls for “an analysis of the government’s overall financial position and results of operations, to assist users in assessing whether financial position has improved or deteriorated as a result of the years’ operations. The analysis ... should include reasons for significant changes from prior year ...”

(b) Presenting this information is consistent with GASB Statement No. 34, “Basic Financial Statement — and Management’s Discussion and Analysis — for State and Local Governments,” par. 8, which defines Management’s Discussion and Analysis as “providing an objective and easily readable analysis of the government’s financial activities, based on currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.” Current standards require, per Statement No. 34, par. 11(c), disclosure of “important economic factors, such as changes in ... employment bases ... that significantly affected operating results for the year ...”

(c) Presenting this additional information as Required Supplementary Information is consistent with GASB Concepts Statement No. 3, “Communication Methods in General Purpose External Financial Reports that Contain Basic Financial Statements,” par. 42, which defines Required Supplementary Information as supporting information that “is essential for placing basic financial statements and notes to basic financial statements in an appropriate operational, economic, or historical context.” In addition, current standards require, per Statement No. 34, par. 11(c), disclosure of “important economic factors ... that significantly affected operating results for the year ...” and per Statement No. 34, par. 11(h), a “description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.”

(d) Presenting this as a narrative within Management’s Discussion and Analysis is consistent with GASB Statement No. 34, “Basic Financial Statement—and Management’s Discussion and Analysis—for State and Local Governments,” par.8, which defines Management’s Discussion and Analysis as “material that should provide an objective and easily readable analysis of the government’s financial activities based on currently known facts, decisions, or conditions.” In addition, current standards require, per Statement No. 34, par. 11 (h), a “description of the currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or results of operations.”

---

<sup>28</sup> See State or Local Government Illustration No. 27 – 10-Year Schedule Presenting the U.S. and World Monetary Fluctuations, Volumes One and Two, respectively

<sup>29</sup> See State or Local Government Illustration No. 28 – 10-Year Schedule Presenting the U.S. National Savings Rate, Volumes One and Two, respectively

<sup>30</sup> See State or Local Government Illustration No. 29 – 10-Year Schedule Presenting the U.S. Balance of Trade, Volumes One and Two, respectively

(e) Presenting this as a note is consistent with GASB Concept Statement No. 3, “Communication Methods in General Purpose External Financial Reports that Contain Basic Financial Statements,” par. 35, which defines a note as “integral to financial statements, and are essential to a user’s understanding of financial position or inflows and outflows of resources,” and with Concept Statement No. 3, par. 37, which states that “notes may include management’s objective explanation of recognized amounts and related-known facts, contingencies, certain risks that affect financial statements, subsequent events, measurement methods, accounting policies, and other information essential to understanding the financial statements, and to assess compliance with finance-related legal or contractual requirements.”

(f) Presenting this information is consistent with GASB Statement No. 40, “Deposit and Investment Risk Disclosures,” par. 11, that states governments should “provide information about the concentration of credit risk associated with their investments by disclosing, by amount and issuer, investments in any one issuer that represent 5 percent or more of total investments.”

(g) Presenting this additional information as Required Supplementary Information is consistent with GASB Concepts Statement No. 3, “Communication Methods in General Purpose External Financial Reports that Contain Basic Financial Statements,” par. 42, which defines Required Supplementary Information as “supporting information that is essential for placing basic financial statements and notes to basic financial statements in an appropriated operational, economic, or historical context.”

(h) Presenting this information as a schedule in the Demographic and Economic Information category of the Statistical Section is consistent with GASB Statement No. 44, “Economic Condition Reporting: The Statistical Section,” par. 5, which defines the Demographic and Economic Information category as “intended (1) to assist users in understanding the socioeconomic environment with which a government operates and (2) to provide information that facilitates comparisons of financial statement information over time and among governments.”

(i) Presenting this information is consistent with GASB Concept Statement No. 3 “Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements,” par 46, which defines Supplementary Information as “supporting information that is useful for placing basic financial statements and notes to the basic financial statements in an appropriate operational, economic, or historical context,” and with Concept Statement No.3, par. 40, which states that “supporting information enhances the decision-usefulness of the basic financial statements and notes to basic financial statements it accompanies.”

\*\*\*THIS PAGE INTENTIONALLY LEFT BLANK\*\*\*

## Appendix A: Basis for Recommended Reporting Requirements

### Introduction

1. This appendix summarizes the significant factors considered in recommending the reporting requirements presented in this Report. The recommended requirements relate to the need to identify the financial dependency of one level of government on another, to include flows of resources from one level of a government to another, and the indebtedness of one level of government held by another as an asset. The recommended requirements also relate to the need to identify and describe risks associated with the existence of intergovernmental financial dependency. The basis for these recommended requirements relates to creating and presenting, within the reporting government's general purpose external financial report, information sufficient to ensure an adequate discussion, consideration, and assessment of the degree and nature of intergovernmental financial dependency and related risks.

2. As noted at the beginning of the previous section, the recommended reporting requirements can be individually justified under currently established GASB Standards and Concept Statements. However, in reviewing the individual recommended reporting requirements, and in considering the following paragraphs that explain the basis for the requirements, it may be concluded that individual recommended requirements may differ from one another in the extent to which they are compelling for inclusion within a government's CAFR. This is apart from a normal and expected consideration of the degree to which individual requirements are relevant to a reporting government's specific circumstances, or the degree to which the disclosures are material to the financial statements. There is, however, an overriding consideration that offsets whether one individual reporting requirement may appear to be more or less compelling as to its inclusion versus another reporting requirement. The consideration is that intergovernmental dependency in the United States is exceedingly complex in terms of the various types of flows, activities, and operations of one level of government impacting another. Accordingly, while an individual recommended requirement may appear less compelling than another, it is the presentation and consideration of all of the reporting requirements together that will provide the users of the reporting government's CAFR with a more complete picture and understanding of intergovernmental financial dependency.

3. Recommendations for the placement of reported information were based solely on the purpose, character, and nature of the information in relation to specific guidance found in GASB Concepts Statement No. 3, "Communications Methods in General Purpose External Financial Reports that Contain Basic Financial Statements."

### Basis for Recommendations Pertaining to Management's Discussion and Analysis

#### Financial Position of Other Governments Providing Assistance

4. Current standards result in a presentation of the reporting government's financial position<sup>1</sup> within the MD&A section, yet there is no presentation by the reporting government of the financial position of other governments providing significant revenues, investment assets, and other assistance to the reporting government. Disclosing and discussing the financial position of other governments that have either a direct or indirect financial impact on the reporting government provides an important opportunity for report users to consider the risk that the support of these governments may be disrupted or otherwise modified. The associated risks will generally pertain to the concentration of such revenues, and

<sup>1</sup>Statement No. 44, Economic Condition Reporting: The Statistical Section, in paragraph 50, stated "Based on its review of the NCGA Research Report, Concepts Statement 1, the Berne study, and other relevant literature, the Board developed a tentative definition of a government's economic condition as "a composite of its financial health and its ability and willingness to meet its financial obligations and commitments to provide services." A government's financial position was identified as a component of economic condition, along with its fiscal capacity and service capacity. The title of this project was changed to reflect the Board's tentative decisions."

changes in the amount of revenue and assistance provided to the reporting government from other governments. Reporting governments may also hold debt obligations from other governments; upon consideration of this information, the associated risks will generally include concentration risk and the maturity of the debt obligations. Providing information on the financial position of other governments allows users of the government's financial statements to have an improved understanding of risks associated with the reporting government's dependency on the flows of revenues from, and obligations of, other governments.

5. In considering the need to discuss the financial position of other governments within the MD&A section, consideration was given to the objectives presented in GASB Concepts Statement No. 1, which indicated in paragraph 79 the following (paraphrased) directions: Financial reporting should assist users in assessing the level of services that can be provided by the governmental entity and its ability to meet its obligations as they become due by: (a) providing information about its financial position and **condition**; (b) providing information about its physical and other non-financial resources having useful lives that extend beyond the current year, including information that can be used to assess the service potential of those resources; and (c) disclosing legal or contractual restrictions on resources and the risk of **potential loss of resources**. (emphasis added)

6. Further, in formulating the recommendation to discuss the financial position of the other governments within MD&A, it was also noted that the GASB, in Statement No. 40, "Deposits and Investments Risk Disclosures," addressed the issue of the concentration of credit risk as a means of providing the reader of a reporting government's financial statements with information that acknowledged the more than significant relationships and dependencies that can exist between a government, and those parties with which it executes financial transactions. This theme was further advanced in GASB Technical Bulletin No. 2003-1, which recognized risks that a counterparty might not fulfill its obligations in relation to derivative transactions in which the reporting government had entered. Although GASB Statement 40 and the above referenced technical bulletin concern transactions other than those addressed herein, they are persuasive on the point that major financial dependencies: (a) deserve to be discussed and disclosed, and (b) warrant a discussion and disclosure of risks that are reported within the financial statements of other governments.

### **Awards Received from Other Levels of Government**

7. Current standards result in a highly aggregated presentation of grant and contract revenues, both operating and capital. This inhibits the financial report user from gaining an understanding of the significant revenues flowing, at the department/agency level, from other governments. Accordingly, the impact of Federal revenues and/or revenues from other governments on the Government-wide Statement of Activities is not clear. It is important for financial report users to understand the amount and nature of funds flowing from: (a) the Federal Government to state governments, (b) state governments to local governments, and (c) the Federal Government to local governments, and to be able to relate those flows to their organizational source. This degree of detail has been deemed necessary in order for program managers, senior policy makers, and users of the general-purpose, annual financial report to determine their ownership of, or relation to, the funds flow information presented. Users of government financial statements will have an improved understanding of the government's dependency on flows of revenues from other governments, and will also have an improved understanding of significant changes in those flows between the current and prior reporting periods.

8. As noted in the preceding paragraph, current standards result in the consolidation within the Government-wide Statement of Activities of revenues from the Federal Government, and/or other governments, together with non-governmental grants and contributions. It is also important for financial report users to understand the amount and nature of funds flowing from: (a) the Federal Government to state governments, (b) state governments to local governments, and (c) the Federal Government to local governments in relation to their programmatic affiliation. This degree of detail has been deemed necessary in order for program managers, senior policy makers, and users of the general purpose, annual financial report to determine their ownership of, or relation to, the funds flow information presented. Users of government financial statements will have an improved understanding of the government's dependency on flows of revenues from other governments, and will also have an improved understanding of significant changes in those flows between the current and prior reporting periods.

9. In recommending the reporting of intergovernmental flows by originating department and programmatic affiliation, consideration was given to alternative presentations of disaggregated information, such as:

- a. Recurring and non-recurring
- b. Formula grants and lump sum grants
- c. Earmarked grants
- d. Type of Appropriation (e.g. single year vs. multi-year)

While understanding that some users may find these more finite categories important, it was concluded that these categories might be less important for a general purpose presentation. Reporting governments could, however, extend their notes and discussions beyond the recommended minimum requirements to additionally highlight these distinctions.

### **Employee Positions Supported by Other Governments**

10. The percentage of the employee base funded by intergovernmental funds from either the Federal Government or the state government, which are subject to change, conveys in a readily comprehensive manner the importance of intergovernmental flows to reporting governments. It is also important to disclose the amount and nature of Federal or state funds supporting employee positions within the reporting government. The associated risks generally include fluctuations in the percentage of the employee base that is funded by intergovernmental flows, and the type and criticality of positions so funded in relation to the mission and functions of the reporting governments. Disclosure of this detailed information provides users of the general purpose external financial report with an ability to understand the percentage of employee base funded by intergovernmental funds as an indicator of the dependency of the reporting government on the intergovernmental flows.

### **Other Flows and Operations of Other Governments Impacting the Reporting Government**

11. Disclosures concerning significant other flows from, and operations of, other governments that impact directly or indirectly the tax revenues and economic condition of the reporting government are necessary to demonstrate the sometimes extraordinary degree of complexity associated with intergovernmental financial dependency. Without a complete understanding of how the flows from, and operations of, other levels of government both directly and indirectly impact the reporting government, financial statement users will have an incomplete picture of intergovernmental financial dependency. This recommended requirement also demonstrates what is unique about reporting intergovernmental financial dependency; it highlights that all flows from another level of government, both direct and indirect, must emanate from the same set of financial resources of the providing government and are subject to the same risk of change. The basis for recommended disclosures of the other government flows and operations impacting the reporting government are described below in paragraphs 13 – 15, 17, and 18.

### ***Special Note to Reader***

12. The recommended disclosures referred to below in paragraphs 13 – 15 will require drawing down information from the U.S. Census Bureau, as further described in the Appendix providing “Preparation Guidance.” There will be a lag between the government’s reporting date and the period, or periods, for which information is provided by the U.S. Census Bureau. Although the lag adversely impacts the timeliness of these recommended disclosures, their potential for informing the reader as to flows that may significantly impact the tax and other revenues of the reporting government override the timeliness concern.

### **Direct Federal Payments to Individuals**

13. Payments to individuals, which are subject to change, represent flows from the Federal Government to individuals within the jurisdiction of state and local governments that impact, in a direct or indirect manner, the tax revenues and economic condition of the reporting government. It is important for financial report users to understand the amount and nature of funds flowing from the Federal Government to individuals within the jurisdiction of state and local governments, by major category and programmatic affiliation. Disclosure of this detailed information provides users of the general purpose annual financial reports with a more broad understanding of how the disbursements of the Federal Government impact the reporting government. Presenting the amount of Federal payments to individuals, as well as disclosing the associated risks — generally through reporting significant fluctuations of intergovernmental flows directly



to individuals within the reporting government’s jurisdiction — also ensures the financial report user understands that such flows, in effect, compete with, or compliment, other Federal funds flowing to the state or local government.

### **Direct Federal Payments to Business Establishments**

14. Procurement contracts between the Federal Government and business establishments within the reporting government’s jurisdiction, which are subject to change, impact in a direct or indirect manner, tax revenues and the economic condition of the reporting government. Therefore, it is important for users of the general-purpose external financial reports to understand the degree of dependency on funds flowing from other governments, and the risks from that dependency. The associated risks, in general, include fluctuations in the amount of Federal dollars flowing to business establishments within the reporting government’s jurisdiction. Disclosure of this detailed information provides financial report users with an understanding that such procurement contracts funded by intergovernmental funds compete with, or compliment, other Federal funds flowing to the state or local government.

### **Direct Federal Grants to Other Governments Within the Jurisdiction of the State**

15. Federal grants, which are subject to change, flow to other governments within the reporting state’s jurisdiction in a pass-through and direct manner. These flows have a direct or indirect impact on the tax revenues and the economic condition of the reporting state government. It is important for users of the general-purpose external financial reports of state governments to understand the degree of dependency of funds flowing from the Federal Government, and the risks from that dependency. The associated risks, in general, include fluctuations in the amount and nature of Federal dollars flowing directly to other governments within the reporting state’s jurisdiction. Disclosure of this detailed information provides financial report users with an understanding that such grants funded by intergovernmental funds compete with, or compliment, other Federal funds flowing to the state.

### ***Special Note to Reader:***

16. The recommended disclosures referred to below in paragraph 17 will require drawing down information from the U.S. Department of General Services, while the information in paragraph 18 will require drawing down information from the U.S. Department of Defense, as further described in the Appendix providing “Preparation Guidance.” There will be a lag between the government’s reporting date and the period, or periods, for which information is provided by the U.S. Departments of General Services and Defense. Although the lag adversely impacts the timeliness of these recommended disclosures, their potential for informing the reader as to flows and operations that may significantly impact the tax and other revenues of the reporting government override the timeliness concern.

### **Buildings Owned or Leased by Other Levels of Government**

17. Federally owned and leased buildings, which are subject to change, impact the tax revenues and the economic condition of the reporting government in a direct or indirect manner. The same is also true for state owned and leased buildings within a local government’s jurisdiction. It is important to disclose the number, location, and relative size of buildings owned and leased by other governments to assess economic dependency on these buildings, and the operations they house, and associated risks from that dependency. The associated risks generally include potential changes to the number, uses, and ownership of such buildings. Disclosure of this detailed information is deemed necessary to provide users of the general-purpose external financial reports with an understanding of the presence of buildings owned and leased by other governments within the reporting government’s jurisdiction, and with some sense of the reporting government’s economic dependency on such facilities.

### **Federal Military Bases**

18. Federal military bases within the reporting government’s jurisdiction impact the tax revenues, employment opportunities, and economic condition of the reporting government in a direct or indirect manner. It is important to disclose the presence, employment impact, physical size, and, if possible, economic value of Federal military bases so that financial report readers are able to assess the dependency of the reporting government on these bases and risks associated with that dependency. The associated risks generally include potential changes to the presence and operations of Federal

bases that ultimately impact the reporting government. Disclosure of this detailed information is deemed necessary to provide users of the general purpose external financial reports with an understanding of the direct and indirect financial and economic impact of Federal military bases within the reporting government's jurisdiction.

### **Enacted Changes in Federal and/or State Laws**

19. Federal and state laws, which are subject to change, impact, in a direct or indirect manner, intergovernmental funds flowing directly to, and/or tax revenues received by, the reporting government. It is important to disclose the amount and nature of past Federal and/or state law changes impacting the current reporting period, as well as enacted changes in Federal and/or state laws that will impact future funding flows from the Federal or state government. The risks associated with the dependency on intergovernmental flows affected by changes in legislation generally include the fluctuation of intergovernmental flows that fund core functions, or critical programs, of the reporting government. Disclosure of this detailed information is deemed necessary to provide users of the general purpose external financial report with an understanding of how enacted changes in Federal and/or state laws have, or will, impact the reporting government.

### **State Balance of Trade**

20. The balance of trade for a state, including the underlying imports and exports, impact, in a direct or indirect manner, tax revenues and the economic condition of state and local governments. As such, a state's balance of trade represents a major economic indicator for reporting governments and warrants the disclosure of amounts and trends. The associated risks generally include the fluctuation in the amount of imports and exports, and the degree to which there is an imbalance of trade. Disclosure of this detailed information is deemed necessary to provide users of the general-purpose external financial report with an understanding of the trends in major economic indicators and their significance to the reporting government.

## **Basis for Recommendations Pertaining to the Notes to the Financial Statements**

### **Awards from Other Levels of Government**

21. Current standards result in a highly aggregated presentation of grant and contract revenues, both operating and capital, that inhibit an understanding of the significant revenues flowing from other governments at the programmatic level. Accordingly, the impact of Federal revenues and/or revenues from other governments on the Government-wide Statement of Activities is not clear. It is important to understand the amount and nature of funds flowing from: (a) the Federal Government to state governments, (b) state governments to local governments, and (c) the Federal Government to local governments, by the organizational or departmental source and programmatic affiliation of those funds. This degree of detail has been deemed: (a) necessary for program managers, senior policy makers, and users of the general-purpose external financial report to determine their ownership of, or relation to, the information presented; and (b) essential for understanding the financial position of the reporting government. Users of government financial statements will have an improved understanding of the government's dependency on flows of revenues from other governments, and will also have an improved understanding of significant changes in those flows between the current and prior reporting period.

22. Current standards result in the consolidation within the Government-wide Statement of Activities of revenues from the Federal Government, and/or other governments, together with non-governmental grants and contributions. Accordingly, the presentation of grant and contribution revenues, both operating and capital, are unclear as to which portion and percentage of the grants and contributions are from the Federal Government, other governments, or non-governmental entities; nor is it clear as to the relationship of Federal, state, and/or local intergovernmental revenues to the total of all program and general revenues. This degree of detail has been deemed: (a) necessary for program managers, senior policy makers, and users of the general-purpose external financial report to determine the degree to which the reporting government is dependent on intergovernmental flows; and (b) essential for understanding the financial position of the reporting government. Users of government financial statements will have an improved understanding of the government's dependency on flows of revenues from other governments.

## **Reconciliation of Government-wide and Governmental Funds Statements for Federal and State Funds Flows**

23. Current reporting standards may result in the presentation — within the Government-wide Statement of Activities and the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance — of differing amounts for revenues from the Federal Government and/or other governments. In addition, these statements may reflect revenues from the Federal Government that differ from that presented in the Schedule of Expenditures of Federal Awards, a report required under the Single Audit Act of 1996, and through administrative regulations found within OMB Circular A-133, “Audits of States, Local governments, and Non-Profit organizations,” and which some state and local governments publish within their Comprehensive Annual Financial Report (CAFR). Accordingly, the impact of Federal revenues and/or revenues from other governments in these Statements, given their respective differences, may not be clear. It is important to understand the relation between Federal dollars reported within the Government-wide Statement of Activities and the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance. This degree of detail has been deemed: (a) necessary for program managers, senior policy makers, and users of the general purpose external financial report to understand how intergovernmental flows are presented in the reporting government’s basic financial statement; and (b) essential for understanding the financial position of the reporting government. Users of government financial statements will have an improved understanding of the government’s dependency on flows of revenues from other governments and how those flows are presented within the financial statements.

### **U.S. Treasury Securities Held by the Reporting Government**

24. Federal debt obligations held as an investment by the reporting government are subject to change and impact, in either a direct or indirect manner, the investment income and asset values of the reporting government. It is important to understand the risks associated with holding investments in Federal debt obligations, generally including concentration risk and credit risk. Although, traditionally, the U.S. Government is considered to not have a credit risk, it is important for users of the general-purpose external financial report to understand the amount and nature of investments in these securities by the reporting government. This degree of detail has been deemed necessary for users of the general-purpose external financial report to determine the degree to which the reporting government is reliant upon the promises and obligations of the Federal Government, especially in relationship to the reported financial position of the Federal Government, patterns in increasing or paying down the principal of Federal indebtedness, and the presence of volatility associated with, or emanating from, those countries and other parties who redeem, renew, and/or modify their holdings in U.S. Treasury securities. It is also deemed essential for understanding the financial position of the reporting government.

### **Financial Position of Other Governments Providing Flows and Investment Assets**

25. As noted earlier in paragraphs 3, 4, and 5, there is ample basis for discussing the reported adverse conditions of governments providing intergovernmental flows to the reporting governments or where the reporting government holds obligations of another government as investment assets. The need to include disclosure concerning adverse conditions reported by such governments in their audited financial statements derives, in part, from the same justification for including a discussion of such adverse conditions in MD&A. Important additional justification for including a note of disclosure can, in part, be found within AICPA Statement of Position 94-6, “Disclosure of Certain Significant Risks and Uncertainties”. The statement indicates, “(t)he disclosures focus primarily on risks and uncertainties that could significantly affect the amounts reported in the financial statement in the near term or the near-term functioning of the reporting entity.” The statement further notes that risks and uncertainties can stem from various factors, including “from significant concentrations and certain aspects of the entity’s operations.” Additionally, the statement notes that “vulnerability from concentrations arise because an entity is exposed to risk of loss greater than it would have had it mitigated its risk through diversification.” In the case of intergovernmental financial dependency, many reporting governments will rely to a significant degree on intergovernmental flows of resources which — applying common interpretations of the terms “significant” and “material” — are viewed as a concentration of financial activity for the reporting government. When the consideration of SOP 94-6 is combined with the reported, significantly adverse financial position of governments providing flows, it would not appear justified for a reporting government to exclude the disclosures recommended herein; conversely, it is deemed necessary that they do so, because this information is essential for understanding the financial position of the reporting government.

## **Basis for Recommendations Pertaining to the Required Supplementary Information**

### **Federal Revenues Supporting Associated Expenditures**

26. Within the Government-wide Statement of Activities, current standards result in the consolidation, of revenues from the Federal Government, and/or other governments together with non-governmental grants and contributions. Accordingly, the presentation of grant and contract revenues, both operating and capital, are unclear as to which portion of the grants and contributions are from the Federal and/or state government, and how these revenues contribute to funding the functions and activities of the reporting government. This degree of detail has been deemed important and necessary in order for program managers, senior policy makers, and users of the general-purpose external financial report to determine the degree to which specific activities of the reporting government rely on governmental flows. Users of government financial statements will have an improved understanding of the government's dependency on flows of revenues from other governments as they relate specifically to the reporting governments expenditures.

### **Basis for Recommendations Pertaining to the Statistical Section**

#### **Awards from Other Levels of Government**

27. Current standards result in a highly aggregated presentation of grant and contribution revenues, both operating and capital, that inhibit an understanding of the significant revenues flowing from other governments at the department/agency and programmatic level. Accordingly, the impact of Federal revenues and/or revenues from other governments in the Government-wide Statement of Activities over a 10-year period is not clear. It is important to understand the amount and nature of funds flowing from: (a) the Federal Government to state governments, (b) state governments to local governments, and (c) the Federal Government to local governments, by the source department/agency and programmatic affiliation of those funds. This degree of detail has been deemed necessary in order for program managers, senior policy makers, and users of the general purpose external financial report to understand the changes in revenues from the Federal Government and other governments over a 10-year timeframe. Users of government financial statements will have an improved understanding of the government's dependency on flows of revenues from other governments, and will also have an improved understanding of trends in funding patterns from other governments.

#### **U.S. Treasury Securities Held by Reporting Government**

28. Federal debt obligations, held as an investment by the reporting government, are subject to change, and impact in either a direct or indirect manner the investment revenues and asset values of the reporting government. It is important to understand the risks associated with holding investments in Federal debt obligations, generally including concentration risk and credit risk. Users of the reporting government's general-purpose external financial report will understand and have further clarification of the trends and changes associated with Federal debt obligations held by the reporting government, including its pension and other fiduciary funds. Although, traditionally, the U.S. Government is considered to not have a credit risk, it is important for users of the general purpose external financial report to understand the amount and nature of such investments held by the reporting government. This degree of detail has been deemed necessary in order for users of the general-purpose external financial report to determine the reliance of the reporting government on the promises and obligations of the Federal Government.

#### ***Special Note to Reader***

29. The recommended disclosures referred to below, in paragraphs 30 – 32, are currently not presented within one readily accessible report prepared and issued by the Federal Government. If, in the future, this information becomes available within one Federal report, then state and local governments would have the option of simply highlighting the proposed information within their CAFRs and referring the reader to the Federal report for more detail. Until that occurs, however, it is recommended that these disclosures be presented by each individual state and local government due to the essential nature of this information in providing context to the financial position of the reporting government.

## **U.S. Publicly Held Debt Securities**

30. The holding of publicly traded U.S. debt securities by the reporting government addresses a critical financial relationship between the reporting government and the Federal Government. The amount and value of, and interest return on, U.S. Treasury securities, and their associated risk, directly impacts the financial and economic condition of the reporting government, and its ability to maintain services and meet its obligations to employees, citizens, and bond holders. It is important to identify the major holders of U.S. debt securities, to include other state and local governments, and foreign governments and their institutions, and so disclose the dependency of the Federal Government upon these other holders to redeem, renew, or modify their holdings of these securities. Users of the government's financial statements will have an improved understanding of the ownership of the Federal Government's publicly held debt, how dependent the Federal Government is on each holder of the public debt, and in turn, how each holder of public debt is reliant upon the other holders and subjected to risk from changing holding patterns. The degree of detailed information will also allow users to identify their reporting government's portion of the publicly held debt, as well as consider the volatility and changeability associated with foreign governments and other holders of those securities.

31. The maturity dates of all U.S. debt securities held by the reporting government and other governments are subject to change, and directly impact the investment revenues and asset values of the reporting government. It is important to provide users of the government financial statement this detailed information to improve understanding of how the Federal Government is dependent on the length of the securities redemption cycle and dollar volume associated with the redemption and renewal of holdings of publicly held U.S. securities by the reporting government and others.

## **Major U.S. Economic Indicators**

32. This recommendation looks beyond what is included within the published audited financial statements of the U.S. government, and includes selected economic indicators, historically referenced by those men and women in senior-most positions of authority and responsibility, relating to the financial performance of the U.S. government and its economy. In our searches of related literature, there are three major economic factors most often referred to when addressing the financial position of the U.S. government and the national economy from which the Federal Government derives its revenues. These three major economic indicators include the U.S. Balance of Trade, U.S. Monetary Fluctuations, and the U.S. National Savings Rate. It is important to disclose the trends in major indicators of the U.S. economy which directly impact the Federal Government and indirectly impact the reporting government. Users of the government financial statements will have an improved understanding of the U.S. balance of trade, monetary fluctuations, and national savings rate, and clarification of how these key indicators have changed overtime and that they may impact the financial position and sustainability of reporting governments.



# Appendix B: Illustrations Applying the Recommended Reporting Requirements to a Local Government

## Table of Contents

These illustrations utilize publicly reported or available data associated with the Comprehensive Annual Financial Report of a Sample City within the Commonwealth of Virginia for the fiscal years ending June 30, 2007 and 2006 and from selected agencies of the Federal Government, including the U.S. Treasury Department, the U.S. Census Bureau, the General Services Administration, the Federal Reserve, and the Department of Defense.

<b><u>Illustrative Management’s Discussion and Analysis:</u></b>	<b>Page</b>
<b>Illustration No. 1:</b> Narrative Disclosing the Financial Condition of the Commonwealth of Virginia Government	37
<b>Illustration No. 2:</b> Narrative to the Summary Schedule of Expenditures of Federal Awards, by Major Departments	38
<b>Illustration No. 3:</b> Schedule Presenting Commonwealth of Virginia Funds Flowing to the Sample City	40
<b>Illustration No. 4:</b> Note Presenting the Budgeted Schedule of Federally Funded Government Positions in the Sample City’s Jurisdiction	42
<b>Illustration No. 5:</b> Schedule Presenting Federal Payments to Individuals Residing Within the Sample City’s Jurisdiction, by Major Category	44
<b>Illustration No. 6:</b> Schedule Presenting Federal Payments to Individuals Residing Within the Sample City’s Jurisdiction, by Major Program	46
<b>Illustration No. 7:</b> Schedule Presenting Federal Procurement Payment to Sample City Business Establishments	48
<b>Illustration No. 8:</b> Schedule Presenting Federally Leased Buildings Within the Sample City’s Jurisdiction	49
<b>Illustration No. 9:</b> Schedule Presenting Federally Owned Buildings Within the Sample City’s Jurisdiction	50
<b>Illustration No. 10:</b> Schedule Presenting Military Bases Within the Sample City’s Jurisdiction, Representing 80 Percent of Total Present Replacement Value	51
<b>Illustration No. 11:</b> Narrative Disclosing the Enacted Significant Changes to Future-Year Funding to the Sample City	52
<b>Illustration No. 12:</b> Narrative Disclosing the Changes from Past-Enacted State Program Legislation	53
<b>Illustration No. 13:</b> Narrative Presenting the Commonwealth of Virginia’s Balance of Trade	54
<b><u>Illustrative Notes to the Financial Statements:</u></b>	
<b>Illustration No. 14:</b> Note Summarizing Schedule of Expenditures of Federal Awards, by Major Programs	56
<b>Illustration No. 15:</b> Note Presenting a Table Illustrating the Relationship Between Intergovernmental Revenues and Total Program and General Revenues	60
<b>Illustration No. 16:</b> Note to the Basic Financial Statements Reconciling Federal and State Revenues Reported in Government-wide and Governmental Fund Financial Statements	62
<b>Illustration No. 17:</b> Note Presenting the Total U.S. Treasury and Agency Securities at Fair Value Held Directly or Through Pooling Arrangements	63
<b>Illustration No. 18:</b> Note Disclosing the Financial Position of the Commonwealth of Virginia	65
<b><u>Illustrative Required Supplemental Information:</u></b>	
<b>Illustration No. 19:</b> Schedule of Federal and State Revenue Amounts Within Total Operating and Capital Grants and Contributions	68

## Table of Contents continued

### **Illustrative Statistical Section:**

<b>Illustration No. 20:</b> 10-Year Summary Schedule of Expenditures of Federal Awards, by Major Departments	72
<b>Illustration No. 21:</b> 10-Year Summary Schedule of Expenditures of Federal Awards, by Major Programs	76
<b>Illustration No. 22:</b> 10-Year Schedule Presenting the Total U.S. Treasury and Agency Securities at Fair Value Held Directly or Through Pooling Arrangements	82
<b>Illustration No. 23:</b> 10-Year Schedule Presenting the Total Amount of U.S. Public Debt Securities by Type of Holding	84
<b>Illustration No. 24:</b> 10-Year Schedule Presenting the Estimated Ownership of U.S. Public Debt Securities	86
<b>Illustration No. 25:</b> 10-Year Schedule Presenting the Major Foreign Holders of U.S. Public Debt Securities	88
<b>Illustration No. 26:</b> 10-Year Schedule Presenting the Maturity of Marketable U.S. Debt Outstanding	91
<b>Illustration No. 27:</b> 10-Year Schedule Presenting the U.S. and World Monetary Fluctuations	92
<b>Illustration No. 28:</b> 10-Year Schedule Presenting the U.S. National Savings Rate	93
<b>Illustration No. 29:</b> 10-Year Schedule Presenting the U.S. Balance of Trade	94
<b><u>Illustrative Placement of Local Government Illustrations Within the CAFR</u></b>	95



## Illustrative Management's Discussion and Analysis

### **Illustration No. 1: Narrative Disclosing the Financial Position of the Commonwealth of Virginia Government**

#### **Financial Position of the Commonwealth of Virginia Government**

The Commonwealth of Virginia is heavily dependent on financial resources flowing from, or associated with, the Federal Government. Approximately \$8.3 billion in grants and contributions flow into the primary governmental activities of the Commonwealth as well as into its institutions of higher education and other component units, representing approximately 21% percent of all revenues, including taxes, available to the Commonwealth in Fiscal Year 2006. In addition, the Commonwealth and the Virginia Retirement System earn investment income from holding approximately \$10 billion in U.S. Treasury Securities, which represents approximately 10.8% percent of all investment assets held. Further, the tax revenues and overall economic condition of the Commonwealth are significantly impacted by payments made directly to its citizens by the Federal Government for Social Security, Medicare, and federal retirement benefits, which amounted to \$47.2 trillion for the 2005 Federal fiscal year, as well as payments for goods and services provided to the Federal government by Virginia businesses, which amounted to \$38.6 billion for the 2005 Federal fiscal year. Additionally, in the 2005 federal fiscal year, \$700.7 million flowed directly from the Federal Government to the Commonwealth of Virginia's local governments in the form of certain grants and contributions.

Because of this significant dependency, the Commonwealth is subjected to changes in specific flows of intergovernmental revenues based on modifications to Federal laws and Federal appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly-held U.S. Treasury Securities, as those other parties assess, renew, and/or modify their holdings. Perhaps the most significant risk, however, to the financial dependency of the Commonwealth on the Federal Government relates to the reported negative financial condition and long-term unsustainability of the Federal Government.

As reported in the 2007 "Financial Report of the U.S. Government," the annual tax and other revenues of the Federal Government have been chronically insufficient to cover expenditures. The Federal Government carries an excessive level of debt in the form of U.S. Treasury Obligations, totaling \$5.1 trillion, and borrowings from the Social Security and Medicare Trust Funds, totaling \$4.0 trillion. The most significant factor creating the long-term unsustainability of the Federal Government is the size of Social Security and Medicare obligations, which were reported at \$45.1 trillion for 2007. Unless, and until, the Federal Government resolves this question of long-term unsustainability, and, in addition, begins to actually repay the principal on its issued debt (rather than just rolling over the debt), the Commonwealth will suffer a material risk. Please see Illustration No. 18, entitled "Note Disclosing the Financial Condition of the Commonwealth of Virginia," for more detailed information regarding the financial condition and sustainability of the Commonwealth.

**Illustration No. 2:** Narrative to the Summary Schedule of Expenditures of Federal Awards, by Major Departments

**Sample City, Virginia**  
**Percentage of Expenditure of Federal Awards**

**Figure 1** shows the comparison between current and prior year revenues flowing from the Federal Government to Sample City, Virginia, as summarized from the Schedule of Expenditure of Federal Awards and illustrated for major departments. This data is compiled directly from Sample City, Virginia's CAFR and agency records, and is reviewed for reasonableness by the Auditor in relation to the Government Funds Statement of Revenues, Expenditures, and Changes in Fund Balance, and the Government-wide Statement of Activities. Overall, for fiscal year 2006 to fiscal year 2007 there was an increase of \$15,418,449 in revenues flowing from the Federal Government. At the department and agency level the largest increase of \$6,325,172 occurred under the Department of Housing and Urban Development. This increase was principally due to a 47% increase for the Housing Choice Voucher Program, and a 26% increase for the Community Development Block Grant. Another notable increase of \$6,249,473 occurred under the Department of Transportation. This increase was principally due to a 438% increase for the Urban Construction Initiative/Highway Planning & Construction. There was yet another notable increase of \$1,476,547, which occurred under the Department of Education. This increase was principally due to a 28% increase for the School Assistance in Federally Affected Areas, and a 19 percent increase for the Education of the Handicapped Act Title VI-B.

At this time the information regarding the reasons behind the above noted changes in federal flows to Sample City, Virginia are unavailable.

**Figure 1**

Department	2007				2006		
	Direct	Indirect (a)	Total	% Change	Direct	Indirect (a)	Total
Department of Education	\$ 13,673,172	\$29,815,954	\$ 43,489,126	3.40%	\$10,995,874	\$31,016,705	\$42,012,579
Department of Housing and Urban Development	20,804,165	1,620	20,805,785	30.40	14,478,498	2,115	14,480,613
Department of Health and Human Services	51,346	18,570,191	18,621,536	(1.53)	62,216	18,844,584	18,906,800
Department of Agriculture	40,636	11,805,949	11,846,585	5.16	50,902	11,184,556	11,235,458
Department of Transportation		7,578,337	7,578,337	82.46		1,328,864	1,328,864
Other Departments and Agencies	8,935,757	5,929,690	14,865,447	7.01%	7,314,944	6,509,110	13,824,053
Total Federal Grantor Agencies	\$43,505,076	\$73,701,740	\$117,206,816		\$32,902,434	\$68,885,933	\$101,788,367

**Source:** Sample City, Virginia's single audit reports located in the city's CAFR, FY 2007 & 2006

**Notes:**

(a) Indirect federal revenues are those received by the Sample City from a pass-through entity, principally the Commonwealth of Virginia.

Sample City, Commonwealth of Virginia  
Percentage of Expenditures of Federal Awards – By Major Departments  
Current and Prior Year, Five Largest Departments

Figure 2

Department	Percentage	Percentage
Department of Health and Human Services	37.10%	41.27%
Department of Education	17.75	14.23
Department of Agriculture	15.89	18.57
Department of Transportation	10.11	11.04
Department of Labor	6.47	1.31
Other Departments and Agencies	<u>12.68</u>	<u>13.58</u>
Total Federal Grantor Agencies	100.00%	100.00%

**Illustration No. 3: Schedule Presenting Commonwealth of Virginia Funds Flowing to the Sample City**

In Fiscal Year 2007, over \$597 million was distributed by the Commonwealth's government directly to the Sample City. As illustrated by the following table, these state monies contributed to many Sample City activities that could be considered essential services to its citizens, including \$230 million in state contributions to the Department of Education.

**Sample City, Virginia**  
**Summary Schedule of State Assistance, by Major Programs**  
**Current and Prior Year, Representing 80 Percent of Total State Assistance**

<u>Department Name</u>	<u>Program Name</u>
Department of Taxation	General fund, trust and agency fund, FUBA benefits
Department of Education	Standards of quality for public education
Department of Education	Subgroup of standards of quality for public education
Department of Education	Financial incentive programs for public education
Department of Transportation	Financial assistance to localities for city road maintenance
Personal Property Tax Relief	Reimbursements to localities for personal property tax relief
All Other Sources	All other programs

**Source:** Auditor of Public Accounts, Comparative Report of Local Government Revenues and Expenditures, FY 2007 & 2006

**Link:** [APA Comparative Report \(http://www.apa.virginia.gov/LocalGvt.cfm\)](http://www.apa.virginia.gov/LocalGvt.cfm)

**Notes:**

- (a) The decrease of \$15,626,773 was due principally to (unavailable at this time)
- (b) The decrease of \$13,306,277 was due principally to (unavailable at this time)
- (c) The increase of \$25,888,900 was due principally to (unavailable at this time)

**Illustration No. 3 — continued**

<b><u>FY 2007 Amount</u></b>	<b><u>Percentage</u></b>	<b><u>FY 2006 Amount</u></b>	<b><u>Percentage</u></b>
\$ 46,417,559	9.51%	\$ 46,096,964	10.77%
188,647,598(a)	38.65	204,274,371	44.81
47,979,454	9.83	59,217,230	12.99
20,987,960	4.30	17,824,432	3.91
25,624,835(b)	5.25	38,931,112	8.54
39,291,414(c)	8.05	13,402,514	2.94
119,143,282	24.41	73,121,198	16.04
\$488,092,103	100.00%	\$455,867,821	100.00%

**Illustration No. 4:** Note Presenting the Budgeted Schedule of Federally Funded Government Positions in the Sample City Government

As noted in the following tables, the Sample City was significantly dependent upon Federal and state funding for its workforce in fiscal year 2007.

**Sample City, Virginia**  
**Budgeted Schedule of Federally Funded Government Positions**  
**For the Fiscal Year Ended June 30, 2007**  
 (Full Time Equivalent Positions)

	Budgeted Number of Government Positions	Budgeted Federally Funded Government Positions	Budgeted Percentage of Federally Funded Positions
<b>FY 2007</b>	xxx	xxx	x.xx%
<b>FY 2006</b>	xxx	xxx	x.xx%

**Sample City, Virginia**  
**Analysis of Personnel Services Funded by the Federal Government**  
**For the Fiscal Year Ended June 30, 2007**  
 (Dollars in Thousands)

<b>FY 2007</b>			
<b>Functions/ Programs</b>	<b>Expenses</b>	<b>Calculated Percentage of Expense</b>	<b>Calculated Expense per Full-Time Employee (FTE)</b>
Total Personal Services	\$xxx	x.xx%	\$ xxx
Total Personal Services Funded by Federal Government	xxx	x.xx%	\$xxx
Total Expenses per Government- wide Financial Statement	\$xxx		

**Sample City, Virginia**  
**Major Agencies and Institutions Relying on Federal Funds of Personnel**  
**For the Fiscal Years Ended June 30, 2007 and 2006**

<b>Agency Title</b>	<b>Number of Budgeted Federally Funded Positions for FY 2007</b>	<b>Number of Budgeted Federally Funded Positions for FY 2006</b>
Xxx	xxx	xxx
Xxx	xxx	xxx
Xxx	xxx	xxx
Xxx	xxx	xxx
Xxx	xxx	xxx
Xxx	xxx	xxx
Other	xxx	xxx
Total	xxxx	xxxx

**Illustration No. 4 - continued**

FY 2006		
Expenses	Calculated Percentage of Expense	Calculated Expense per FTE
\$ xxx	x.xx%	\$ xxx
xxx	x.xx%	xxx
\$ xxx		



**Illustration No. 5:** Schedule Presenting Federal Payments to Individuals Residing within the Sample City’s Jurisdiction, by Major Category

During the 2006 Federal fiscal year, individual citizens within the Sample City received over \$2.6 billion in Social Security payments, Federal military and civilian retirement payments, Medicare support, and salaries and wages as employees of the Federal Government. This represents a significant infusion into the income tax base of the Sample City, and is further translated through the disposal of this income into shared sales tax revenues, income on investments, and other economic activity. As indicated in the following schedules, 40 percent of payments to individuals relate to active employment by individuals with the Federal Government.

**Sample City, Virginia  
Current and Prior Year, Payments to Individuals Residing Within  
The Sample City**

<u>Category</u>	<u>FY 2006 Total</u>		<u>Percentage of Total</u>	<u>FY 2005 Total</u>	<u>Percentage of Total</u>
Retirement & Disability Payments for Individuals	\$1,296,544,253	(a)	48.21%	\$1,310,398,867	48.19%
Other Direct Payments for Individuals	297,352,245	(b)	11.06	268,726,383	9.88
Salaries and Wages	1,095,334,517	(c)	40.73	,140,285,284	41.93
<b>Total Payments</b>	<u>\$2,689,231,015</u>		<u>100.00%</u>	<u>\$2,719,410,534</u>	<u>100.00%</u>

**Source:** U.S. Census Bureau, Governments Division, Federal Programs Branch, Consolidated Federal Funds Report, FY 2006 & 2005

**Link:** [U.S. Census, Consolidated Federal Funds Reports \(http://harvester.census.gov/cffr/index.html\)](http://harvester.census.gov/cffr/index.html)

**Notes:**

(a) The total decrease of \$15,394,015 was primarily due to a 12.64 percent decrease in the Federal Retirement & Disability Payments – Military

(b) The total increase of \$31,806,513 was primarily due to a 13.28 percent increase in the Federal Pell Grant Program

(c) The total decrease of \$49,945,297 was primarily due to a 7 percent decrease in the Department of Defense (Active Military Employees) Salaries and Wages

\*\*\*THIS PAGE INTENTIONALLY LEFT BLANK\*\*\*

**Illustration No. 6:** Schedule Presenting Federal Payments to Individuals Residing Within the Sample City's Jurisdiction, by Major Program

**Sample City, Virginia  
Current and Prior Year Payments  
To Individuals Residing Within the Sample City**

Category	Program Name
Retirement and Disability Payments for Individuals	Social Security Retirement Insurance
	Federal Retirement And Disability Payments--Military
	Federal Retirement And Disability Payments--Civilian
Other Direct Payments for Individuals	Social Security Survivors Insurance
	Medicare-Hospital Insurance
Salaries and Wages for Individuals	Salaries and Wages - Dept of Defense (Active Military Employees)
	Salaries and Wages - Dept of Defense (Civilian Employees)
All Other Categories	All Other Programs
Total	?

**Source:** U.S. Census Bureau, Governments Division, Federal Programs Branch, Consolidated Federal Funds Report, FY 2006 & 2005

**Link:** [U.S. Census, Consolidated Federal Funds Reports \(http://harvester.census.gov/cffr/index.html\)](http://harvester.census.gov/cffr/index.html)

**Notes:**

- (a) The increase of \$22,800,646 was principally due to (unavailable at this time)
- (b) The decrease of \$61,577,100 was principally due to (unavailable at this time)
- (c) The decrease of \$62,127,900 was principally due to (unavailable at this time)

**Illustration No. 6 — continued**

<u>FY 2006 Total</u>	<u>Percentage of Total</u>	<u>FY 2005 Total</u>	<u>Percentage of Total</u>
\$ 395,037,075 (a)	14.69%	\$ 372,236,429	13.69%
425,715,300 (b)	15.83	487,292,400	17.92
172,027,267	6.40	163,039,975	6.00
116,346,072	4.33	109,048,417	4.01
113,690,395	4.23	111,699,042	4.11
780,985,800 (c)	29.04	843,113,700	31.00
240,586,200	8.95	237,436,200	8.73
444,842,906	16.54	395,544,370	14.55
\$2,689,213,015	100.00%	\$2,719,410,533	100.00%

**Illustration No. 7: Schedule Presenting Federal Procurement Payments to Sample City Business Establishments**

In Fiscal Year 2006, the Federal Government paid Sample City business establishments \$796.7 million for procured goods and services. These federal expenditures stimulated significant economic activity within the Sample City, which resulted in corporate-related taxes paid to the Sample City, and property taxes resulting indirectly from salaries and wages paid by these business establishments to their employees. The Department of Defense accounts for over 90 percent of the total contracts with the Sample City business establishments, a significant percentage.

**Sample City, Virginia**  
**Current and Prior Year Federal Procurement Payments to Sample City, Virginia Business Establishments**

<b>Program Name</b>	<b><u>FY 2006 Total</u></b>	<b>(a)</b>	<b><u>Percentage of Total</u></b>	<b><u>FY 2005 Total</u></b>	<b><u>Percentage of Total</u></b>
Department Of Defense (DOD)	\$734,718,437	(b)	92.22%	\$ 707,206,964	88.76%
U.S. Postal Service (USPS)	10,023,452		1.26	9,536,699	1.20
All Federal Government Agencies Other Than DOD and USPS	52,002,306	(c)	6.53%	59,223,649	7.43%
<b>Total Contracts</b>	<b><u>\$796,744,195</u></b>			<b><u>\$775,967,312</u></b>	

**Source:** U.S. Census Bureau, Governments Division, Federal Programs Branch, Consolidated Federal Funds Report, FY 2006 & 2005

**Link:** [U.S. Census, Consolidated Federal Funds Reports \(http://harvester.census.gov/cffr/index.html\)](http://harvester.census.gov/cffr/index.html)

**Notes:**

(a) The U.S. Census releases their Consolidated Federal Funds Report FY 2007 in February 2009. Due to the timing of this release, the data above shows the latest complete data for this project.

(b) The increase of \$27,511,473 was due principally to (unavailable at this time)

(c) The decrease of \$7,221,343 was due principally to (unavailable at this time)

**Illustration No. 8:** Schedule Presenting Federally Leased Buildings Within the Sample City’s Jurisdiction

A significant indirect contribution to the economy of the Sample City results from the leasing or direct ownership of buildings and facilities within the Sample City by the Federal Government. The schedule below illustrates that five buildings representing over 56,000 square feet are leased within the Sample City. Although not quantified, the activities and operations housed in these buildings contribute to the economic activity of the Sample City, principally through the salaries and wages of Federal employees, and procurements for goods and services initiated within these structures.

**Sample City, Virginia**  
**Federally Leased Buildings, Five Largest Buildings Within the Sample City**

Address	County	Rentable Square Footage
123 Bravo Boulevard	Sample City	22,900
AirCraft Lane	Sample City	13,390
Charlie Drive	Sample City	10,971
Delta Street	Sample City	6,075
Echo Lane	Sample City	3,610
Total		56,946

**Source:** General Service Administration Inventory of Owned and Leased Buildings Database, 2007

**Link:** [GSA Inventory of Owned and Leased Buildings in the Sample City](http://www.iolp.gsa.gov/iolp/StateDetail.asp?sID=51)  
(<http://www.iolp.gsa.gov/iolp/StateDetail.asp?sID=51>)

**Note:** Annual lease payments, which should be reported, were not available.

**Illustration No. 9:** Schedule Presenting Federally Owned Buildings Within the Sample City’s Jurisdiction

**Sample City, Virginia**  
**Federally Owned Buildings, Five Largest Buildings Within the Sample City**

Address	County	Square Footage
10 State Street	Sample City	xxx
20 Commonwealth Drive	Sample City	xxx
30 Blue Ridge Road	Sample City	xxx
40 River Drive	Sample City	xxx
50 Virginia Lane	Sample City	xxx
<b>Total</b>		xxx

Sample City may or may not have any Federally owned buildings. According to the General Service Administration (GSA) website this information is not currently available.

**Source:** General Service Administration Inventory of Owned and Leased Buildings Database, 2007

**Link:** [GSA Inventory of Owned and Leased Buildings in the Sample City  
\(http://www.iolp.gsa.gov/iolp/StateDetail.asp?sID=51\)](http://www.iolp.gsa.gov/iolp/StateDetail.asp?sID=51)

**Note:** Assessed value, which should be reported, was not available.



**Illustration No. 10:** Schedule Presenting Military Bases Within the Sample City’s Jurisdiction, Representing 80 Percent of Total Present Replacement Value

The following table highlights five of the most major military bases and facilities within the Sample City. The construction and maintenance of these military bases, which have an estimated replacement value of \$2 billion, represents an important portion of the Sample City’s infrastructure and generates significant demand for construction and maintenance services. In addition, over 9000 military and civilian employees working on these bases contribute significantly to the economy of the Sample City.

**Sample City, Virginia**  
**Military Bases in the Sample City, Representing the Five Largest Bases**  
(Dollars in Millions)

Site	Present Replacement Value (in millions)	Percentage	Total Count of Buildings	Total Sq Ft of Buildings	Total Personnel on Base	(a)	Total Acres
American	\$ 53	2.63%	162	577,399	0		88
Hamilton	1,244	61.82	366	4,033,845	9,448		1,238
Foxtrot	82	4.10	83	803,889	0		68
Commonwealth	60	3.00	9	19,183	0		5,551
Constitution USA	572	28.45	139	2,633,720	76		1,660
<b>Total</b>	<u>\$2,011</u>	100.00%	<u>759</u>	<u>8,068,036</u>	<u>9,524</u>		<u>8,605</u>

**Source:** General Service Administration Inventory of Owned and Leased Buildings Database, 2007

**Link:** [Department of Defense, Base Structure Report](http://www.defenselink.mil/pubs/BSR_2007_Baseline.pdf)  
([http://www.defenselink.mil/pubs/BSR\\_2007\\_Baseline.pdf](http://www.defenselink.mil/pubs/BSR_2007_Baseline.pdf))

**Note:**

(a) All personnel includes military, civilian, and other personnel.

**Illustration No. 11:** Narrative Disclosing the Enacted Significant Changes to Future-Year State Funding to the Sample City

Enacted changes to the following state government programs will cause a significant change in expected future-year funding flowing to the Sample City. Illustrated is the name of the state program that is experiencing the change and the future year's expected reduction as it applies to the Sample City.

**Sample City, Virginia**  
**Enacted Significant Changes to Future-Year Funding from the State Government to the Sample City**  
**Changes Prior to June 30, 2008 Made Effective in Fiscal Years Beginning July 1, 2009**

State Program	FY 2009 Reduction	FY 2010 Reduction
State Board of Elections	\$ 3,618	\$ 3,574
Compensation Board	895,829	884,750
The Library of Virginia	9,178	9,065
Department of Accounts Transfer Payments	73,304	72,398
Comprehensive Services for At-Risk Youth and Families	303,647	317,263
Department of Social Services	2,688	2,655
Department of Criminal Justice Services	507,568	501,290
Department of Juvenile Justice	<u>124,344</u>	<u>122,806</u>
<b>Total</b>	<b><u>\$1,920,177</u></b>	<b><u>\$1,913,801</u></b>

**Source:** Virginia Department of Planning and Budget Locality by Locality Reduction Report, 2007

**Link:** [Locality by Locality Draft of Budget Reductions 2009/2010 \(http://dpm.virginia.gov/budget/08-10/DraftLocalityByLocalityReductions04-04-08.pdf\)](http://dpm.virginia.gov/budget/08-10/DraftLocalityByLocalityReductions04-04-08.pdf)

**Note:** The reduction of local aid from the Commonwealth of Virginia to all localities will total \$50 million in 2009 and in 2010.

**Special Reference Note:** For an illustration of how changes to future funding from the Federal Government might be displayed, see Illustration No. 11 in "Illustrations Applying the Recommended Reporting Requirements to a State Government," Intergovernmental Financial Dependency and Related Risks — Volume One.

**Illustration No. 12:** Narrative Disclosing the Changes from Past-Enacted State Program Legislation

**Sample City, Virginia**  
**Past-Enacted Legislation that Significantly Impacted Funding from the Commonwealth to the Sample City\***  
**In Fiscal Year 2007**

\* This information was unavailable at this time for the Sample City.

**Source 1:** Unavailable at this time

**Special Reference Note:** For an illustration of how changes from Past-Enacted Federal Program Legislation might be displayed, see Illustration No. 12 in “Illustrations Applying the Recommended Reporting Requirements to a State Government,” Intergovernmental Financial Dependency and Related Risks — Volume One.

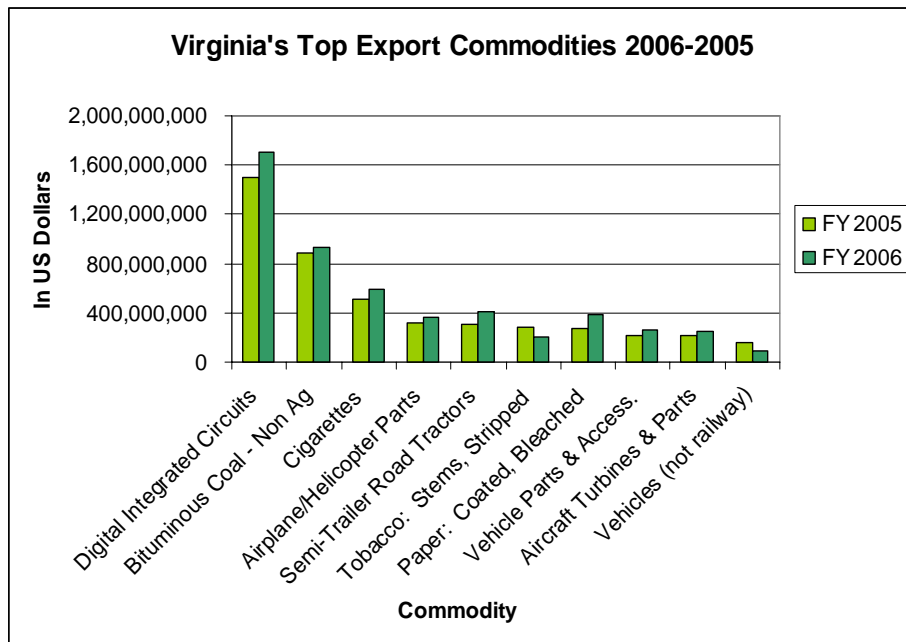
## Illustration No. 13: Narrative Disclosing the Economic Impact of the Commonwealth of Virginia's Balance of Trade

### Economic Impact of the Balance of Trade of the Commonwealth of Virginia

#### Exports of the Commonwealth of Virginia

According to International Trade Division of the Virginia Economic Development Partnership (VEDP), the Commonwealth's total exports reached \$14.1 billion in 2006, which was a 15.46% growth over 2005. Virginia is the 22<sup>nd</sup> largest exporting state in the U.S. for total exports of merchandise and services. Virginia's exports principally rely on manufactured goods, which make up of 82% of all exports. Mineral fuel and tobacco exports are the next largest contributors. Exportation of the top 10 commodities, as shown in Figure 1 and Table 1, grew in 2006, except for tobacco and vehicles.

Figure 1



Link: [Virginia's Top 10 Export Commodities of 2006](http://www.exportvirginia.org/FastFacts/FastFacts_2007/FF_Issues_Virginia_Trade_Overview_07.pdf)

([http://www.exportvirginia.org/FastFacts/FastFacts\\_2007/FF\\_Issues\\_Virginia\\_Trade\\_Overview\\_07.pdf](http://www.exportvirginia.org/FastFacts/FastFacts_2007/FF_Issues_Virginia_Trade_Overview_07.pdf))

Table 1

VIRGINIA'S TOP EXPORT COMMODITIES 2006			
Commodity	\$ USD	+/- 2005	Top Destinations
Digital Integrated Circuits	\$1,504,496,402	133.05%	Germany, Singapore, Portugal
Bituminous Coal – Non Ag	882,874,980	5.65	Italy, Brazil, France, Canada
Cigarettes	510,799,324	16.22	Japan, Saudi Arabia, Lebanon
Airplane/Helicopter Parts	318,914,709	15.15	Germany, UK, France, Canada
Semi-Trailer Road Tractors	306,255,761	34.89	Canada, Nigeria, Mexico, Ghana
Tobacco: Stems, Stripped	288,841,374	-28.68	Germany, Ukraine, Lithuania
Paper: Coated, Bleached	271,899,351	4.36	China, Japan, Belgium, Korea
Vehicle Parts & Access.	220,003,882	1.70	Canada, Sweden, Brazil, Belgium
Aircraft Turbines & Parts	219,596,577	14.45	UK, Germany, France, Switzerland
Vehicles (not railway)	\$ 156,499,989	-38.34%	Canada, Norway, Demark

Link: [Virginia Top Ten Export Destinations 2006](http://www.exportvirginia.org/FastFacts/FastFacts_2007/FF_Issues_Virginia_Trade_Overview_07.pdf)

([http://www.exportvirginia.org/FastFacts/FastFacts\\_2007/FF\\_Issues\\_Virginia\\_Trade\\_Overview\\_07.pdf](http://www.exportvirginia.org/FastFacts/FastFacts_2007/FF_Issues_Virginia_Trade_Overview_07.pdf))

In 2006, Virginia exported to over 202 countries. Table 2 shows Virginia's top ten export destinations in 2006. Canada imported \$2.64 billion worth of Virginia goods, ranking #1 for the tenth year in a row, according to Virginia International Trade VEDP.

**Table 2**

<b>VIRGINIA TOP TEN EXPORT DESTINATIONS 2006</b>			
<b>Rank</b>	<b>Country</b>	<b>\$ USD</b>	<b>Change from 2005</b>
1	Canada	\$ 2,635,557,781	1.92%
2	Germany	1,588,057,081	34.70
3	China	942,515,478	30.63
4	Japan	821,044,284	6.22
5	United Kingdom	809,443,224	8.86
6	Singapore	546,076,430	75.98
7	Mexico	486,491,493	19.99
8	Italy	450,891,918	77.01
9	Brazil	411,799,684	50.35
10	Belgium	\$ 341,872,161	-17.96%

**Link:** [Economic Impact of International Imports \(http://exportvirginia.org/VA%20and%20Intl%20Trd%20Exec%20Summary%2005-1.pdf\)](http://exportvirginia.org/VA%20and%20Intl%20Trd%20Exec%20Summary%2005-1.pdf)

Exportation also provides a large number of jobs for Virginia. Nearly one-sixth (15.5 percent) of all manufacturing workers in Virginia depend on exports for their jobs, according to “Exports, Jobs, and Foreign Investments” report issued by the Office of Trade and Industry Information within the U.S. Department of Commerce.

### **Imports of the Commonwealth of Virginia**

The largest category of trade through Virginia's marine ports and airports is not exports produced within the state, but international imports that land in Virginia and are then shipped to purchasers elsewhere in the U.S., according to the Virginia International Trade report “Economic Impact of International Imports.” The Port of Virginia, which consists of operations in Norfolk, Newport News, Portsmouth, and Front Royal, is ranked the 6<sup>th</sup> largest among all U.S. maritime ports, largely due to international imports. International imports via air freight are received by Washington Dulles International Airport, which is also ranked as the nation's 17<sup>th</sup> largest air-cargo facility.

International imports have a direct connection to economic activity in Virginia, as stated by the “Economic Impact of International Imports” report. Imports play a very vital role in job creation for Virginia. Many direct jobs are concentrated in import handling, especially in transportation services, as stated in following quotation from the Virginia International Trade report “Virginia's First Import Study: Imports are as Vital as Exports to our Economy!”

“In total, more than 89,000 jobs can be attributed to pass-through and state-terminating imports. The economic activity associated with pass-through import trade generated 8,940 direct jobs in Virginia and \$347 million in labor income. State-terminating imports support another 80,100 jobs - and labor earnings of \$2.71 billion. Most of these jobs are within the wholesale and retail trade sectors.”

**Link:** [Virginia's First Import Study \(http://www.exportvirginia.org/newsletter/articles/archives/vaimportstudy.htm\)](http://www.exportvirginia.org/newsletter/articles/archives/vaimportstudy.htm)

### **Balance of Trade Within the Commonwealth of Virginia**

As quoted from the “Economic Impact of International Imports” report, “The capacity of Virginia's large import-handling infrastructure also serves the state's exporters. Even the excess of imports over exports creates a specific benefit: lower backhaul rates to foreign destinations.” Import and export trade-related employment within Virginia is about 8% of the state's total employment. This represents nearly one in every twelve jobs in the state.

## Illustrative Notes to the Financial Statements

**Illustration No. 14:** Note Summarizing Schedule of Expenditures of Federal Awards, by Major Programs

**Sample City, Virginia**  
**Summary Schedule of Expenditures of Federal Awards, by Major Programs (a)**  
**Current and Prior Year, representing 80 Percent of Total Federal Assistance**

Department	Program
Department of Agriculture	Food Stamps Program - Social Services
	National School Lunch Program - Education
	Food Distribution
	School Breakfast Program
Department of Health and Human Services	Social Services Block Grant
	Alcohol & Drug Abuse & Mental Health Services
	Child Care Assistance
	Child Care and Development Fund
	Temporary Assistance for Needy Families
	Foster Care Title IV-E
	Medical Assistance Program
Department of Housing and Urban Development	Community Development Block Grant
	Housing Choice Voucher Program
	HOME Investment in Affordable Housing
Department of Justice	COPS Interoperable Communications Technology Grant
	Assistance to Localities for Admin
	DEA Seized Property
	Community Policing Grant
Department of Homeland Security	FEMA National Urban Search and Rescue Response
	2004 Homeland Security Equipment Program
	FEMA Public Assistance Grants
Department of Defense	Supplemental Payment to Federal Impacted Area
	Army Corps of Engineers - Beach Nourishment
Department of Transportation	Urban Construction Initiative Planning
	Highway Planning and Construction Grants
Department of Labor	Workforce Investment Act Adult Program
	Workforce Investment Act Youth Activities
Department of Education	School Assistance in Federally Affected Areas
	Education of the Handicapped Act Title VIB
	Vocational Education Instruction
	Title I
	Title II
All Other Departments and Agencies	All Other Programs
<b>Total Federal Grantor Agencies</b>	

**Illustration No. 14 — continued**

2007				2006			
Direct	Indirect (b)	Total	Percentage	Direct	Indirect (b)	Total	Percentage
\$ -	\$ 2,530,337	\$ 2,530,337	2.16%	\$ -	\$2,526,156	\$ 2,526,156	2.48%
-	6,316,563	6,316,563	5.39	-	5,966,770	5,966,770	5.86
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	1,900,942	1,900,942	1.62	-	1,652,392	1,652,392	1.62
-	-	-	-	-	-	-	-
-	3,061,351	3,061,351	2.61	-	3,292,169	3,292,169	3.23
-	2,152,859	2,152,859	1.84	-	3,008,196	3,008,196	2.96
-	2,462,351	2,462,351	2.10	-	2,410,826	2,410,826	2.37
-	2,953,349	2,953,349	2.52	-	2,874,702	2,874,702	2.82
-	2,136,188	2,136,188	1.82	-	2,091,965	2,091,965	2.06
3,132,715	-	3,132,715	2.67	2,493,895	-	2,493,895	2.45
14,443,304	-	14,443,304	12.32	9,823,974	-	9,823,974	9.65
-	-	-	-	-	-	-	-
3,702,846	-	3,702,846	3.16	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	1,237,414	-	1,237,414	1.22
-	-	-	-	-	901,157	901,157	0.89
-	-	-	-	-	-	-	-
-	-	-	-	1,595,205	-	1,595,205	1.57
-	-	-	-	-	-	-	-
-	6,804,687	6,804,687	5.81	-	1,265,485	1,265,485	1.24
-	-	-	-	-	-	-	-
-	-	-	-	-	2,366,502	2,366,502	2.32
-	2,350,583	2,350,583	2.01	-	1,559,666	1,559,666	1.53
13,314,447	-	13,314,447	11.36	10,437,083	-	10,437,083	10.25
-	13,674,374	13,674,374	11.67	-	11,520,104	11,520,104	11.32
-	-	-	-	-	-	-	-
-	10,171,978	10,171,978	8.68	-	10,674,766	10,674,766	10.49
-	2,479,622	2,479,622	2.12	-	3,582,596	3,582,596	3.52
8,911,684	14,706,556	23,618,240	20.15	7,314,863	13,192,481	20,507,344	20.15
\$43,504,995	\$73,701,740	\$117,206,735	100.00%	\$32,902,434	\$68,885,933	\$101,788,367	100.00%



## Illustration No. 14 — continued

**Source:** Sample City Single Audit Report, FY 2007 & 2006

**Notes:**

(a) The data presented in the Schedule of Expenditure of Federal Awards is summarized from the Sample City's single audit report, which is compiled directly from the Sample City CAFR and agency records, which are subject to audit. The Schedule of Expenditure of Federal Awards is reviewed for reasonableness by the Auditor in relation to the Government Funds Statement of Revenues, Expenditures, and Changes in Fund Balance, and the Government-wide Statement of Activities.

(b) Indirect Federal revenues are those received by the Sample City from a pass-through entity, principally the Commonwealth of Virginia.

\*\*\*THIS PAGE INTENTIONALLY LEFT BLANK\*\*\*

**Illustration No. 15:** Note Presenting a Table Illustrating the Relationship Between Intergovernmental Revenues and Total Program and General Revenues

**Sample City, Virginia**  
**A Table Illustrating the Relationship Between Federal Revenues and Total Revenues**

Functions	Charges for Services	Program Revenues							
		Operating Grants and Contributions				Capital Grants and Contributions			
			Other	Non-			Other	Non-	
		Federal	Government	Government	Subtotal	Federal	Government	Government	Subtotal
Primary Government:									
Governmental Activities	\$ 48,781,566	xxx	xxx	xxx	\$152,284,945	xxx	xxx	xxx	\$35,396,487
Business-type Activities	98,911,456	xxx	xxx	xxx	4,864,653	xxx	xxx	xxx	1,131,369
Total Primary Government	147,693,022	xxx	xxx	xxx	57,149,598	xxx	xxx	xxx	6,527,856
Component Units	19,774,661	xxx	xxx	xxx	34,904,994	xxx	xxx	xxx	5,127,396
Subtotal Program Revenues	167,467,683	xxx	xxx	xxx	92,054,592	xxx	xxx	xxx	1,655,253
General Revenues: (a)									
Primary Government	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Component Units	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Subtotal General Revenues	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Total Program/General Revenues	\$167,467,683	xxx	xxx	xxx	\$292,054,592	xxx	xxx	xxx	\$51,655,253

**Source:** Sample City Comprehensive Annual Financial Report FY 2007

**Notes:** The table above is a pro forma example of how the recommended requirement should be presented. At this time the specific numbers are unavailable.

(a) Includes taxes, payments from Sample City, grants and contributions not restricted to specific programs, investment earnings, and miscellaneous revenue; excludes transfers and extraordinary items

(b) \$784,352,868 – 0 (no transfers or extraordinary items)

(c) \$592,715,338 – (22,323) (subtraction for extraordinary items)

Illustration No. 15 — continued

Total	Total Federal	Percent Federal	Total Other Government	Percent Other Government
\$ 236,462,998	xxx	xxx	xxx	xxx
104,907,479	xxx	xxx	xxx	xxx
341,370,476	xxx	xxx	xxx	xxx
169,807,051	xxx	xxx	xxx	xxx
511,177,527	xxx	xxx	xxx	xxx
784,352,868(b)	N/A	N/A	N/A	N/A
592,737,661(c)	N/A	N/A	N/A	N/A
1,377,090,529	N/A	N/A	N/A	N/A
\$1,888,268,056	xxx	xxx	xxx	xxx

**Illustration No. 16:** Note to the Basic Financial Statements Reconciling the Federal and State Revenues Reported in Government-wide and Governmental Fund Financial Statements

**Sample City, Virginia**  
**Reconciliation of Revenues from the Federal and State Government**

	<u>Federal</u>	<u>State</u>
<b>Total Federal and State Revenues Presented in Government-Wide Statement of Activities (a)</b>	xxx	xxx
<b>Reconciling Items:</b>		
Governmental Activities	xxx	xxx
Business-Type Activities	xxx	xxx
Component Units (b)	(use actual #)	(use actual #)
<b>Total Federal Grants and Contracts in Governmental Funds, Statement of Revenues, Expenditures, and Changes in Fund Balance (c)</b>	<u>\$61,080,083</u>	<u>\$111,047,632</u>

**Source:** The Sample City Comprehensive Annual Financial Report FY 2007

- Notes:**
- (a) See Note to Government-Wide Statement of Activities presenting a disaggregation of Operating Grants and Contributions, and Capital Grants and Contributions in the three categories of (1) Federal, (2) other-government, and (3) non-government
- (b) All federal funds reflected in Component Units must be eliminated because no Component Unit amounts are included in the Governmental Funds Statement
- (c) See Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds

**Illustration No. 17: Note Presenting the Total U.S. Treasury and Agency Securities at Fair Value Held Directly or Through Pooling Arrangements**

**Sample City, Virginia**  
**Total Debt Obligations Held Directly or Through Pooling Arrangements**  
**U.S. Treasury and Agency Securities at Fair Value**

<b>2007</b>			
<b>Placement of Holdings</b>	<b>U.S. Treasury Securities</b>	<b>U.S. Agency Securities</b>	<b>Total</b>
Directly held (a)	\$ 56,700,000	\$ -	\$56,700,000
State Treasurer's Local Government Investment Pool (LGIP) - allocated	24,620,563 (b)	-	24,620,563
State Non-Arbitrage Program (SNAP) - allocated	-	1,048,596 (d)	1,048,596
<b>Total</b>	<b>\$ 81,320,563</b>	<b>\$1,048,596</b>	<b>\$82,369,159 (f)</b>

<b>2006</b>			
<b>Placement of Holdings</b>	<b>U.S. Treasury Securities</b>	<b>U.S. Agency Securities</b>	<b>Total</b>
Directly held (a)	\$ 77,747,064	\$ -	\$ 77,747,064
State Treasurer's Local Government Investment Pool (LGIP) - allocated	53,747,813 (c)	-	53,747,813
State Non-Arbitrage Program (SNAP) - allocated	-	1,183,651 (e)	1,183,651
<b>Total</b>	<b>\$131,494,877</b>	<b>\$1,183,651</b>	<b>\$132,678,528 (g)</b>

**Source 1:** Sample City Comprehensive Annual Financial Reports

**Source 2:** Virginia State Non-Arbitrage Program report

**Source 3:** Commonwealth of Virginia, Auditor of Public Accounts, Local Government Investment Pool Financial Statements

**Notes:**

(a) Held by the primary government and the School Board Component Units

(b) The State Treasurer's Local Government Investment Pool (LGIP) number is derived by calculating the rate at which publicly held Treasury securities make up the total amount held in the Local Government Investment Pool of the Commonwealth of Virginia. In this case the rate is 5.25%, which was calculated by dividing the amount that is publicly held as Treasury securities, \$201,384,000, by the total amount held in the LGIP \$3,835,369,559. The calculated rate is then applied to the amount held by the State Treasurer's Local Government Investment Pool in the name of the Sample City, \$468,900,000, resulting in an allocation of \$24,620,563 in U.S. Treasury at fair value.

(c) The State Treasurer's Local Government Investment Pool (LGIP) number is derived by calculating the rate at which publicly held Treasury securities make up the total amount held in the Local Government Investment Pool of the Commonwealth of Virginia. In this case the rate is 13.07%, which was calculated by dividing the amount that is publicly held as Treasury securities, \$358,257,600 by the total amount held in the LGIP \$2,741,532,033. The calculated rate is then applied to the amount held by the State Treasurer's Local Government Investment Pool in the name of the Sample City, \$411,300,000, resulting in an allocation of \$53,747,813 in U.S. Treasury at fair value.

(d) The State Non-Arbitrage Program number is derived by calculating the rate at which U.S. Agency Securities make up of the total amount that is held in the Non-Arbitrage Program for the Commonwealth of Virginia. The SNAP program did not hold U.S. Treasury securities. In this case the rate is 3%, which was calculated by dividing the amount of agency securities, \$80,982,476 by the total amount held of investments \$2,741,532,033. The calculated rate is then applied to the amount held in the State Non-Arbitrage Program for the Sample City, \$39,860,622, resulting in an allocation of \$1,048,595 in U.S. Agency Securities at fair value.

## Illustration No. 17 — continued

(e) The State Non-Arbitrage Program number is derived by calculating the rate at which U.S. agency securities make up of the total amount that is held in the Non Arbitrage Program for the Commonwealth of Virginia. The SNAP program did not hold U.S. Treasury securities. In this case the rate is 10%, which was calculated by dividing the amount of agency securities, \$252,987,771 by the total amount held of investments \$2,501,303,138. The calculated rate is then applied to the amount held in the State Non-Arbitrage Program for the Sample City, \$11,702,819, resulting in an allocation of \$1,183,651 in U.S. Agency Securities at fair value.

(f) Total U.S. Treasury and Agency Securities of \$82,369,158, represents 12% of the total amount of all investments reported, net of cash held, which is \$686,113,709. Treasury securities include treasury bills, notes, bonds, treasury inflation-protected securities, and I and EE/E Savings Bonds. Agency securities do not include securities that are not fully backed by the U.S. Government. Ginnie Mae is the only agency security that is fully backed by the U.S. Government.

(g) Total U.S. Treasury and Agency Securities of \$132,678,528, represents 23% of the total amount of all investments reported, net of cash held, which is \$580,649,682. Treasury securities include treasury bills, notes, bonds, treasury inflation-protected securities, and I and EE/E Savings Bonds. Agency securities do not include securities that are not fully backed by the U.S. Government. Ginnie Mae is the only agency security that is fully backed by the U.S. Government.



## **Illustration No. 18: Note Disclosing the Financial Position of the Commonwealth of Virginia Government**

### **Financial Position of the Commonwealth of Virginia Government**

#### **Federal Risk**

The financial position of the United States Government has a direct and substantial impact on the amount of risk potential that the Commonwealth of Virginia and its local governments could face in the upcoming years. This risk, however, does not stand alone. It is also important to factor in the risk associated with the financial position and sustainability of the Commonwealth. A significant portion of the total funding for the Commonwealth comes directly from the Federal Government. Accordingly, it is important that users of the Comprehensive Annual Financial Report of the Commonwealth of Virginia be aware of the reported financial position of the Federal Government.

#### **Background**

Each year the Virginia Government releases a report titled “A Comprehensive Annual Financial Report” (CAFR) for the fiscal year ended June 30<sup>th</sup>. It is presented in three sections: the Introductory Section, the Financial Section and the Statistical Section. The Financial Section includes the State Auditor’s report, management’s discussion and analysis, and audited government-wide and fund financial statements. For the purposes of this disclosure, the discussion will focus on the MD&A section of the Commonwealth’s CAFR, as well as information stemming from other sources, in order to provide an adequate disclosure of the financial position of the Virginia Government.

The MD&A section of the Commonwealth’s CAFR summarizes the financial position of the Commonwealth of Virginia government for the current year, as compared to the previous year. The discussion includes the financial position of the major funds of the Commonwealth, debt levels, and gives an overall analysis of the financial statements.

#### **State Reporting Basis**

The Virginia Government reports financial information in conformance with generally accepted accounting principles.

#### **External Assessments**

The Transmittal Letter to the Governor from the Comptroller reads, “The Commonwealth is one of only seven states in the nation with a ‘triple A’ bond rating for general obligation debt from the three ratings agencies: Moody’s Investors Service; Standard & Poor’s Ratings Group, a division of The McGraw Hill Companies, Inc; and Fitch, Inc.”<sup>(a)</sup> While Virginia continues to maintain its AAA bond rating, these governmental bond ratings may be impacted under the current and future market conditions.

#### **Revenue Stabilization Fund**

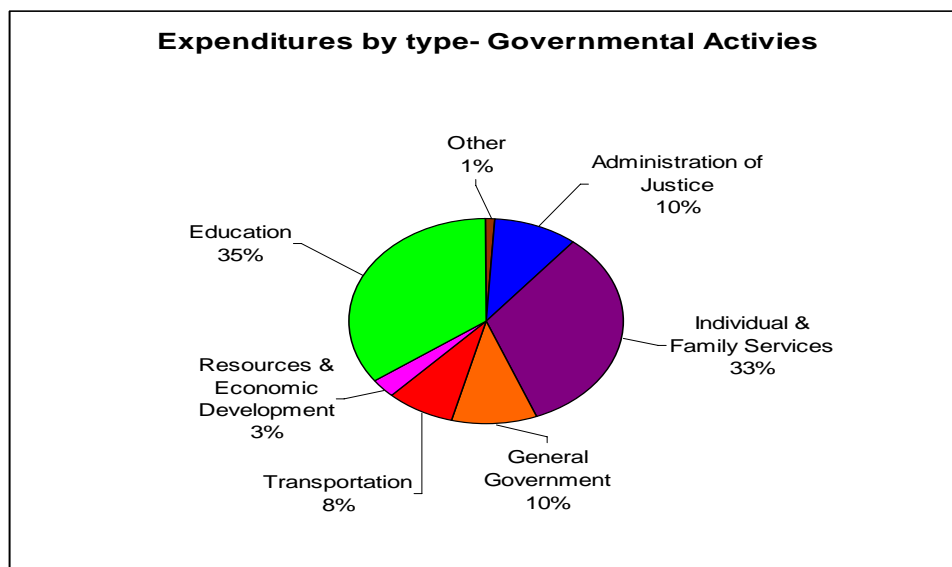
The Commonwealth maintains a rainy day fund, also referred to as the Revenue Stabilization Fund. In fiscal year 2007 Virginia tapped into this fund in order to compensate for predicted revenue growth levels that were not reached during the year. Action taken by the Commonwealth relating to its Revenue Stabilization Fund should be a factor in considering the overall current financial position of the state.

## Illustration No. 18 — continued

### Results

The MD&A states, “While the Commonwealth’s combined governmental funds increased during fiscal year 2007, the General Fund actual revenues were \$231.7 million less than final budgeted revenue. This has contributed to a projected budgeted shortfall of \$638.4 million for the fiscal years 2007 and 2008 biennial budget cycle.”<sup>(b)</sup>

**Figure 1** illustrates Commonwealth expenses based on each governmental activity. These expenses increased by 10.6 percent, or \$2.6 billion, for fiscal year 2007.



**Source:** Virginia Comprehensive Annual Financial Report (CAFR) 2007

The Commonwealth’s CAFR has received unqualified audit opinions from fiscal year 1986 through fiscal year 2007. In contrast, the Government Accountability Office (GAO) has been unable to give an opinion on the Federal Government’s financial statements for 10 years.

### Economic Outlook

The Comptroller’s Letter of Transmittal to the Governor stated, “Fiscal year 2007 was a good, but not spectacular, year for the Virginia economy. The current housing slump and related problems in financial markets will create difficult conditions in fiscal year 2008 for the Virginia economy especially in the construction and real estate industries.”<sup>(c)</sup>

The Economic Factors and Outlook section of the Management Discussion and Analysis within the Commonwealth’s CAFR provides additional pertinent comments relating to the discussion of sustainability and growth. It states, “In fiscal year 2007, Virginia’s economy continued to expand, however this growth was slightly below the national growth rate for the first time since 1996.”<sup>(d)</sup> It appears that the financial position of the Virginia state government, while for the moment relatively stable, may face increased uncertainty.

## Illustration No. 18 — continued

### Notes:

- (a) Commonwealth of Virginia, “Comprehensive Annual Financial Report (CAFR) for the Fiscal Year Ended June 30, 2007,” Letter of Transmittal, pg. 8
- (b) Commonwealth of Virginia, “CAFR for the Fiscal Year Ended June 30, 2007,” Management’s Discussion and Analysis, pg. 29
- (c) Commonwealth of Virginia, “CAFR for the Fiscal Year Ended June 30, 2007,” Comptroller’s Letter of Transmittal, pg. 16
- (d) Commonwealth of Virginia, “CAFR for the Fiscal Year Ended June 30, 2007,” Management’s Discussion and Analysis, pg. 38

**Special Reference Note:** For an illustration of how the financial position of the Federal Government might be displayed, see Illustration No. 18 in “Illustrations Applying the Recommended Reporting Requirements to a State Government,” Intergovernmental Financial Dependency and Related Risks — Volume One.

## Illustrative Required Supplementary Information

### Illustration No. 19: Schedule of Federal and State Revenue Amounts Within Total Operating and Capital Grants and Contributions

#### Sample City, Virginia Government-wide Financial Statements, Statement of Activities Schedule of Intergovernmental Revenue Amounts Within Total Operating and Capital Grants and Contributions For the Fiscal Year Ended June 30, 2007

		Program Revenue		
Functions	Expenses	Operating Grants and Contributions	Capital Grants and Contributions	Total Operating and Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Legislative	\$ 1,089,168	\$ -	\$ -	\$ -
Executive	3,270,509	-	-	-
Law	3,229,086	-	-	-
Finance	14,595,211	1,441,817	-	1,441,817
Human Resources	7,055,436	-	-	-
Judicial	43,849,524	21,465,107	-	21,465,107
Health	2,810,740	32,986	-	32,986
Police	76,477,524	1,107,870	-	1,107,870
Human Services	89,032,221	60,607,667	-	60,607,667
Public Works	125,826,102	26,576,112	12,042,045	38,618,157
Parks & Recreation	39,506,436	75,147	-	75,147
Library	14,286,492	256,604	-	256,604
Planning	8,864,541	22,621	-	22,621
Agriculture	949,592	55,830	-	55,830
Economic Development	2,270,046	-	-	-
Convention & Visitor Development	21,293,780	-	-	-
Communications & Information Technology	19,612,228	782,715	-	782,715
Boards & Commissions	17,272,980	102,889	-	102,889
Fire	38,488,874	1,958,404	553,262	2,511,665
Management Services	3,188,153	-	-	-
Education	322,012,571	-	-	-
Housing & Neighborhood Preservation	19,350,604	20,362,370	-	20,362,370
Museums	7,958,170	596,291	-	596,291
Emergency Medical Services	6,653,572	341,237	152,592	493,829
General Government	46,315,986	16,499,280	22,648,588	39,147,868
Interest on Long-term Debt	38,387,003	-	-	-
Total Governmental Activities	\$ 973,646,547	\$152,284,945	\$35,396,487	\$187,681,432
Business Type Activities:				
Water and Sewer	81,670,771	\$ -	\$ 1,131,369	\$ 1,131,369
Stormwater	12,978,537	4,864,653	-	4,864,653
Parking	1,473,281	-	-	-
Total Business-type Activities	\$ 96,122,590	\$ 4,864,653	\$ 1,131,369	\$ 5,996,022
Total Primary Government	\$1,069,769,138	\$157,149,598	\$36,527,856	\$193,677,454
Component Units:				
Sample City, Development Authority	\$ 8,162,271	\$ 5,095,148	\$ 4,453,959	\$ 9,549,106
Sample City, Community Development Corp.	2,605,958	3,941,413	-	3,941,413
Sample City, School Board	7,893,761,212	125,868,434	10,673,438	136,541,871
Total Component Units	\$7,904,529,441	\$134,904,994	\$15,127,396	\$150,032,390

**Illustration No. 19 — continued**[illegible]

## Illustration No. 19 — continued

**Source:** Sample City, Virginia Comprehensive Annual Financial Report FY 2007

### Notes:

(a) Amounts of Federal revenue by function were not available at the time of research. However, they may be determined from subsidiary accounting records associating Federal revenue received with specific functions.

(b) Percentage of expenses funded by Federal Government is calculated by dividing total federal revenue for each line item by the expense per line item.

(c) Percentage of expenses funded by state government is calculated by dividing total state revenue for each line item by the expense per line item.

\*\*\*THIS PAGE INTENTIONALLY LEFT BLANK\*\*\*

## Illustrative Statistical Section

### Illustration No. 20: 10-Year Summary Schedule of Expenditures of Federal Awards, by Major Departments

#### Sample City, Virginia Summary Schedule of Expenditures of Federal Awards, by Major Departments (a) 10-Year Summary, Five Largest Departments

Department	2007			
	Direct	Indirect	Total	Percentage
Department of Education	\$13,673,172	\$29,815,954	\$ 43,489,126	37.10%
Department of Housing and Urban Development	20,804,165	1,620	20,805,785	17.75
Department of Health and Human Services	51,346	18,570,191	18,621,536	15.89
Department of Agriculture	40,636	11,805,949	11,846,585	10.11
Department of Transportation	-	7,578,337	7,578,337	6.47
Department of Labor	-	-	-	-
Department of Homeland Security	-	-	-	-
Department of Justice	-	-	-	-
FEMA	-	-	-	-
Other Departments and Agencies	8,935,757	5,929,690	14,865,447	12.68
<b>Total Federal Grantor Agencies</b>	<b>\$43,505,076</b>	<b>\$73,701,740</b>	<b>\$117,206,816</b>	<b>100.00%</b>

Annual Dollar Increase/(Decrease)	\$ 16,747,313(b)
Annual Percentage Increase/(Decrease)	16.67%
Cumulative Percentage Increase/(Decrease)	85.83%

Department	2004			
	Direct	Indirect	Total	Percentage
Department of Education	\$12,388,159	\$28,222,754	\$ 40,610,913	39.30%
Department of Housing and Urban Development	15,486,689	-	15,486,689	14.99
Department of Health and Human Services	369,151	16,981,586	17,350,737	16.79
Department of Agriculture	35,423	10,584,619	10,620,042	10.28
Department of Transportation	-	1,739,859	1,739,859	1.68
Department of Labor	-	-	-	-
Department of Homeland Security	-	-	-	-
Department of Justice	-	-	-	-
FEMA	1,162,337	12,969,302	14,131,639	13.68
Other Departments and Agencies	2,881,899	517,393	3,399,292	3.29
<b>Total Federal Grantor Agencies</b>	<b>\$32,323,658</b>	<b>\$71,015,513</b>	<b>\$103,339,172</b>	<b>100.00%</b>

Annual Dollar Increase/(Decrease)	\$16,056,676(c)
Annual Percentage Increase/(Decrease)	18.40%
Cumulative Percentage Increase/(Decrease)	63.85%



**Illustration No. 20 — continued**

2006				2005			
Direct	Indirect	Total	Percentage	Direct	Indirect	Total	Percentage
\$10,995,874	\$31,016,705	\$ 42,012,579	41.82%	\$11,160,621	\$30,724,157	\$ 41,884,778	40.29%
14,478,498	2,115	14,480,613	14.41	16,040,142	1,665	16,041,807	15.43
62,216	18,844,584	18,906,800	18.82	116,331	18,694,946	18,811,277	18.09
50,902	11,184,556	11,235,458	11.18	33,955	11,485,572	11,519,528	11.08
-	-	-	-	-	-	-	-
-	4,413,859	4,413,859	4.39	-	-	-	-
-	-	-	-	2,691,271	2,787,692	5,478,963	5.27
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
7,314,944	2,095,250	9,410,194	9.37	6,779,060	3,450,310	10,229,370	9.84
\$32,902,434	\$67,557,069	\$100,459,503	100.00%	\$36,821,381	\$67,144,343	\$103,965,723	100.00%
\$ (3,506,220)						\$ 626,551	
(3.37)%						0.61%	
59.28%						64.84%	
2003				2002			
Direct	Indirect	Total	Percentage	Direct	Indirect	Total	Percentage
\$14,575,236	\$25,181,125	\$39,756,362	45.55%	\$11,593,958	\$21,429,302	\$33,023,261	38.09%
13,825,597	-	13,825,597	15.84	4,771,567	6,795,059	11,566,626	13.34
353,638	17,303,992	17,657,630	20.23	329,931	15,935,873	16,265,804	18.76
36,901	11,278,580	11,315,481	12.96	34,893	19,557,318	19,592,211	22.60
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
1,238,711	552,407	1,791,118	2.05	1,915,200	301,221	2,216,421	2.56
-	-	-	-	-	-	-	-
2,260,748	675,561	2,936,309	3.36	2,541,819	1,501,055	4,042,874	4.66
\$32,290,831	\$54,991,665	\$87,282,496	100.00%	\$21,187,368	\$65,519,829	\$86,707,197	100.00%
\$ 575,299						\$12,982,491(d)	
0.66%						17.61%	
38.39%						37.48%	

## Illustration No. 20 — continued

Department	2001			
	Direct	Indirect	Total	Percentage
Department of Education	\$ 8,772,118	\$ 16,472,273	\$ 25,244,392	34.24 %
Department of Housing and Urban Development	30,838	14,646,285	14,677,123	19.91
Department of Health and Human Services	6,437,431	4,203,028	10,640,459	14.43
Department of Agriculture	34,833	18,091,583	18,126,416	24.59
Department of Transportation	-	-	-	-
Department of Labor	-	-	-	-
Department of Homeland Security	-	-	-	-
Department of Justice	2,270,172	168,536	2,438,708	3.31
FEMA	-	-	-	-
Other Departments and Agencies	1,579,941	1,017,669	2,597,610	3.52
<b>Total Federal Grantor Agencies</b>	<b>\$ 19,125,332</b>	<b>\$ 54,599,374</b>	<b>\$ 73,724,706</b>	<b>100.00 %</b>

Annual Dollar Increase/(Decrease)	\$ 4,045,513
Annual Percentage Increase/(Decrease)	5.81 %
Cumulative Percentage Increase/(Decrease)	16.89 %

Department	1998			
	Direct	Indirect	Total	Percentage
Department of Education	\$ 9,584,274	\$ 9,111,672	\$18,695,946	29.64%
Department of Housing and Urban Development	4,831,364	547,250	5,378,613	8.53
Department of Health and Human Services	1,218,317	8,434,660	9,652,977	15.30
Department of Agriculture	24,593	23,093,177	23,117,770	36.65
Department of Transportation	-	-	-	-
Department of Labor	-	-	-	-
Department of Homeland Security	-	-	-	-
Department of Justice	4,132,402	186,346	4,318,748	6.85
FEMA	-	-	-	-
Other Departments and Agencies	1,781,378	125,547	1,906,925	3.02
<b>Total Federal Grantor Agencies</b>	<b>\$21,572,328</b>	<b>\$41,498,652</b>	<b>\$63,070,979</b>	<b>100.00%</b>

Annual Dollar Increase/(Decrease)	
Annual Percentage Increase/(Decrease)	
Cumulative Percentage Increase/(Decrease)	

## Illustration No. 20 — continued

2000				1999			
Direct	Indirect	Total	Percentage	Direct	Indirect	Total	Percentage
\$ 9,663,155	\$14,123,040	\$23,786,195	34.14%	\$ 7,051,822	\$ 11,682,623	\$ 18,734,445	27.95%
5,427,119	1,939,535	7,366,654	10.57	4,802,315	1,050,077	5,852,391	8.73
-	12,881,222	12,881,222	18.49	-	12,046,410	12,046,410	17.97
44,024	17,988,722	18,032,746	25.88	35,753	18,637,148	18,672,900	27.86
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
3,055,683	173,419	3,229,102	4.63	5,102,510	89,356	5,191,866	7.75
-	-	-	-	-	-	-	-
3,687,950	695,325	4,383,275	6.29	2,094,980	4,440,434	6,535,414	9.75
\$21,877,930	\$47,801,264	\$69,679,193	100.00%	\$19,087,380	\$47,946,047	\$67,033,427	100.00%
\$ 2,645,767				\$ 3,962,447			
3.95%				6.28%			
10.48%				6.28%			

**Source:** The Sample City's Single Audit Report, FY 1998 – 2007, issued by the Auditor of Public Accounts, which includes an opinion on Sample City's compliance with Federal regulations

### Notes:

(a) The data presented in the Schedule of Expenditures of Federal Awards is summarized in the Sample City's Single Audit Report located in its Comprehensive Annual Financial Report, which is compiled directly from the Sample City's general ledger and agency records, which are subject to audit. The Schedule of Expenditures of Federal Awards is reviewed for reasonableness by the Auditor in relation to the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance, and the Government-wide Statement of Activities. Indirect Federal revenues are those received by the Sample City from a pass-through entity, principally the Commonwealth of Virginia.

(b) The increase of \$16,747,313 was due principally to increases in the individual programs under the Department of Housing and Urban Development and the Department of Transportation, as well as an increase in all other programs.

(c) The increase of \$16,056,676 was due principally to increases in the individual programs under the Federal Emergency Management Agency (FEMA) due to Hurricane Isabel and only applies to FY 2004, the Department of Housing and Urban Development, and the Department of Transportation.

(d) The increase of \$12,982,491 was due principally to increases in the individual programs under the Department of Education, the Department of Health and Human Resources, and from other departments and agencies.

**Illustration No. 21: 10-Year Summary Schedule of Expenditures of Federal Awards, by Major Programs**

**Sample City, Virginia**  
**Summary Schedule of Expenditures of Federal Awards, by Major Programs (a)**  
**10-Year Summary, Largest Programs**

Department	Program	2007			
		Direct	Indirect	Total	Percentage
Department of Agriculture	Food Stamps Program - Social Services	-	\$ 2,530,337	\$ 2,530,337	2.16%
	National School Lunch Program - Education	-	6,316,563	6,316,563	5.39
	Food Distribution	-	-	-	-
	School Breakfast Program	-	-	-	-
Department of Health and Human Services	Social Services Block Grant	-	1,900,942	1,900,942	1.62
	Alcohol & Drug Abuse & Mental Health Services	-	-	-	-
	Child Care Assistance	-	3,061,351	3,061,351	2.61
	Child Care and Development Fund	-	2,152,859	2,152,859	1.84
	Temporary Assistance for Needy Families	-	2,462,351	2,462,351	2.10
	Foster Care Title IV-E	-	2,953,349	2,953,349	2.52
Department of Housing and Urban Development	Medical Assistance Program	-	2,136,188	2,136,188	1.82
	Community Development Block Grant	3,132,715	-	3,132,715	2.67
	Housing Choice Voucher Program	14,443,304	-	14,443,304	12.32
	HOME Investment in Affordable Housing	-	-	-	-
Department of Justice	COPS Interoperable Communications Technology Grant	3,702,846	-	3,702,846	3.16
	Assistance to Localities for Administration	-	-	-	-
	DEA Seized Property	-	-	-	-
Department of Homeland Security	Community Policing Grant	-	-	-	-
	FEMA National Urban Search and Rescue Response	-	-	-	-
	2004 Homeland Security Equipment Program	-	-	-	-
Department of Defense	FEMA Public Assistance Grants	-	-	-	-
	Supplemental Payment to Federally Impacted Area	-	-	-	-
Department of Transportation	Army Corps of Engineers - Beach Nourishment	-	-	-	-
	Urban Construction Initiative Planning	-	6,804,687	6,804,687	5.81
Department of Labor	Highway Planning and Construction Grants	-	-	-	-
	Workforce Investment Act Adult Program	-	-	-	-
Department of Education	Workforce Investment Act Youth Activities	-	2,350,583	2,350,583	2.01
	School Assistance in Federally Affected Areas	13,314,447	-	13,314,447	11.36
	Education of the Handicapped Act Title VI-B	-	13,674,374	13,674,374	11.67
	Vocational Education Instruction	-	-	-	-
All Other Departments and Agencies	Title I	-	10,171,978	10,171,978	8.68
	Title II	-	2,479,622	2,479,622	2.12
All Other Programs		8,911,684	14,706,556	23,618,240	20.15
<b>Total Federal Grantor Agencies</b>		<b>\$43,504,995</b>	<b>\$73,701,740</b>	<b>\$117,206,735</b>	<b>100.00%</b>

## Illustration No. 21 — continued

2006				2005			
Direct	Indirect	Total	Percentage	Direct	Indirect	Total	Percentage
\$ -	\$2,526,156	\$ 2,526,156	2.48%	\$ -	\$ 2,519,714	\$ 2,519,714	2.42%
-	5,966,770	5,966,770	5.86	-	6,101,245	6,101,245	5.87
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	1,652,392	1,652,392	1.62	-	1,506,252	1,506,252	1.45
-	-	-	-	-	-	-	-
-	3,292,169	3,292,169	3.23	-	4,263,348	4,263,348	4.10
-	3,008,196	3,008,196	2.96	-	2,136,670	2,136,670	2.06
-	2,410,826	2,410,826	2.37	-	2,330,245	2,330,245	2.24
-	2,874,702	2,874,702	2.82	-	3,020,419	3,020,419	2.91
-	2,091,965	2,091,965	2.06	-	2,049,937	2,049,937	1.97
2,493,895	-	2,493,895	2.45	2,783,240	-	2,783,240	2.68
9,823,974	-	9,823,974	9.65	10,193,801	-	10,193,801	9.80
-	-	-	-	-	-	-	-
-	-	-	-	128,066	-	128,066	0.12
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
1,237,414	-	1,237,414	1.22	-	-	-	-
-	901,157	901,157	0.89	-	-	-	-
-	-	-	-	-	1,227,602	1,227,602	1.18
1,595,205	-	1,595,205	1.57	-	1,677,056	1,677,056	1.61
-	-	-	-	-	-	-	-
-	1,265,485	1,265,485	1.24	-	-	-	-
-	-	-	-	-	2,350,904	2,350,904	2.26
-	2,366,502	2,366,502	2.32	-	1,620,117	1,620,117	1.56
-	1,559,666	1,559,666	1.53	-	1,416,312	1,416,312	1.36
10,437,083	-	10,437,083	10.25	10,743,014	-	10,743,014	10.33
-	11,520,104	11,520,104	11.32	-	13,247,980	13,247,980	12.74
-	-	-	-	-	1,028,816	1,028,816	0.99
-	10,674,766	10,674,766	10.49	-	10,025,260	10,025,260	9.64
-	3,582,596	3,582,596	3.52	-	2,641,577	2,641,577	2.54
<u>7,314,863</u>	<u>13,192,481</u>	<u>20,507,344</u>	<u>20.15</u>	<u>10,281,989</u>	<u>10,672,160</u>	<u>20,954,149</u>	<u>20.15</u>
\$32,902,434	\$68,885,933	\$101,788,367	100.00%	\$34,130,110	\$69,835,613	\$103,965,723	100.00%

## Illustration No. 21 — continued

2004				2003			
Direct	Indirect	Total	Percentage	Direct	Indirect	Total	Percentage
\$ -	\$ 2,497,309	\$ 2,497,309	2.36%	\$ -	\$ 2,921,565	\$ 2,921,565	3.35%
-	5,605,250	5,605,250	5.30	-	6,101,075	6,101,075	6.99
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	1,385,806	1,385,806	1.31	-	1,388,007	1,388,007	1.59
-	-	-	-	-	-	-	-
-	3,787,652	3,787,652	3.58	-	4,074,143	4,074,143	4.67
-	1,406,274	1,406,274	1.33	-	1,733,694	1,733,694	1.99
-	2,218,220	2,218,220	2.10	-	2,318,054	2,318,054	2.66
-	2,561,897	2,561,897	2.42	-	2,390,197	2,390,197	2.74
-	1,851,443	1,851,443	1.75	-	1,910,330	1,910,330	2.19
2,838,902	-	2,838,902	2.68	2,777,641	-	2,777,641	3.18
9,899,868	-	9,899,868	9.36	8,430,399	-	8,430,399	9.66
-	-	-	-	1,245,864	-	1,245,864	1.43
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	12,708,579	12,708,579	12.01	-	-	-	-
-	1,312,169	1,312,169	1.24	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	1,735,434	1,735,434	1.64	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
12,071,041	-	12,071,041	11.41	14,248,053	-	14,248,053	16.32
-	11,807,215	11,807,215	11.16	-	9,993,613	9,993,613	11.45
-	-	-	-	-	-	-	-
-	9,131,994	9,131,994	8.63	-	8,697,601	8,697,601	9.96
-	2,522,060	2,522,060	2.38	-	2,067,485	2,067,485	2.37
<u>9,994,829</u>	<u>10,484,213</u>	<u>20,479,042</u>	<u>19.35</u>	<u>5,588,874</u>	<u>11,395,904</u>	<u>16,984,778</u>	<u>19.46</u>
\$34,804,640	\$71,015,513	\$105,820,153	100.00%	\$32,290,831	\$54,991,665	\$87,282,496	100.00%

## Illustration No. 21 — continued

2002				2001			
Direct	Indirect	Total	Percentage	Direct	Indirect	Total	Percentage
\$ -	\$ 11,916,899	\$11,916,899	13.74%	\$ -	\$10,836,444	\$10,836,444	14.70%
-	5,260,085	5,260,085	6.07	-	5,090,974	5,090,974	6.91
-	1,286,606	1,286,606	1.48	-	-	-	-
-	1,080,883	1,080,883	1.25	-	1,130,684	1,130,684	1.53
-	1,359,853	1,359,853	1.57	-	1,361,029	1,361,029	1.85
-	-	-	-	-	2,023,466	2,023,466	2.74
-	3,362,360	3,362,360	3.88	-	2,955,680	2,955,680	4.01
-	1,947,048	1,947,048	2.25	-	1,546,916	1,546,916	2.10
-	2,519,853	2,519,853	2.91	-	2,002,982	2,002,982	2.72
-	2,126,520	2,126,520	2.45	-	2,059,119	2,059,119	2.79
-	1,653,892	1,653,892	1.91	-	1,641,468	1,641,468	2.23
2,888,185	6,795,059	9,683,244	11.17	3,304,555	4,203,028	7,507,583	10.18
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
11,510,730	-	11,510,730	13.28	8,772,118	-	8,772,118	11.90
-	8,158,183	8,158,183	9.41	-	6,540,884	6,540,884	8.87
-	-	-	-	-	-	-	-
-	7,419,788	7,419,788	8.56	-	5,559,145	5,559,145	7.54
-	296,734	296,734	0.34	-	-	-	-
<u>6,788,453</u>	<u>10,336,065</u>	<u>17,124,519</u>	<u>19.75</u>	<u>7,048,659</u>	<u>7,647,554</u>	<u>14,696,213</u>	<u>19.93</u>
\$21,187,368	\$65,519,829	\$86,707,197	100.00%	\$19,125,332	\$54,599,374	\$73,724,706	100.00%

**Illustration No. 21 — continued**

2000				1999			
Direct	Indirect	Total	Percentage	Direct	Indirect	Total	Percentage
\$ -	\$11,180,312	\$11,180,312	16.05%	\$ -	\$12,282,625	\$12,282,625	18.32%
-	4,811,480	4,811,480	6.91	-	4,446,237	4,446,237	6.63
-	981,820	981,820	1.41	-	963,126	963,126	1.44
-	1,002,056	1,002,056	1.44	-	929,910	929,910	1.39
-	1,468,810	1,468,810	2.11	-	1,833,165	1,833,165	2.73
-	1,446,523	1,446,523	2.08	-	1,221,416	1,221,416	1.82
-	1,992,317	1,992,317	2.86	-	2,314,574	2,314,574	3.45
-	2,131,626	2,131,626	3.06	-	1,336,937	1,336,937	1.99
-	1,814,307	1,814,307	2.60	-	1,885,021	1,885,021	2.81
-	1,769,982	1,769,982	2.54	-	1,713,238	1,713,238	2.56
-	1,355,830	1,355,830	1.95	-	953,297	953,297	1.42
3,192,966	1,939,535	5,132,501	7.37	(b) 3,058,988	1,050,077	4,109,065	6.13
-	-	-	-	-	-	-	-
1,055,625	-	1,055,625	1.51	895,520	-	895,520	1.34
-	-	-	-	-	-	-	-
-	-	-	-	1,294,548	-	1,294,548	1.93
-	-	-	-	1,972,336	-	1,972,336	2.94
-	-	-	-	1,622,812	-	1,622,812	2.42
-	-	-	-	-	4,408,934	4,408,934	6.58
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	1,491,624	-	1,491,624	2.23
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
9,655,367	-	9,655,367	13.86	-	-	-	-
-	5,161,458	5,161,458	7.41	-	3,849,818	3,849,818	5.74
-	-	-	-	-	-	-	-
-	4,742,855	4,742,855	6.81	-	4,501,040	4,501,040	6.71
-	-	-	-	-	-	-	-
<u>7,973,971</u>	<u>6,002,353</u>	<u>13,976,324</u>	<u>20.06</u>	<u>8,751,552</u>	<u>4,256,632</u>	<u>13,008,184</u>	<u>19.41</u>
<u>\$21,877,930</u>	<u>\$47,801,264</u>	<u>\$69,679,193</u>	<u>100.00%</u>	<u>\$19,087,380</u>	<u>\$47,946,047</u>	<u>\$67,033,427</u>	<u>100.00%</u>



## Illustration No. 21 — continued

1998			
Direct	Indirect	Total	Percentage
\$ -	\$15,639,890	\$15,639,890	24.80%
-	5,281,214	5,281,214	8.37
-	-	-	-
-	-	-	-
-	1,930,454	1,930,454	3.06
-	-	-	-
-	-	-	-
-	-	-	-
-	1,328,009	1,328,009	2.11
-	1,866,226	1,866,226	2.96
-	972,569	972,569	1.54
2,938,961	547,250	3,486,210	5.53
-	-	-	-
-	-	-	-
-	-	-	-
1,903,650	-	1,903,650	3.02
-	-	-	-
1,562,757	-	1,562,757	2.48
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
9,563,124	-	9,563,124	15.16
-	3,101,485	3,101,485	4.92
-	-	-	-
-	3,715,258	3,715,258	5.89
-	-	-	-
<u>5,603,836</u>	<u>7,116,299</u>	<u>12,720,135</u>	<u>20.17</u>
\$21,572,328	\$41,498,652	\$63,070,979	100.00%

**Source:** The Sample City's Single Audit Report, FY 1998 – 2007, issued by the Auditor of Public Accounts, which includes an opinion on Sample City's compliance with federal regulations

### Notes:

(a) The data presented in the Schedule of Expenditure of Federal Awards is summarized in the Sample City's Single Audit Report located in its Comprehensive Annual Financial Report, which is compiled directly from the Sample City's general ledger and agency records, which are subject to audit. The Schedule of Expenditures of Federal Awards is reviewed for reasonableness by the Auditor in relation to the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance, and the Government-wide Statement of Activities. Indirect federal revenues are those received by the Sample City from a pass-through entity, principally the Commonwealth of Virginia.

(b) Significant year-to-year increases should be highlighted and explained.

**Special Reference Note:** A Summary Schedule of Revenues Received from the State, by Major Departments would be presented in a similar manner.

**Illustration No. 22: 10-Year Schedule Presenting the Total U.S. Treasury and Agency Securities at Fair Value Held Directly or Through Pooling Arrangements**

**Sample City, Virginia**  
**Total U.S. Treasury and Agency Securities Held Directly or Through**  
**Pooling Arrangements at Fair Value**

Placement of Holdings	2007			2006		
	U.S. Treasury Securities	U.S. Agency Securities	Total	U.S. Treasury Securities	U.S. Agency Securities	Total
Directly Held (a)	\$ 6,700,000		\$56,700,000	\$ 69,972,358		\$ 69,972,358
State Treasurer's Local Government Investment Pool (LGIP) - Allocated (b)	24,620,563		24,620,563	53,747,813		53,747,813
State Non-Arbitrage Program (SNAP) – Allocated (c)		\$1,048,596	1,048,596		\$1,183,651	1,183,651
Total	\$81,320,563	\$1,048,596	\$82,369,159	\$123,720,171	\$1,183,651	\$124,903,822
Percentage of Total Investments (d)			xxx (e)			xxx

Placement of Holdings	2003			2002		
	U.S. Treasury Securities	U.S. Agency Securities	Total	U.S. Treasury Securities	U.S. Agency Securities	Total
Directly Held (a)	\$24,977,777		\$24,977,777	\$66,896,099		\$66,896,099
State Treasurer's Local Government Investment Pool (LGIP) - Allocated (b)	32,174,110		32,174,110	22,397,415		22,397,415
State Non-Arbitrage Program (SNAP) – Allocated (c)		\$2,455,627	2,455,627		\$6,592,695	6,592,695
Total	\$57,151,887	\$2,455,627	\$59,607,514	\$89,293,514	\$6,592,695	\$95,886,209
Percentage of Total Investments (d)			xxx			xxx

Placement of Holdings	1999			1998		
	U.S. Treasury Securities	U.S. Agency Securities	Total	U.S. Treasury Securities	U.S. Agency Securities	Total
Directly Held (a)	\$102,617,519		\$102,617,519	\$17,999,310		\$17,999,310
State Treasurer's Local Government Investment Pool (LGIP) - Allocated (b)	5,511,402		5,511,402	7,076,344		7,076,344
State Non-Arbitrage Program - SNAP (c)		\$4,251,943	4,251,943		\$2,749,132	2,749,132
Total	\$108,128,921	\$4,251,943	\$112,380,864	\$25,075,654	\$2,749,132	\$27,824,786
Percentage of Total Investments (d)			xxx			xxx

## Illustration No. 22 — continued

2005			2004		
U.S. Treasury Securities	U.S. Agency Securities	Total	U.S. Treasury Securities	U.S. Agency Securities	Total
\$ 69,187,667		\$ 69,187,667	\$ 45,812,842		\$ 45,812,842
47,020,983		47,020,983	57,429,959		57,429,959
	\$ 19,171,993	19,171,993		\$16,186,066	16,186,066
\$116,208,650	\$116,208,650	\$116,208,650	\$103,242,801	\$16,186,066	\$119,428,867
		xxx			xxx

2001			2000		
U.S. Treasury Securities	U.S. Agency Securities	Total	U.S. Treasury Securities	U.S. Agency Securities	Total
\$130,571,784		\$130,571,784	\$87,500,938		\$87,500,938
8,325,490		8,325,490	6,659,019		6,659,019
	\$6,008,708	6,008,708		\$2,808,065	2,808,065
\$138,897,274	\$6,008,708	\$144,905,982	\$94,159,957	\$2,808,065	\$96,968,022
		xxx			xxx

**Source 1:** Sample City, Commonwealth of Virginia Comprehensive Annual Financial Reports, 2007 – 1998

**Source 2:** Local Government Investment Pool Financial Statements, 2007 – 1998

**Source 3:** Virginia SNAP report, 2007 – 1998

### Notes:

(a) Held by the primary government and the School Board Component Units.

(b) The State Treasurer's Local Government Pool (LGIP) number is derived by calculating the rate at which publicly held Treasury securities make up the total amount held in the Local Government Investment Pool of the Commonwealth of Virginia. The rate is calculated by dividing the amount that is publicly held as Treasury securities into the total amount held in the LGIP. The calculated rate is then applied to the amount held by the State Treasurer's Local Government Investment Pool in the name of Sample City, Virginia, resulting in an allocation in U.S. Treasury at fair value.

(c) The State Non-Arbitrage Program number is derived by calculating the rate at which U.S. Agency securities make up of the total amount that is held in the Non-Arbitrage Program for the Commonwealth of Virginia. The SNAP program did not hold U.S. Treasury securities. The rate is calculated by dividing the amount of agency securities into the total amount held of investments. The calculated rate is then applied to the amount held in the State Non-Arbitrage Program for Sample City, Virginia resulting in U.S. Agency Securities at fair value.

(d) Total U.S. Treasury and Agency Securities represents a percentage of the total amount of all investments reported, net of cash held (amounts not available).

(e) xxx – Represents data that was not available at the time of research.

**Illustration No. 23:** 10-Year Schedule Presenting the Total Amount of U.S. Public Debt Securities by Type of Holding

**Schedule of Total U.S. Public Debt Securities  
by Type of Holding  
As of June 30  
(Dollars in Millions)**

	2006	2005	2004	2003
Held by U.S. Government Accounts:				
Marketable	\$ 1	\$ 1	\$ 142	\$ 311
Nonmarketable	3,622,593	3,308,865	3,055,459	2,853,531
Total Held by U.S. Government Accounts	3,622,594	3,308,866	3,055,601	2,853,842
Public Issues Held by Federal Reserve Banks	762,595	721,922	685,454	650,642
Total Held by Federal Reserve and Government Accounts	4,385,189	4,030,788	3,741,055	3,504,484
Total Held by Private Investors	4,034,853	3,805,708	3,533,280	3,165,637
Total Public Debt Securities Outstanding (a) (b)	\$8,420,042	\$7,836,496	\$7,274,335	\$6,670,121

**Source:** Distribution of Federal Securities by Class of Investors and Type of Issues, Ownership of Federal Securities, Financial Management Service, 2007 – 1998

**Link:** <http://www.fms.treas.gov/bulletin/index.html>

**Notes:**

(a) This total ties with the total public debt outstanding from the Monthly Statement of Public Debt issued by the U.S. Treasury Department.

(b) Total Federal Securities Outstanding also includes matured public debt and debt bearing no interest for years 1999 – 1997.

**Illustration No. 23 — continued**

2002	2001	2000	1999	1998	1997
\$ 311	\$ 460	\$ 459	\$ 1,123	\$ 1,254	\$ 1,254
2,662,614	2,452,179	2,189,766	1,952,490	1,756,302	1,570,329
2,662,925	2,452,639	2,190,225	1,953,613	1,757,556	1,571,583
614,366	552,164	504,950	493,816	458,417	426,362
3,277,291	3,004,803	2,695,175	2,447,429	2,215,973	1,997,945
2,849,178	2,722,012	2,980,714	3,182,106	3,324,270	3,372,514
\$6,126,469	\$5,726,815	\$5,675,889	\$5,629,535	\$5,540,243	\$5,370,459

**Illustration No. 24: 10-Year Schedule Presenting the Estimated Ownership of U.S. Public Debt Securities**

**Schedule of the Estimated Ownership of U.S. Public Debt Securities**  
**As of June 30**  
(Dollars in Billions)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Privately Held:				
Foreign and International (a)	\$1,979.8	\$1,879.6	\$1,739.6	\$1,382.8
State and Local Governments	476.7	437.3	381.2	347.9
Depository Institutions	117.4	127.0	159.6	145.9
U.S. Savings Bonds	205.2	204.2	204.6	199.1
Private Pension Funds	188.4	177.5	170.2	167.3
State and Local Government Pension Funds	150.9	171.3	134.9	161.3
Insurance Companies	161.2	155.0	144.1	138.7
Mutual Funds	244.2	248.7	258.7	302.3
Other Investors	506.9	402.5	338.6	319.5
Total Privately Held	\$4,030.8	\$3,803.0	\$3,531.5	\$3,164.7
Total Held by Private Investors as reported on the Schedule of Public Debt Securities	\$4,034.9	\$3,805.7	\$3,533.3	\$3,165.6
Difference (b)	\$ 4.1	\$ 2.7	\$ 1.8	\$ 0.9

**Source:** Estimated Ownership of U.S. Treasury Securities, Ownership of Federal Securities, Financial Management Service, 2007 – 1998

**Link:** [Treasury Bulletin](#)

**Notes:**

(a) This total ties with the Value of Foreign Holdings of U.S. Long-term Securities from the Report on Foreign Holdings of U.S. Long-term Securities issued by the U.S. Treasury.

(b) The difference between the total privately held public debt listed on the Estimated Ownership of U.S. Treasury Securities Table and the Distribution of Federal Securities by Class of Investors and by Type of Issues Table issued by the Financial Management Services and the total privately held debt listed on the Financial Report of the United States in its Note 10 is because the Financial Report total includes net unamortized discounts, agency securities, and accrued interest payable. This information was obtained from staff at the U.S. Treasury Department.

**Percentage of Total U.S. Public Debt Securities Held by State and Local Governments**  
**As of June 30**  
(Dollars in Billions)

	<u>2006</u>		<u>2005</u>		<u>2004</u>		<u>2003</u>	
	<b>Total</b>	<b>% (a)</b>	<b>Total</b>	<b>%</b>	<b>Total</b>	<b>%</b>	<b>Total</b>	<b>%</b>
State and Local Governments	\$476.7	11.81%	\$437.3	11.49%	\$381.2	10.79%	\$347.9	10.99%
State and Local Government Pension Funds	188.4	4.67	177.5	4.66	170.2	4.82	167.3	5.28
Total State and Local Governments Ownership of U.S. Public Debt	\$665.1	16.48%	\$614.8	16.15%	\$551.4	15.61%	\$515.2	16.27%

**Notes:**

(a) Percentage of Privately Held U.S. Public Debt

## Illustration No. 24 — continued

2002	2001	2000	1999	1998	1997
\$1,135.4	\$1,000.5	\$1,082.0	\$ 1,258.8	\$1,256.0	\$1,182.7
333.6	324.8	309.3	298.6	258.5	243.3
204.7	188.1	222.2	240.6	290.9	300.2
192.7	185.5	184.6	186.5	186.0	186.3
149.0	148.5	149.0	142.9	139.0	214.9
153.9	183.1	194.9	213.8	213.2	183.1
122.0	108.1	116.5	133.6	160.6	183.1
253.8	221.0	205.4	228.1	230.8	216.4
304.6	363.1	523.5	496.3	614.4	708.2
\$2,849.8	\$ 2,711.6	\$2,987.3	\$3,199.2	\$3,349.3	\$3,377.3
\$2,849.2	\$2,722.0	\$2,980.7	\$3,182.1	\$3,324.3	\$3,372.5
\$ (0.6)	\$ 10.4	\$ (6.6)	\$ (17.1)	\$ (25.0)	\$ (4.8)

2002		2001		2000		1999		1998		1997	
Total	%	Total	%	Total	%	Total	%	Total	%	Total	%
\$333.6	11.71%	\$324.8	11.49%	\$309.3	10.38%	\$298.6	9.38%	\$258.5	7.78%	\$243.3	7.21%
149.0	5.23	148.5	5.46	149.0	5.00	142.9	4.49	139.0	4.18	214.9	6.37
\$482.6	16.94%	\$473.3	16.95%	\$458.3	15.38%	\$441.5	13.87%	\$397.5	11.96%	\$458.2	13.58%

**Illustration No. 25:** 10-Year Schedule Presenting the Major Foreign Holders of U.S. Public Debt Securities

**Schedule of Major Foreign Holders of U.S. Public Debt Securities**  
**As of June 30 (a)**  
(Dollars in Millions)

Country	2006		2005		2004	
	Total Debt	Percentage of Total Debt	Total Debt	Percentage of Total Debt	Total Debt	Percentage of Total Debt
Bermuda	\$ -	- %	\$ 24,497	1.53%	\$ -	- %
Brazil	33,092	1.92	-	-	-	-
Canada	-	-	-	-	-	-
Cayman Islands	-	-	30,055	1.88	56,438	3.86
China, mainland	364,065	21.08	277,087	17.33	189,181	12.94
Germany	38,079	2.20	41,352	2.59	42,108	2.88
Hong Kong	48,148	2.79	27,100	1.70	27,645	1.89
Italy	-	-	-	-	-	-
Japan	535,030	30.98	571,540	35.75	552,118	37.76
South Korea	61,541	3.56	58,063	3.63	43,111	2.95
Luxembourg	52,237	3.02	30,493	1.91	35,049	2.40
Mexico	32,909	1.91	-	-	24,920	1.70
Netherlands	-	-	-	-	-	-
Singapore	33,842	1.96	32,603	2.04	24,667	1.69
Spain	-	-	-	-	-	-
Switzerland	32,801	1.90	28,801	1.80	32,824	2.24
Taiwan	61,747	3.58	66,003	4.13	64,996	4.44
Thailand	-	-	-	-	-	-
United Kingdom	47,157	2.73	45,030	2.82	45,840	3.13
Middle East oil-exporters	64,322	3.72	37,044	2.32	25,430	1.74
European Regional Organizations	-	-	-	-	-	-
International Organizations	-	-	-	-	-	-
Other	321,983	18.64	328,948	20.58	298,029	20.38
Total Foreign Held Public Debt	1,726,953	100.00%	1,598,616	100.00%	\$1,462,356	100.00%
Adjustment (c)	252,847		280,984		277,244	
Total Adjusted Foreign-Held Public Debt	\$1,979,800		\$1,879,600		\$1,739,600	

	2006	2005	2004
Year to Year Adjusted Increase/(Decrease)	\$100,200	\$ 140,000	\$356,800
Cumulative Adjusted Increase/(Decrease) (from 2000)	\$ 897,800	\$ 797,600	\$657,600
Total Adjusted Foreign Held Public Debt as a Percentage of Privately Held Public Debt	49.07%	49.39%	49.23%



**Illustration No. 25 — continued**

2003		2002		2000 (b)	
Total Debt	Percentage of Total Debt	Total Debt	Percentage of Total Debt	Total Debt	Percentage of Total Debt
\$ 22,169	1.99%	\$ 14,165	1.56%	\$ 17,396	1.97%
-	-	-	-	-	-
-	-	-	-	14,133	1.60
-	-	-	-	-	-
146,634	13.13	95,200	10.48	71,056	8.03
39,582	3.55	37,898	4.17	54,990	6.22
30,173	2.70	37,448	4.12	38,160	4.32
-	-	17,737	1.95	18,551	2.10
348,302	31.20	259,885	28.62	221,246	25.02
58,459	5.24	30,586	3.37	23,772	2.69
21,868	1.96	20,215	2.23	13,779	1.56
19,679	1.76	16,681	1.84	-	-
17,154	1.54	-	-	-	-
21,909	1.96	19,449	2.14	34,194	3.87
17,091	1.53	14,005	1.54	17,977	2.03
35,292	3.16	28,204	3.11	17,656	2.00
40,880	3.66	34,487	3.80	40,381	4.57
-	-	12,776	1.41	-	-
46,517	4.17	45,730	5.04	73,408	8.30
-	-	27,946	3.08	19,706	2.23
-	-	12,060	1.33	-	-
22,570	2.02	-	-	25,218	2.85
228,162	20.44	183,586	20.22	182,723	20.66
1,116,441	100.00%	908,058	100.00%	884,346	100.00%
266,359		227,342		197,654	
\$1,382,800		\$1,135,400		\$1,082,000	

2003	2002	2000 (a)
\$247,400	\$53,400	
\$232,095	\$53,400	
43.68%	39.85%	34.00%

## Illustration No. 25 — continued

**Source:** Value of Foreign Holdings of U.S. Long-term Securities, Report on Foreign Holdings of U.S. Long-term Securities, U.S. Treasury, 2007 – 1998

**Link:** [www.treas.gov/tic/fpis.html](http://www.treas.gov/tic/fpis.html)

### Notes:

(a) Information for the year 2001 was not available at the time of research.

(b) Data for the year 2000 is as of March 30.

(c) The difference between the total foreign held public debt listed on the Report of Foreign Holdings of the U.S. and the Estimated Ownership of U.S. Treasury Securities table found at the Financial Management Service is due to the fact that one report values certain particular securities at zero while the other report values the same securities at market.

### Analysis of U.S. Public Debt Held by China and Japan As of June 30 (Dollars in Millions)

	2006	2005	2004	2003	2002	2000 (a)
<b>China, mainland</b>	\$364,065	\$ 277,087	\$ 189,181	\$ 146,634	\$ 95,200	\$ 71,056
Year-to-Year Increase/(Decrease)	\$ 86,978	\$ 87,906	\$ 42,547	\$ 51,434	\$ 24,144	
Cumulative Increase/(Decrease) (from 2000)	\$293,009	\$ 206,031	\$ 118,125	\$ 75,578	\$ 24,144	
Percentage of Privately Held Public Debt	9.02%	7.28%	5.35%	4.63%	3.34%	2.23%
<b>Japan</b>	\$535,030	\$ 571,540	\$ 552,118	\$ 348,302	\$ 259,885	\$ 221,246
Year-to-Year Increase/(Decrease)	\$ (36,510)	\$ 19,422	\$ 203,816	\$ 88,417	\$ 38,639	
Cumulative Increase/(Decrease) (from 2000)	\$313,784	\$ 350,294	\$ 330,872	\$ 127,056	\$ 38,639	
Percentage of Privately Held Public Debt	13.26%	20.37%	15.63%	11.00%	3.34%	6.95%

**Source:** Value of Foreign Holdings of U.S. Long-term Securities, Report on Foreign Holdings of U.S. Long-term Securities, U.S. Treasury, 2007 – 1998

**Link:** [www.treas.gov/tic/fpis.html](http://www.treas.gov/tic/fpis.html)

**Illustration No. 26: 10-Year Schedule Presenting the Maturity of Marketable U.S. Debt Outstanding****Maturity of Marketable U.S. Debt Outstanding  
As of September 30**

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Bills (a)	22.3%	22.6%	25.0%	26.5%	27.8%	25.2%	20.6%	20.3%	19.2%	20.5%
Nominal Coupons from 2 – 3 years (b)	22.8	23.9	24.4	23.7	18.2	13.3	16.2	17.9	19.7	21.4
Nominal Coupons from 4 – 7 years (b)	17.5	15.9	13.6	11.5	13.2	16.8	19.9	22.2	25.1	25.7
Nominal Coupons over 10 years (b)	16.3	17.1	16.9	16.8	17.4	19.1	18.2	16.8	15.9	15.0
30-Year Bonds (c )	12.3	12.8	14.4	16.7	19.0	21.0	21.2	20.0	18.4	16.8
TIPS (d)	8.9	7.5	5.8	4.8	4.4	4.6	3.8	2.9	1.8	0.7
Total	100.1%	99.8%	100.1%	100.0%	100.0%	100.0%	99.0%	100.1%	100.1%	100.1%

**Percentage of U.S. Debt Maturing in Next 12 to 36 Months  
As of September 30**

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Maturing in 12 Months	36.9%	36.7%	39.1%	41.5%	40.3%	40.6%	37.4%	36.4%	35.8%	36.7%
Maturing in 24 Months	50.8%	52.4%	54.2%	57.2%	56.6%	54.0%	52.6%	51.9%	51.4%	52.7%
Maturing in 36 Months	59.8%	59.9%	61.6%	62.6%	61.1%	58.4%	59.8%	60.8%	59.2%	61.7%

**Source:** Quarterly Refunding Charts & Data, Office of Debt Management, 2007 – 1998

**Link:** <http://www.treas.gov/offices/domestic-finance/debt-management/qrc/>

**Notes:**

**(a)** Treasury bills are sold in terms ranging from a few days to 52 weeks. Bills are sold at a discount from their face value. The difference between the purchase price and the face value is interest.

**(b)** A nominal is the amount on which the issuer pays interest, and which has to be repaid at the end of the given time period. A coupon is the interest rate that the issuer pays to the bond holders. Usually this rate is fixed throughout the life of the bond.

**(c)** Treasury bonds pay a fixed rate of interest every six months until they mature. They are issued in a term of 30 years. Treasury bonds are auctioned four times a year, in February, May, August, and November.

**(d)** TIPS stands for the Treasury Inflation Protected Securities and provide protection against inflation. The principal of a TIPS increases with inflation and decreases with deflation, as measured by the Consumer Price Index.

**Illustration No. 27: 10-Year Schedule Presenting the U.S. and World Monetary Fluctuations**

**Monetary Fluctuation**  
**As of the Beginning of January of the given Fiscal Year**  
(Foreign Currency Unit per U.S. dollar)

Country	Unit	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Canada	Dollar	1.134	1.212	1.302	1.401	1.570	1.549	1.486	1.486	1.484	1.385
China, P.R.	Yuan	7.972	8.194	8.277	8.277	8.277	8.277	8.278	8.278	8.301	8.319
EMU Members (a)	Euro	1.256	1.245	1.244	1.132	0.945	0.895	0.923	1.065	N/A	N/A
Hong Kong	Dollar	7.768	7.778	7.789	7.788	7.800	7.800	7.792	7.759	7.747	7.743
Japan	Yen	116.310	110.110	108.510	115.940	125.220	121.570	107.800	113.730	130.990	121.060
Mexico	Peso	10.906	10.894	11.290	10.793	9.663	9.337	9.459	9.553	9.152	7.918
United Kingdom (a)	Pound	1.843	1.820	1.833	1.635	1.503	1.440	1.516	1.617	1.657	1.638

**Source:** Foreign Exchange Rates, Federal Reserve Statistical Release, FY 2006 - 1997

[Link: Foreign Exchange Rates](#)

**Notes:**

(a) These rates are quoted in U.S. dollars per foreign currency unit. All other rates are quoted in foreign currency units per U.S. dollar.

For 2006:

1 Euro = 1.256 USD

1 Pound = 1.843 USD

1.134 Canadian Dollars = 1 USD

7.972 Chinese Yuan = 1 USD

7.768 Hong Kong Dollars = 1 USD

116.310 Japanese Yen = 1 USD

10.906 Mexican Pesos = 1 USD

**Illustration No. 28:** 10-Year Schedule Presenting the U.S. National Savings Rate**U.S. National Savings Rate**  
(Dollars in Billions)

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Personal Income	\$10,983.4	\$10,301.1	\$9,727.2	\$9,163.6	\$8,881.9	\$8,724.1	\$8,429.7	\$7,802.4	\$7,423.0	\$6,915.1
Less: Personal Current Taxes	1,354.3	1,209.1	1,046.3	1,001.1	4151.8	1,237.3	1235.7	1,107.5	1,027.0	926.3
Equals: Disposable Personal Income	9,629.1	9,092.0	8,680.9	8,162.5	7,830.1	7,486.8	7,194.0	6,695.0	6,395.9	5,988.8
Less: Personal Outlays	9,590.3	9,047.4	8,499.2	7,987.7	7,645.3	7,354.5	7,025.6	6,536.4	6,119.1	5,770.5
Equals: Personal Saving	\$ 38.8	\$ 44.6	\$ 181.7	\$ 174.9	\$ 184.7	\$ 132.3	\$ 168.5	\$ 158.6	\$ 276.8	\$ 218.3
Personal Saving as a Percentage of Disposable Personal Income	0.4%	0.5%	2.1%	2.1%	2.4%	1.8%	2.3%	2.4%	4.3%	3.6%

**Source:** Personal Income and its Disposition, National Income and Product Accounts Table, Bureau of Economic Analysis, U.S. Department of Commerce, 2006 – 1997

**Link:** [Link: Personal Income and Its Disposition Table](#)

**Illustration No. 29: 10-Year Schedule Presenting the U.S. Balance of Trade**

**U.S. Balance of Trade**  
**Balance of Trade as of June of the Given Fiscal Year**  
(Dollars in Millions)

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Exports	\$1,023,109	\$ 894,631	\$ 807,516	\$ 713,415	\$ 682,422	\$ 718,712	\$ 771,994	\$ 683,965	\$ 670,416	\$ 678,366
Imports	1,861,380	1,681,780	1,477,094	1,264,307	1,167,377	1,148,231	1,226,684	1,031,784	918,637	876,794
Balance of Trade	\$ (838,271)	\$(787,149)	\$(669,579)	\$(550,892)	\$(484,955)	\$(429,519)	\$(454,690)	\$(347,819)	\$(248,221)	\$(198,428)
Percentage Change	6.49%	17.56%	21.54%	13.60%	12.91%	-5.54%	30.73%	40.12%	25.09%	
Cumulative Percentage	322.46%	296.69%	237.44%	177.63%	144.40%	116.46%	129.15%	75.29%	25.09%	
Cumulative Balance of Trade	\$5,009,523	\$4,171,252	\$3,384,103	\$2,714,524	\$2,163,632	\$1,678,677	\$1,249,158	\$ 794,468	\$ 446,649	\$ 198,428

**Source :** U.S. Trade in Goods and Services, Foreign Trade Statistics, U.S. Census Bureau, FY 2006 - 1997

[Link: U.S. Trade In Goods and Services](#)

**Top Five U.S. Trade Partners**  
**Balance of Trade as of June of the Given Fiscal Year**  
**Positive/(Negative)**  
(Dollars in Billions)

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
China	\$(101.7)	\$(72.5)	\$(68.5)	\$(54.0)	\$(43.1)	\$(37.1)	\$(36.1)	\$(29.3)	\$(25.1)	\$(21.2)
Japan	(43.0)	(41.6)	(36.2)	(32.2)	(33.1)	(34.5)	(39.8)	(33.6)	(30.9)	(26.0)
Canada	(39.1)	(32.6)	(32.2)	(25.9)	(23.1)	(28.5)	(23.0)	(13.8)	(6.3)	(8.4)
Mexico	(31.3)	(24.5)	(22.3)	(21.0)	(18.3)	(14.5)	(11.8)	(12.4)	(7.2)	(8.2)
Germany	(24.4)	(24.4)	(21.7)	(18.8)	(15.6)	(14.6)	(13.8)	(12.7)	(10.8)	(8.6)

**Source:** Exports, Imports and Trade Balance of Country and Area, U.S. Trade in Goods and Services, Foreign Trade Statistics, U.S. Census Bureau, 2006 – 1997

**Link:** [Link: Top Trading Partners, Foreign Trade Statistics, U.S. Census Bureau](#)

## Illustrative Placement of Local Government Illustrations within the CAFR

Illustration	Category	Section	Sub-section	Heading
1	MD&A	Economic Factors and Outlook	Intergovernmental Financial Dependency	Financial Condition of the State
2	MD&A	Economic Factors and Outlook	Intergovernmental Revenues Received by the Locality	Federal Awards to Local Government
3	MD&A	Economic Factors and Outlook	Intergovernmental Revenues Received by the Locality	State Assistance Flowing to the Locality
4	MD&A	Economic Factors and Outlook	Intergovernmental Revenues Received by the Locality	Employees Funded with Federal funds
5	MD&A	Economic Factors and Outlook	Other Intergovernmental Flows Impacting the Locality	Federal Payments to Individuals, by Major Category
6	MD&A	Economic Factors and Outlook	Other Intergovernmental Flows Impacting the Locality	Federal Payments to Individuals, by Major Program
7	MD&A	Economic Factors and Outlook	Other Intergovernmental Flows Impacting the Locality	Federal Procurement Payments to Local Businesses
8	MD&A	Economic Factors and Outlook	Federal Facilities Located Within the Locality	Federally Leased Buildings
9	MD&A	Economic Factors and Outlook	Federal Facilities Located Within the Locality	Federally Owned Buildings
10	MD&A	Economic Factors and Outlook	Federal Facilities Located Within the Locality	Federal Military Bases
11	MD&A	Economic Factors and Outlook	Enacted Future Changes to Federal and State Funding	Enacted Future Legislative Changes
12	MD&A	Economic Factors and Outlook	Past Enacted Changes to Federal and State Funding	Past Enacted Legislative Changes
13	MD&A	Economic Factors and Outlook	Critical Economic Factors Impacting Financial Position and Sustainability	State Balance of Trade
14	Notes	Intergovernmental Revenues	Intergovernmental Revenues Received by the Locality	Federal Awards to Locality
15	Notes	Intergovernmental Revenues	Intergovernmental Revenues Received by the Locality	Relation of Intergovernmental to Total Revenues
16	Notes	Intergovernmental Revenues	Intergovernmental Revenues Received by the Locality	Reconciliation of Federal Revenue Reported in Government-wide and Governmental Fund Statements
17	Notes	Cash, Cash Equivalents, and Investments	Intergovernmental Assets Held by the Locality	Total U.S. Treasury Securities Held by the Locality
18	Notes	Concentration of Revenues and Related Risks	Intergovernmental Financial Dependency	Financial Position of the State
19	RSI			Schedule of Federal and State Revenue Amounts Within Total Operating and Capital Grants and Contributions
20	Stat Sec.	Demographic & Economic	Intergovernmental Revenues Received by the Locality	Federal Awards to Locality, by Major Department
21	Stat Sec.	Demographic & Economic	Intergovernmental Revenues Received by the Locality	Federal Awards to Locality, by Major Program
22	Stat Sec.	Demographic & Economic	Intergovernmental Assets Held by the Locality	Total U.S. Treasury Securities Held by Locality
23	Stat Sec.	Demographic & Economic	Publicly Held Debt of the U.S. Government	Total U.S. Public Debt Outstanding by Type of Holding
24	Stat Sec.	Demographic & Economic	Publicly Held Debt of the U.S. Government	Distribution of Privately Held U.S. Public Debt
25	Stat Sec.	Demographic & Economic	Publicly Held Debt of the U.S. Government	Distribution of Foreign Holders of Privately Held U.S. Public Debt
26	Stat Sec.	Demographic & Economic	Publicly Held Debt of the U.S. Government	Maturity of U.S. Public Debt Outstanding
27	Stat Sec.	Demographic & Economic	Critical Economic Factors Impacting Financial Position and Sustainability	U.S. and World Monetary Fluctuations
28	Stat Sec.	Demographic & Economic	Critical Economic Factors Impacting Financial Position and Sustainability	U.S. National Savings Rate
29	Stat Sec.	Demographic & Economic	Critical Economic Factors Impacting Financial Position and Sustainability	U.S. Balance of Trade

**Note:** Each reporting government may categorize information in Sections and Sub-sections differently than those illustrated.

\*\*\*THIS PAGE INTENTIONALLY LEFT BLANK\*\*\*



## Appendix C: Preparation Guidance for the Local Government Illustrations

### Introduction:

Background: Information concerning intergovernmental flows is currently reported on a highly aggregated basis in the basic financial statements of state and local governments. One of the key purposes of this guidance is to illustrate, on a step-by-step basis, how to disaggregate that information, chiefly using information now presented in Single Audit Reports, where such reports are available. Other information demonstrating the indirect impact of the activities of one government on another government will require the use of U.S. Census Bureau data as well as other public reports. To make the acquisition of data and information most efficient for users to replicate, the illustrations are placed into four distinct groupings by their description and recommended placement within the Comprehensive Annual Financial Report (CAFR). This will permit an understanding of the elements that are similar in nature, and also the logical placement and progression of information presented within the CAFR.

Assumptions: The largest portion of data, information, and analysis necessary for the completion of the recommended illustrations will be available from public information sources. The two most technically challenging aspects of the project will be (1) acquiring the knowledge necessary to effectively utilize the information databases and reports of the U.S. Census Bureau, and (2) determining and documenting the manner in which intergovernmental flows reported in the government-wide statements, governmental funds statements, and Single Audit Reports reconcile with one another. A primary source of information is the Comprehensive Annual Financial Report of the local government. There are separate instructions for state governments and for local governments. The recommended reporting requirements are essentially the same for state and local governments when calling for the reporting of intergovernmental flows from the Federal government, and in relation to the debt of the Federal government held as investment assets; however, the requirements also call for local governments to report intergovernmental financial activity with the state. Accordingly, a set of illustrations has been separately established for state governments and for local governments, together with similar, separate preparation guidance.

*Special Note for Virginia Localities:* The instructions are intended to provide valuable guidance to any local government, although some data-access methodologies refer to public reports or public files that may be particular to the Commonwealth. Accordingly, the availability of specifically named public records within the Commonwealth is noted and should assist Virginia local governments in completing many of the reporting requirements.

## **Preparation Guidance Pertaining to Reporting and Disclosing Within Management’s Discussion and Analysis Under the Economic Factors and Outlook Section**

### **Illustration No. 1**

**Description:** Present a narrative that excerpts the reported financial position concerns or adverse circumstances of each other government (Federal or state) providing a large portion of revenues to the reporting government (for example, the reported financial position of the Federal Government, as reported in the audited Financial Report of the United States Government, or the reported financial position of the state government, as reported in its CAFR). The narrative should include a summary of the reporting government’s financial dependency on the providing government(s), and also refer the reader to the related note to the financial statements for more detailed information disclosing the financial position of the providing government(s).

Excerpts from the published, audited disclosures of the providing government should relate to:

1. Economic condition and sustainability,
2. Financial position,
3. Debt levels, and
4. Estimated major stewardship obligations.

**Information Source:** Financial Report of the United States Government, 2006

<http://www.gao.gov/financial/fy2006/fy06financialrpt.pdf>,

[The Comprehensive Annual Financial Report for the State of Virginia, 2006](http://www.dva.virginia.gov/Financial_Reporting/CAFR/CAFR_Main.cfm)

[http://www.dva.virginia.gov/Financial\\_Reporting/CAFR/CAFR\\_Main.cfm](http://www.dva.virginia.gov/Financial_Reporting/CAFR/CAFR_Main.cfm)

**Format and Placement in CAFR:** The narrative should appear in the reporting government’s Management’s Discussion and Analysis (MD&A) within the “Economic Factors and Outlook” section, under a new sub-section entitled, “Intergovernmental Financial Dependency.”

**Estimated Range of Hours for Preparation:** 10 – 16 hours

### **Illustration No. 2**

**Description:** Develop a schedule of current- and prior-year Federal inflows by department and agency, with the largest departments accounting for 80% of the total flows listed separately, and all smaller departments summarized under “Other Departments and Agencies.” Include a discussion and an explanation of any significant increases or decreases from the prior to current year. Amounts reported should use the economic resources measurement focus and the accrual basis of accounting, i.e. the information should tie, in total, to the total federal dollars reflected in the Government-wide financial statements. Also, illustrate the percentage of total intergovernmental flows by department and agency.

**Information Source:** The Schedule of Expenditures of Federal Awards, as reflected in the Single Audit Report, would be a good place to start gathering data and identifying the relative size of grants by program or issuing Federal department or agency. Seek from the preparer-government schedules underlying totals of Federal revenues that are presented in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance, and schedules that underlie totals of Federal revenues reflected in the Government-wide Statement of Activities. Other possible sources would include government-produced reconciliations between the Schedule of Expenditures of Federal Awards, and total Federal revenues reported in Governmental Funds and in Government-wide statements.

**Format and Placement in CAFR:** The above schedule and accompanying discussions should be presented in the reporting government’s MD&A within the “Economic Factors and Outlook” section, under a new sub-section entitled “Intergovernmental Revenues Received by the Locality.”

**Estimated Range of Hours for Preparation:** 10 – 16 hours

### **Illustration No. 3**

**Description:** Prepare a schedule of state funds flowing to the local government, with the categories of grants and contributions providing 80% of the total amount provided listed separately, and the other 20 percent summarized under “Other Categories.”

**Information Source:** This information will be available within the accounting records of the reporting government, but may also be obtained from summary and detailed disbursement records maintained by the state government.

**Special Note for Virginia Localities:** This information is accessible through the Auditor of Public Accounts website under the local governmental section. The information can be customized as to which locality the user is seeking. Once imported into an excel format, any program codes left blank can be found using the Department of Accounts, more specifically the CAPP manual. It will be necessary to summarize the various transactions into more manageable categories based on these program codes. Websites: <http://www.apa.virginia.gov> and <http://www.doa.virginia.gov/>

**Format and Placement in CAFR:** The schedule of current- and prior-year state revenues flowing to localities within the state, and accompanying discussions, should be included in the MD&A section within the “Economic Factors and Outlook” section, under a new sub-section entitled “Intergovernmental Revenues Received by the Locality.”

**Estimated Range of Hours for Preparation:** 10 – 16 hours

### **Illustration No. 4**

**Description:** In conjunction with the assessment of “general risks” associated with intergovernmental flows, create a note to the financial statements that separately discloses the number of full-time and part-time government employees or full-time-equivalent units, FTEs, if available, whose salary and benefits are funded in whole or in part from Federal funds. These positions should be further categorized by the “primary government” and the total of all “discretely presented component units,” if possible. Further, a narrative should discuss and disclose the dollar amount, and percentage, of the primary government’s total payroll, as reported under “personal services” in the Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balances (if available in terms of natural classifications) that is funded by Federal funds. Note: If actual numbers of employees supported by Federal funds cannot be found, resort to budgeted amounts.

**Information Source:** There are three likely sources of information that may in whole or in part provide this information. The Statistical Section of the CAFR may display the total number of government employees. The government may publish management reports during, or for, the year that provide reliable counts of employees. The budget or appropriation documents may include summaries of total employees and total personal services dollars budgeted. The government’s chief payroll officer may have readily available year-end reports that summarize total employees and total personal services expenses, or expenditures. **Caution:** As with a number of these requirements, it is important to know whether you are reading amounts that ultimately tie into the Government-wide statements or the Governmental Funds statements. For the purposes of creating new disclosures for intergovernmental financial dependency and related risks, it may be equally acceptable to relate these new disclosures to amounts reported either in Government-wide or Governmental Funds statements, so long as it is clear to which statement the disclosures relate or could be reconciled.

**Format and Placement in CAFR:** The schedule should be included in the MD&A section within the “Economic Factors and Outlook,” under a new sub-section entitled “Intergovernmental Revenues Received by the Locality,” together with appropriate discussion and interpretive narrative that comments, in part, on the materiality or significance of such intergovernmental support on the reporting government.

**Estimated Range of Hours for Preparation:** 10 – 16 hours

### **Illustration No. 5**

**Description:** Prepare a schedule of current- and prior-year Federal revenues flowing to individuals by Category, with the top five largest categories listed separately, and all smaller categories summarized under “Other Categories.” Depending on the structure of available data, disaggregate these flows into meaningful groupings. Discuss and explain changes from the prior year.

**Information Source:** This information is located within the Consolidated Federal Funds Report issued by the Federal Programs Branch within the Government's Division of the U.S. Census Bureau. The information is presented within a database that is easily customizable to meet the specific needs of the user. There is the option to search by a certain year; within a geography, agency, or program; by a specific state or county; and by specific fund types. For the purposes of this illustration, it is easiest to create a database by geography, for the fund type “payments to individuals.”

<http://harvester.census.gov/cffr/index.html>

**Format and Placement in CAFR:** The schedule of current and prior year Federal revenue flowing to individuals, and accompanying discussion, should be included in the MD&A section within the “Economic Factors and Outlook,” under a new sub-section entitled “Other Intergovernmental Flows Impacting the Locality.”

**Estimated Range of Hours for Preparation:** 5 – 10 hours

### **Illustration No. 6**

**Description:** Prepare a schedule of current- and prior-year Federal revenues flowing to individuals by Program, with the largest programs accounting for 80% of the total flows listed separately, and all smaller programs summarized under “Other Programs.” Depending on the structure of available data, disaggregate these flows into meaningful groupings. Discuss and explain changes from the prior year.

**Information Source:** This information is located within the Consolidated Federal Funds Report issued by the Federal Programs Branch within the Government's Division of the Federal Census Bureau. The information is presented within a database that is easily customizable to meet the specific needs of the user. There is the option to search by a certain year; within a geography, agency, or program; by a specific state or county; and by specific fund types. For the purposes of this illustration, it is easiest to create a database by geography, for the fund type “payments to individuals.”

<http://harvester.census.gov/cffr/index.html>.

**Format and Placement in CAFR:** The schedule of current- and prior-year Federal payments flowing to individuals, and accompanying discussions, should be included in the MD&A section within the “Economic Factors and Outlook,” under a new sub-section entitled “Other Intergovernmental Flows Impacting the Locality.”

**Estimated Range of Hours for Preparation:** 5 – 10 hours

## **Illustration No. 7**

**Description:** Prepare a schedule of current- and prior-year Federal payments for the procurement of goods and services flowing to business establishments (e.g., service providers and corporations) within the locality. Depending on the structure of available data, disaggregate these flows into meaningful groupings. Discuss changes from the prior year.

**Information Source:** This information is located within the Consolidated Federal Funds Report issued by the Federal Programs Branch within the Governments Division of the U.S. Census Bureau. The information is presented within a database that is easily customizable to meet the specific needs of the user. There is the option to search by a certain year; within a geography, agency, or program; by a specific state or county; and by specific fund types. For the purposes of this illustration, it is easiest to create a data base by geography, for the fund type “procurement contracts.” <http://harvester.census.gov/cffr/index.html>

**Special Note for Census Data:** The Consolidated Federal Funds Report issued by the U.S. Census Bureau follows the Federal Fiscal Year from October to September.

**Format and Placement in CAFR:** The schedule of current- and prior-year Federal payments flowing to business establishments under procurement contracts, and accompanying discussions, should be included in the MD&A section within the “Economic Factors and Outlook” section, under a new sub-section entitled “Other Intergovernmental Flows Impacting the Locality.”

**Estimated Range of Hours for Preparation:** 3 – 5 hours

## **Illustration No. 8**

**Description:** Prepare a table of Federally leased buildings currently located in the specific locality. **Note:** If more than five Federally leased buildings are located in the locality, list the five largest individual leased buildings, with all others listed as “Other Leased Buildings.” Each of the Federally leased buildings should be listed by addresses and rentable square footage. Discuss the general matter that these leased buildings and the operations they house represent an economic impact on the locality.

**Information Source:** This information presented within the General Service Administration (GSA) Inventory of Owned and Leased Buildings Database, located through the GSA website. The data is customizable for the specific city the user needs and can be separated so that the user may view the leased buildings within the city. <http://www.iolp.gsa.gov/iolp/NationalMap.asp>

**Format and Placement in CAFR:** A schedule should be included in the MD&A section within the “Economic Factors and Outlook” section, under a new sub-section entitled “Federal Facilities Located Within the Locality” that presents a summary statement of all buildings in the locality leased by the Federal Government, together with an accompanying discussion commenting on the impact of economic factors associated with these buildings.

**Estimated Range of Hours for Preparation:** 3 – 5 hours

## **Illustration No. 9**

**Description:** Prepare a table of Federally owned buildings and facilities currently located in each specific locality, recording all the buildings for each locality. **Exception:** If more than five Federally owned buildings are located in one locality, list the five largest buildings and facilities, with all others listed as “Other Owned Buildings and Facilities.” Each of the Federally owned buildings should be listed by addresses and rentable square footage. **Caution:** Some localities may not have any federally owned buildings, be sure to note this before moving on. Discuss the general matter that these buildings and the operations they house represent an economic impact on the locality, to include, where available, information concerning estimated losses in property tax revenue due to Federal ownership of buildings, payments in lieu of taxes that may be received, as well as estimates of the positive economic impact relating to housed Federal operations.

**Information Source:** This information is presented within the General Service Administration Inventory of Owned and Leased Buildings Database, located through the GSA website. This information does not include military bases and facilities. The data is customizable for the specific locality the user needs and can be separated so that the user may view the owned buildings within the state.

<http://www.iolp.gsa.gov/iolp/NationalMap.asp>

**Format and Placement in CAFR:** A schedule should be included in the MD&A section within the “Economic Factors and Outlook” section, under a new sub-section entitled “Federal Facilities Located Within the Locality” that presents a summary listing of all buildings in the locality owned by the Federal Government, together with an accompanying discussion commenting on the impact of economic factors associated with these buildings.

**Estimated Range of Hours for Preparation:** 3 – 5 hours

## **Illustration No. 10**

**Description:** Prepare a table of all Federal military bases located within the locality, separately listing the bases with the five largest Present Replacement Values (PRV), and all smaller bases summarized under “Other Bases.” This table should also present other economic factors affecting the locality, including total count of buildings on the military base; total square feet of buildings on the military base; total acres of the military bases; and total personnel, military, civilian, and other. This table should be accompanied by a discussion of economic factors associated with these bases, and disclose any changes from prior to current year.

**Information Source:** This information is presented in the Department of Defense Base Structure Report, which lists all the military bases for each local government in the U.S.

[http://www.defenselink.mil/pubs/BSR\\_2007\\_Baseline.pdf](http://www.defenselink.mil/pubs/BSR_2007_Baseline.pdf)

**Format and Placement in CAFR:** A schedule should be included in the MD&A section within the “Economic Factors and Outlook” section, under a new sub-section entitled “Federal Facilities Located Within the Locality” that presents a summary listing of all military bases in the locality, together with an accompanying discussion of the impact of economic factors associated with these facilities.

**Estimated Range of Hours for Preparation:** 5 – 10 hours

## **Illustration No. 11**

**Description:** In conjunction with the assessment of “specific risks” associated with intergovernmental flows, prepare a narrative for inclusion in the MD&A that separately discloses the passage and executive approval — within the reporting year — of significant changes in anticipated future-year funding flows from the Federal Government and the state government. Include in the disclosure: (1) the name of the Federal department and the state department that will disburse the funds to the reporting government, (2) the name of the Federal program and the state program that will disburse the funds to the locality, (3) the effective date of such changes (i.e., the beginning of the fiscal year in which the changes become effective), and (4) the name of the reporting government’s “program” to experience the increase or decrease. This requirement does not necessarily call for the estimate of the amount of increase or decrease in expected future funding, but should include enough information so the reader would understand that significant changes have been approved by the Federal Government and the state government that will impact the reporting government in future years.

**Information Source:** Documentation supporting reported changes would most likely be obtained by a search of the website and records of the government providing flows to the reporting government. The federal funds information for cities and counties can be accessed through the state’s department of planning and budget. This department may publish a budgeting report that helps cities and counties manage their federal funds by providing timely analysis of the impact that federal actions have on these cities and counties. Directions as to alternative means for gathering information on future changes to intergovernmental flows may be obtained from interviews with the reporting government’s budget director or finance officer.

**Special Note for Virginia Localities:** The federal funds information for Virginia cities and counties can be accessed through the Virginia Department of Planning and Budget’s Locality by Locality Reductions Report, <http://dpb.virginia.gov/budget/08-10/DraftLocalityByLocalityReductions04-04-08.pdf>.

**Format and Placement in CAFR:** The narrative should appear in the reporting government’s MD&A within the “Economic Factors and Outlook” section, under a new sub-section entitled “Enacted Future Changes to Federal and State Funding.”

**Estimated Range of Hours for Preparation:** 5 – 10 hours

## **Illustration No. 12**

**Description:** Create a separate assessment of all changes to Federal and state program legislation that has had a financial impact during the past two years. Include in this assessment: (1) the name of the Federal and state legislation passed which provided flows that impacted the reporting government, (2) the description/name of the local government program experiencing the change, and (3) the appropriations authorized for each of the past two fiscal years. Discuss these changes, including the identification of any required devolution of current Federal or state responsibilities to localities.

**Information Source:** Information regarding the changes in state law for the localities can be obtained from the State Budget Office.

**Format and Placement in CAFR:** The narrative should appear in the reporting government’s MD&A within the “Economic Factors and Outlook” section, under a new sub-section entitled “Past Enacted Changes to Federal and State Funding” to identify changes to the Federal and state laws enacted during the past two fiscal years that result in a financial impact on the lower-level government programs.

**Estimated Range of Hours for Preparation:** 5 – 10 hours



### **Illustration No. 13**

**Description:** Create a schedule disclosing and discussing the state’s exports, imports, and balance of trade. This narrative should also include an analysis of insourcing employment within the state.

**Information Source:** This information can be found in each individual state’s export data found within the U.S. Export website at: [http://www.export.gov/tradedata/exp\\_state\\_export\\_data.asp](http://www.export.gov/tradedata/exp_state_export_data.asp). Additional information may be found within the International Trade Administration Division of the U.S. Department of Commerce website at: <http://ita.doc.gov/td/industry/otea/OTII/OTII-index.html>.

*Special Note for a Virginia Locality:* Virginia’s export data was used from the website <http://www.exportvirginia.org/>. There were various reports that were used to compile this data. Exporting data for the Commonwealth can be found in the “FAST FACTS 2006” report of Virginia Trade Overview at: [http://www.exportvirginia.org/FastFacts/FastFacts\\_2007/FF\\_Issues\\_Virginia\\_Trade\\_Overview\\_07.pdf](http://www.exportvirginia.org/FastFacts/FastFacts_2007/FF_Issues_Virginia_Trade_Overview_07.pdf). Import data for the Commonwealth can be found in the “Economic Impact of International Imports” report at: <http://exportvirginia.org/VA%20and%20Intl%20Trd%20Exec%20Summary%2005-1.pdf>. Import and Export data can also be found within the report “Virginia’s First Import Study” at: <http://www.exportvirginia.org/newsletter/articles/archives/vaimportstudy.htm>.

**Format and Placement in CAFR:** A schedule should appear in the reporting government’s MD&A within the “Economic Factors and Outlook” section, under a new sub-section titled “Critical Economic Factors Impacting Financial Position and Sustainability,” identifying the state government’s Balance of Trade.

**Estimated Range of Hours for Preparation:** 10 – 16 hours



## Preparation Guidance Pertaining to Disclosures Within Notes of the Financial Statements

### **Illustration No. 14**

**Description:** Develop separate schedules of current- and prior- year Federal inflows by Federal programs and state inflows by state program, with the respective programs accounting for 80% of the total flows listed separately, and all departments and agencies contributing within the other 20% of funds summarized under “Other Programs.” Include an explanation of any significant increases or decreases from prior to current. Amounts reported should use the economic resources measurement focus and the accrual basis of accounting, i.e., the information should tie, in total, to the total federal dollars reflected in the government-wide financial statements.

**Information Source:** The Schedule of Expenditures of Federal Awards, as reflected in the Single Audit Report, would be a good place to start gathering data and identifying the relative size of grants by program or issuing Federal department or agency. Seek from the preparer government schedules underlying totals of Federal revenues that are presented in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance, and schedules that underlie totals of Federal revenues reflected in the Government-wide Statement of Activities. Other possible sources would include government-produced reconciliations between the Schedule of Expenditures of Federal Awards, and total Federal revenues reported in Governmental Funds and in Government-wide statements. For state inflows, such information may be obtained from the offices of the State Comptroller, Budget Director, or Auditor.

**Special Note for Virginia Localities:** This information is accessible through the Auditor of Public Accounts website under the local governmental section. The information can be customized as to which locality the user is seeking. Once imported into an excel format, any program codes left blank can be found using the Department of Accounts, more specifically the CAPP manual. It will be necessary to summarize the various transactions into more manageable categories based on these program codes. Websites: <http://www.apa.virginia.gov> and <http://www.doa.virginia.gov/>

**Format and Placement in CAFR:** The above schedule should be presented in the notes to the financial statements in a new section titled “Intergovernmental Revenues,” under a new sub-section entitled “Intergovernmental Revenues Received by the Locality.”

**Estimated Range of Hours for Preparation:** 10 – 16 hours

### **Illustration No. 15**

**Description:** Prepare for inclusion within a note to the financial statements, a schedule that calculates and presents the percentage relationship between flows from the Federal, and where applicable, state, government and the total of program revenues reported under government activities, business-type activities, and component units and the General Revenues of the primary government and component units, exclusive of Transfers and Special Items. The schedule should separately present the Operating Grants and Contributions, and the Capital Grants and Contributions shown in the Government-Wide Statement of Activities, disaggregated into categories for Federal, State, and Other Revenues.

**Information Source:** The government’s Comprehensive Annual Financial Report (CAFR), together with the information accumulated through Illustrations No. 2, 14, 19, and 20.

**Format and Placement in CAFR:** The table should appear as a note to the financial statements in a new section titled “Intergovernmental Revenues,” under a new sub-section entitled “Intergovernmental Revenues Received by the Locality,” together with appropriate interpretive narrative that comments, in part, on the materiality of such flows to the reporting government.

**Estimated Range of Hours for Preparation:** 5 – 10 hours

## **Illustration No. 16**

**Description:** Develop a note to the financial statements reconciling total Federal Grants and Contributions and State Grants and Contributions reported in the Government-wide Statement of Activities to the total of Federal and state revenues reported in the Statement of Governmental Funds. This reconciliation will use the Federal and state dollar amounts shown in Illustration No. 15

**Information Source:** The government's CAFR, together with the information accumulated through Illustration No. 2, 14, 19, and 20.

**Format and Placement in CAFR:** The table should appear as a note to the financial statements in a new section titled "Intergovernmental Revenues," under a new sub-section entitled "Intergovernmental Revenues Received by the Locality," together with appropriate interpretive narrative that comments, in part, on the materiality of such flows to the reporting government.

**Estimated Range of Hours for Preparation:** 3 – 5 hours

## **Illustration No. 17**

**Description:** Create a note of disclosure to the financial statements that discloses the debt obligations of the Federal Government held directly or through pooling arrangements by the local government. This total should be separated into U.S. Treasury Securities and U.S. Agency Securities. The total of U.S. Treasury Securities and U.S. Agency Securities should be broken down into the types and placement of holdings; for example, those that are directly held, held in a State Treasurer's Local Government Investment Pool (LGIP), and held in a State Non-Arbitrage Program (SNAP).

**Information Source:** The total debt obligations can be found in each individual city's financial statements, in particular the CAFR, LGIP financial statements, and the SNAP report.

**Format and Placement in CAFR:** The total debt obligations of the Federal Government held directly by the city should appear as a note to the financial statements within the "Cash, Cash Equivalents, and Investments" section, under a new sub-section entitled "Intergovernmental Assets Held by the Locality."

**Estimated Range of Hours for Preparation:** 5 – 10 hours

## **Illustration No. 18**

**Description:** Create a concentration of revenues note presenting the disclosed financial position and sustainability concerns excerpted from the most recently available published, audited financial statements of the state government and the Federal Government with particular attention to disclosures concerning:

1. Economic condition and sustainability,
2. Financial position,
3. Debt levels, and
4. Estimated major stewardship obligations

**Information Source:** CAFR for the Commonwealth of Virginia  
[http://www.doa.virginia.gov/Financial\\_Reporting/CAFR/CAFR\\_Main.cfm](http://www.doa.virginia.gov/Financial_Reporting/CAFR/CAFR_Main.cfm)

**Format and Placement in CAFR:** The reported financial position and sustainability concerns of the state government and Federal Government should appear in a note to the financial statements in a section entitled "Concentration of Revenues and Related Risks," and a sub-section titled "Intergovernmental Financial Dependency."

**Estimated Range of Hours for Preparation:** 10 – 16 hours

## Preparation Guidance Pertaining to Reporting Within Required Supplementary Information

### **Illustration No. 19**

**Description:** Using the Government-wide Statement of Activities as a starting point, create a schedule that presents, as Required Supplementary Information the “total expenses” as reported for each “Function/Program” reported on the Statement of Activities, and which creates separate columns of information associated with reported Operating Grants and Contributions and Capital Grants and Contributions such that totals appearing in the Statement of Activities under these headings are separated, on the new schedule, by sources of funding, to include: Federal Funding Sources, State Government Sources, and Other. Further, include on the new schedule, the percentage of the total expenses for each reported function or program that is funded by each separate governmental source.

**Information Source:** This information can be found in the consolidation workpapers used to prepare the Statement of Activities for inclusion within the locality’s CAFR.

**Format and Placement in CAFR:** The schedule should appear as additional information in the “Required Supplementary Information” section of the reporting government’s CAFR. Comments concerning the significance of the information presented in the schedule should be included in MD&A.

**Estimated Range of Hours for Preparation:** 10 – 16 hours

## **Preparation Guidance Pertaining to Schedules and Disclosures Presented Within the Statistical Section Under the Demographic and Economic Section**

### **Illustration No. 20**

Description: Prepare a 10-year summary schedule of Federal flows by department and agency, with the top five largest departments and agencies listed separately, and all smaller programs summarized under “Other Departments and Agencies.” Also, include the annual dollar increase/decrease, the annual percentage increase/decrease, and the cumulative annual percentage increase/decrease for each year. Disclose, with these schedules, the measurement focus and basis for accounting associated with the reported information.

Information Source: The Schedule of Expenditures of Federal Awards, as reflected in the Single Audit Report of a locality’s Comprehensive Annual Financial Report (CAFR), would be a good place to start gathering data and identifying the relative size of grants by program or issuing Federal department or agency. Seek from the preparer government schedules underlying totals of Federal revenues that are presented in the Government Funds Statement of Revenues, Expenditures, and Changes in Fund Balance, and schedules that underlie totals of Federal revenues reflected in the Government-wide Statement of Activities. Other possible sources would include government-produced reconciliations between the Schedule of Expenditures of Federal Awards, and total Federal revenues reported in the Governmental Funds and in Government-wide statements.

Format & Placement in CAFR: The 10 year summary schedule of Federal flows by Federal department and agency should be included in the “Statistical Section” within the “Demographic & Economic” section, under the new sub-section entitled “Intergovernmental Revenues Received by the Locality.”

Estimated Range of Hours for Preparation: 10 – 16 hours

## **Illustration No. 21**

**Description:** Develop a separate 10-year summary schedule of Federal inflows by Federal programs, and state inflows by state programs with the respective programs accounting for 80% of the total flows listed separately, and all programs contributing within the 20% of total funds summarized under “All Other Programs.” Cite the name of the issuing Federal or state department or agency for each program separately listed. Highlight any significant increases or decrease between years. Disclose, with these schedules, the measurement focus and basis for accounting associated with the reported information.

**Information Source:** The Schedule of Expenditures of Federal Awards, as reflected in the Single Audit Report of a locality’s Comprehensive Annual Financial Report (CAFR), would be a good place to start gathering data and identifying the relative size of grants by program or issuing Federal department or agency. Seek from the government schedules underlying totals of Federal revenues that are presented in the Government Funds Statement of Revenues, Expenditures, and Changes in Fund Balance, and schedules that underlie totals of Federal revenues reflected in the Government-wide Statement of Activities. Other possible sources would include government-produced reconciliations between the Schedule of Expenditures of Federal Awards, and total Federal revenues reported in the Governmental Funds and in Government-wide statements. For state inflows, such information may be obtained from the offices of the State Comptroller, Budget Director, or Auditor. This information is accessible through the Auditor of Public Accounts website under the local governmental section.

**Special Note for Virginia Localities:** The information can be customized as to which locality the user is seeking. Once imported into an excel format, any program codes left blank can be found using the Department of Accounts, more specifically the CAPP manual. It will be necessary to summarize the various transactions into more manageable categories based on these program codes. Websites: <http://www.apa.virginia.gov> and <http://www.doa.virginia.gov/>

**Format and Placement in CAFR:** The 10-year summary schedule of Federal flows by program should be included in the “Statistical Section” within the “Demographic & Economic” section, under the new sub-section entitled “Intergovernmental Revenues Received by the Locality.”

**Estimated Range of Hours for Preparation:** 10 – 16 hours

## **Illustration No. 22**

**Description:** Create a 10-year schedule of the financial statements of Federal debt obligations held directly or through pooling arrangements by the local government. This total should be separated into U.S. Treasury Securities and U.S. Agency Securities. The total of U.S. Treasury Securities and U.S. Agency Securities should be broken down into the types and placement of holdings; for example, those that are directly held, held in a State Treasurer's Local Government Investment Pool (LGIP), and held in a State Non-Arbitrage Program (SNAP).

**Information Source:** The total debt obligations can be found in each individual city’s financial statements, in particular the CAFR, LGIP financial statements, and the SNAP report.

**Format and Placement in CAFR:** The 10-year schedule of the Federal debt obligations held directly or through pooling arrangements by the local government should be included in the “Statistical Section” within the “Demographic & Economic” section, under a new sub-section entitled “Intergovernmental Assets Held by the Locality.”

**Estimated Range of Hours for Preparation:** 5 – 10 hours

### **Illustration No. 23**

**Description:** Create a 10-year schedule of U.S. publicly held debt securities separately disclosing the ownership of debt securities held by private investors and the ownership of those held by the Federal Reserve and government accounts.

**Information Source:** This information can be found in the Treasury Bulletin published by the Financial Management Service, a Bureau of the U.S. Treasury. A table titled “Ownership of Federal Securities” will have all of the necessary information to complete this table, at: <http://www.fms.treas.gov/bulletin/index.html>. The “Distribution of Federal Securities by Class of Investors and Type of Issues” sub-table should be used.

**Format and Placement in CAFR:** This illustration should be included in the “Statistical Section” within the “Demographic & Economic” section, under the new sub-section entitled “Public Held Debt of the U.S. Government.”

**Estimated Range of Hours for Preparation:** 3 – 5 hours

### **Illustration No. 24**

**Description:** Create a 10-year schedule of total U.S. privately held public debt broken down into primary holders, such as state and local governments, foreign investors, mutual funds, pension funds, and insurance companies. Concurrently, create a 10-year schedule to show the percentage of total ownership of U.S. public debt held by the state and local governments, as well as a schedule of the state’s individual invested ownership in U.S. debt securities for the last two fiscal years.

**Information Source:** This information also can be found in the Treasury Bulletin published by the Financial Management Service, a Bureau of the U.S. Treasury. A table titled “Ownership of Federal Securities” will have all of the necessary information to complete this table, at: <http://www.fms.treas.gov/bulletin/index.html>. The “Estimated Ownership of U.S. Treasury Securities” sub-table should be used. The state CAFR Notes to the Financial Statements may also be used to find the individual invested ownership in U.S. debt securities.

**Format and Placement in CAFR:** This illustration should be included in the “Statistical Section” within the “Demographic & Economic” section, under the new sub-section entitled “Public Held Debt of the U.S. Government.”

**Estimated Range of Hours for Preparation:** 3 – 5 hours

### **Illustration No. 25**

**Description:** Create a schedule illustrating the changes in major foreign appetite for Federal securities held over the past 10 years, if available. This schedule will report the major holders accounting for 80% of the total foreign held public debt, with all other foreign holders contributing within 20% listed as “Other.” A year-to-year increase/decrease, cumulative increase/decrease and a total of foreign held debt as a percentage of the total privately held public debt should also be included in this schedule. Concurrently, a schedule of the foreign held public debt of China and Japan should be created by including a year-to-year increase/decrease, cumulative increase/decrease, and percentage of total privately held debt.

**Information Source:** This information can be located within the U.S. Treasury’s website in the Report of Foreign Holdings of U.S. Long-term Securities, <http://www.treas.gov/tic/fpis.html>.

**Format and Placement in CAFR:** This illustration should be included in the “Statistical Section” within the “Demographic & Economic” section, under the new sub-section entitled “Public Held Debt of the U.S. Government.”

**Estimated Range of Hours for Preparation:** 8 – 12 hours

### **Illustration No. 26**

Description: Create a 10-year schedule illustrating the percentage of distribution of the turnover of publicly traded U.S. public debt. Concurrently, a 10-year schedule of the percentage of public debt maturing in the next 12 to 36 months should also be presented.

Information Source: This information can be found in the Quarterly Refunding Charts and Data published by the Office of Debt Management, within the U.S. Treasury Department, at <http://www.treas.gov/offices/domestic-finance/debt-management/qrc/>.

Format and Placement in CAFR: This schedule should be included in the “Statistical Section” within the “Demographic & Economic” section, under the new sub-section entitled “Public Held Debt of the U.S. Government.”

Estimated Range of Hours for Preparation: 3 – 5 hours

### **Illustration No. 27**

Description: Create a 10-year schedule of the monetary fluctuations of the U.S. dollar in comparison with other major foreign currencies. Information Source: This information can be found within the “Foreign Exchange Rates” report issued by the Federal Reserve at <http://www.federalreserve.gov/releases/g5a/>.

Format and Placement in CAFR: This illustration should be included in the “Statistical Section” within the “Demographic & Economic” section, under the new sub-section entitled “Critical Economic Factors Impacting Financial Position and Sustainability.”

Estimated Range of Hours for Preparation: 3 – 5 hours

### **Illustration No. 28**

Description: Create a 10-year schedule that will show the U.S. national savings rate. This schedule should illustrate how to calculate this rate.

Information Source: This information can be found at the National Economic Accounts within the Bureau of Economic Analysis Division of the U.S. Department of Commerce, at: <http://www.bea.gov/national/nipaweb/TableView.asp?SelectedTable=58&FirstYear=2006&LastYear=2008&Freq=Qtr>.

Format and Placement in CAFR: This illustration should be included in the “Statistical Section” within the “Demographic & Economic” section, under the new sub-section entitled “Critical Economic Factors Impacting Financial Position and Sustainability.”

Estimated Range of Hours for Preparation: 3 – 5 hours

## **Illustration No. 29**

**Description:** Create a 10-year schedule that will show the imports, exports and balance of trade, as well as the percentage change and cumulative percentage of trade, of the United States. Concurrently, present a 10-year schedule of the U.S. balance of trade with the top five foreign trade partners.

**Information Source:** This information may be found within the International Trade Administration Division of the U.S. Department of Commerce website at <http://ita.doc.gov/td/industry/otea/OTII/OTII-index.html>. Additional information concerning the foreign trade partners of the Federal Government can be found within the Top Trading Partners table of the Country/Product Data published by the Foreign Trade Statistics Division of the U.S. Census Bureau, at: <http://www.census.gov/foreign-trade/statistics/highlights/top/index.html>

**Format and Placement in CAFR:** An illustration should be included in the “Statistical Section” within the “Demographic & Economic” section, under the new sub-section entitled “Critical Economic Factors Impacting Financial Position and Sustainability.”

**Estimated Range of Hours for Preparation:** 3 – 5 hours



## Appendix D: Background

Between 2005 and late 2007, the GASB considered the need to develop a new standard for the reporting of intergovernmental financial dependency and related risks. The following presentation of “Background” information was drawn almost exclusively from the public minutes, published technical plans, and project descriptions relating to this reporting topic. The record of GASB’s efforts and expressed conviction supports the assertion that new reporting requirements are needed. The questions of what those requirements should be, and how and at what cost they should be prepared, is what this Report seeks to address. The following material summarizes key steps in the consideration of this subject by the GASB and the evolution of the research project conducted by Cherry, Bekaert & Holland that resulted in this Report.

### **The GASB Technical Plan for the Second Third of 2007 Provided Support for Continuing Efforts**

The Intergovernmental Financial Dependency project, as reported in the Technical Plan for the Second Third of 2007 had the objective of determining the need and desirability of creating a new standard for reporting or disclosure requirements specifically associated with intergovernmental dependency and related risks.

Unless otherwise indicate, the following quoted paragraphs were excerpted from GASB Technical Plan for the Second Third of 2007. Additional commentary is *italicized*.

Much of the revenues received by some state and local governments come from other levels of government. Particularly, state and local governments are dependent upon grants from the Federal Government, and local governments are dependent upon grants from state governments.

Data published by the U.S. Census Bureau reveal that intergovernmental revenues as a percentage of total revenues vary from an average of 20 percent for special districts to 55 percent for school districts. States, counties, and other local governments on average receive 30 to 35 percent of their revenues from intergovernmental sources. As part of preliminary research on this project, a review of 50 governmental financial statements was made to assess pervasiveness of the issue at a micro level. Seventy-five percent of the entities identified some level of intergovernmental revenue. It is likely that some, if not many, of the remaining 25 percent of entities received intergovernmental revenue but did not identify it in their financial statements. Of the 75 percent identifying such revenue, the percentage of total revenues coming from intergovernmental sources ranged from a low of 2 percent to a high of 68 percent, with an average of 27 percent (Source of quoted material: GASB Memorandum for September 2007 Meeting).

(Note: See Supplemental Appendices C, “Fiscal Wake-Up Call Tour;” D, “GOA Study of State and Local Fiscal Challenges;” G, “Works Cited and Additional Reading;” and H, “Relevant Quotations,” Intergovernmental Financial Dependency and Related Risks — Volume Three, for considerable additional information on voiced concerns regarding the fiscal sustainability of the Federal Government given the size of its indebtedness and other liabilities and commitments under Medicare and Social Security programs.)

Some individuals have expressed concern about the ability of governments to continue their current level of spending. If government spending is not sustainable, governments dependent upon other governments for revenues could be adversely affected.

Experts who have addressed the risks associated with intergovernmental financial dependency, or closely related topics, have forecasted that the occurrence of events and the evolution of circumstances that will impact the historic financial exchanges between levels of government will occur or accelerate during the period of 2008 through at least 2015, and likely well beyond that period.

Although some recognition and display of intergovernmental revenues on state and local financial statements occurs, the current standards of the GASB do not require governments to disclose intergovernmental financial dependencies and the risks associated with such dependencies. This means that users of financial statements generally are not able to assess how dependent a government is on other governments.

This project will focus principally on two items. The first is the need for disaggregating information concerning the extent and importance of intergovernmental financial dependency; the second is the most effective methods of presenting such disaggregated information in a government's basic financial statements, as required supplementary information or as supplementary information. The project covers intergovernmental financial dependencies between each level of government, to include Federal to state, state to local, and Federal to local.

The project will not consider future projections but, rather, will focus on information reported for the period, changes from the prior period, and trends in information reported in prior periods.

Accounting and reporting issues *that are expected to be resolved include:*

1. Should amounts reported on the face of a government's financial statements be disaggregated to make intergovernmental financial dependency more clear? (For example, should revenues be disaggregated to show amounts that a local government receives from Federal or state governments?)
2. What kinds of disclosures associated with intergovernmental financial dependency and related risks should be made?
3. What are the risks relating to intergovernmental exchanges, flows, and assets held that might impact the financial position, and inflows and outflows of resources, of a state or local government?

*The project relating to Intergovernmental Financial Dependency and Related Risks was added by the Governmental Accounting Standards Board (GASB) to the research agenda in January 2006. From January 2006 through March 2007, the following research was conducted to provide the background necessary to consider the accounting and research issues:*

- Literature review of all relevant disclosures of risks associated with intergovernmental financial dependency in existing pronouncements of the GASB, FASAB, FASB, SEC, AICPA and international accounting standard setters.
- Assessment of scope of intergovernmental financial dependency at a macro level through review of existing statistics on intergovernmental resource flows based upon U.S. Census Bureau data. "The Compendium of Government Finances: 2002," published in October 2005, provides detailed information about intergovernmental revenues. The following table of data was extracted from that report:

Type of Gov't	% Revenue from Federal Gov't	% Revenue from State Gov't	% Revenue from Local Gov't	Total % Intergovernmental Revenue
State	28.93	X	1.63	30.55
Local	3.97	32.83	X	36.79
County	2.90	33.41	X	36.32
Municipality	4.51	18.49	X	23.00
Township	1.18	18.76	X	19.93
School District	1.03	54.46	X	55.49
Special District	13.06	6.94	X	20.01

(Compendium of Government Finances: 2002)

- Assessment of the scope of intergovernmental financial dependency at a micro level through review of CAFRs and Single Audit Reports of 5 states, 10 counties, 10 cities, 5 school districts, 5 transit authorities, 5 airports, 5 water/sewer authorities, and 5 colleges and universities. This scope assessment was performed as part of a capstone research project by a Master in Accountancy Candidate at Rutgers University. As part of this research, 50 reports were reviewed to assess the magnitude of intergovernmental financial interdependency and to gain an understanding of information about intergovernmental financial risks that currently may be found in government's financial reports.
- Assessment of users' needs related to intergovernmental financial dependency and related risks, through an email survey. Responses were solicited from 19 financial market users, 10 citizen advocate users, and 7 legislative users. The response rate was one-third. The following questions were asked:
  1. Is assessment of intergovernmental financial dependency risk, as described above, a part of your analysis of a government's financial health?
  2. If the answer to question 1 is yes:
    - What information do you obtain from the audited financial reports of state and local governments to assess intergovernmental financial dependency risk?
    - What information from other sources do you use to assess intergovernmental financial dependency risk? (Please identify both the information and its source.)
    - What are the three most *essential* pieces of information (that is, what you absolutely have to have) that you identified in questions 2a and 2b?
    - What information that you cannot currently obtain would you also consider *essential* to assessing intergovernmental financial dependency risk?
  3. If the answer to question 1 is no, why do you not consider this risk?

(Note: See Supplemental Appendix B, "GASB Sponsored Independent Research Project," Intergovernmental Financial Dependency and Related Risks — Volume Three, for a full report on research conducted as part of a capstone research project by a Master in Accountancy Candidate at Rutgers University.)

- A roundtable was conducted with eight members of the Association of Budgeting and Financial Management in conjunction with their annual conference in October 2006. The questions discussed included:
  1. How important is this issue?
  2. What facets of this issue should GASB consider?
  3. What type of information is needed to assess this risk?
  4. Should this information be part of state and local government financial reports?

(Note: See Supplemental Appendix F, "Association for Budget and Financial Management Conference — Summary of Responses to GASB by ABFM Members," Intergovernmental Financial Dependency and Related Risks — Volume Three, for information concerning input received from the members of ABFM who were interviewed during the October 2006 conference.)

## Intergovernmental Financial Dependency Risk Prospectus of March 19, 2007 Supported Key GASB Decision

At its April 2007 meeting, the GASB approved the “Intergovernmental Financial Dependency Risk Prospectus,” prepared by staff and dated March 19, 2007. The prospectus outlined the objective of the proposed project, the scope of the project, reasons for the proposed project, relevant literature, major issues, the initial project plan, timetable, and budget, and staff recommendation for placement on agenda. The following quoted paragraphs were excerpted from the Prospectus. Additional commentary is *italicized*.

*The objective stated in the prospectus was:*

... to establish standards for reporting and/or disclosing information related to risks associated with intergovernmental financial dependency. These risks may arise as a result of financial reliance between any level of government, such as Federal support to state governments, state support to local governments, and Federal support to local governments.

*The scope of the project focused on two types of information:*

First is information about the extent of an entity’s reliance on financial support from other levels of government. One of the questions in this area is the level of detail or consolidation of that information. Another issue to be resolved in the method of communicating that information, whether that be display in the financial statements, disclosure in the notes, inclusion as required supplementary information, or possibly even as supplementary information, such as was the subject of Statement No. 44, *Economic Condition Reporting: The Statistical Section*.

The second type of information is a characterization of the risk associated with that reliance on financial support from other levels of government. Potential ways of characterizing the risk include identification of the type or name of the government providing support, nature of the support (for example, funded by continuing appropriation, discretionary grants, or one-time only grants), the programs funded by the support, and/or possibly describing the economic condition of the government providing support.

*The section relating to reasons for the proposed project contained several sub-points including why the Board considered (a) this as an agenda topic, (b) preliminary assessments, and (c) a summary of the importance of the problem, as follows:*

This project came to the attention of the Board through awareness on the part of a Board member of how an issue raised by two Government Accounting Standards Advisory Committee (GASAC) constituents affects state and local governments. The issue was the Federal Government’s current deficit and the challenges posed by long-term demographic and economic trends. The issue was being highlighted by U.S. Comptroller General, who is also a member of the GASAC, through a public awareness program of the Government Accountability Office as well as by the National Association of State Comptrollers, Auditors, and Treasurers through a resolution issued in August 2005.

The three levels of government in the United States transfer significant amounts of revenues. Although often viewed as separate elements of society by the citizenry, these governments are intertwined through series of overlapping programs and activities that are material, often vital to the provision of services, and almost always complex. Even when the direct operating activities of one level of government seem to be isolated from another level of government, they often occur within the communities of another government and therefore impact the economic welfare and resources of that community.

*The stated reason for the project was to be proactive in issuing standards that would assist financial statement users to understand the extent and risks of intergovernmental financial dependencies for an entity. The prospectus noted that “(t)he current standards of the GASB do not directly address the issues raised by this project.”*

*The summary of the importance of the problem stated that the “issue ranks as important in all aspects.”*

The issue affects a large number of state and local governments, usually to a significant degree. The issue is important to all types of users, and users currently evaluate how the issue affects the particular government they are analyzing, primarily using information located from sources other than annual financial statements. Feedback from GASAC placed this issue high in importance.

*The prospectus cited several sources of relevant literature. The first was GASB’s conceptual framework:*

The GASB conceptually believes that information about certain risks should be disclosed (in a) government’s financial reports. Paragraph 79 of Concepts Statement No. 1, *Objectives of Financial Reporting*, states, in part:

79. Financial reporting should assist users in assessing the level of services that can be provided by the governmental entity and its ability to meet its obligations as they become due.
  - a. Financial reporting should provide information about the financial position and condition of a governmental entity...
  - b. Financial reporting should provide information about a governmental entity’s physical and other nonfinancial resources having useful lives that extend beyond the current year, including information that can be used to assess the service potential of those resources...
  - c. Financial reporting should disclose legal or contractual constrictions on resources and risks of potential loss of resources.

Generally, the risks that governments conceptually should disclose are risks of potential loss of resources that could affect users’ assessment of the level of services that can be provided by the governmental entity and its ability to meet its obligations as they become due. When discussing intergovernmental risks in the prospectus, the emphasis was generally on the risk that a government could potentially lose future financial resources that would not allow it to continue to provide the same level of services or potentially meets its financial obligations.

*The second relevant literature mentioned was Concepts Statement No. 3, “Communication Methods in General Purpose External Financial Reports that Contain Basic Financial Statements:”*

Paragraph 37 of Concepts Statement 3 states, in part:

37. Unlike financial statements, notes may include management’s objective explanation of recognized amounts and related known facts, contingencies, certain risks that affect financial statements, subsequent events, measurement methods, accounting policies, and other information essential to understanding the financial statements and to assess compliance with finance-related legal or contractual requirements. However, notes do not include either (a) subjective assessments of the effects of reported information on the reporting unit’s future financial position or (b) predictions about the effects of future events on future financial position.

In particular, paragraph 37 stresses the importance that the risks that may be disclosed are those that affect financial statements. Within the context of the discussion of note disclosures in Concepts Statement 3, risks that are disclosed would be those essential to a user’s understanding of a government’s financial position or inflows and outflows of resources.

*Finally, GASB standards and other standard setters were mentioned as relevant resources:*

The GASB standards related to risk have focused on risks related assets and liabilities and include the following:

GASB Statement No. 3, *Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements*;  
GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Issues*;  
GASB Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*;  
GASB Statement No. 30, *Risk Financing Omnibus*; and  
GASB Statement No. 40, *Deposing and Investment Risk Disclosures*,  
GASB Technical Bulletin No. 2003-1, *Disclosure Requirements for Derivatives Not Reported at Fair Value on the Statement of Net Assets*.

(**Note:** See Supplemental Appendix A, “Literature Research,” Intergovernmental Financial Dependency and Related Risks — Volume Three, for additional information concerning a search of authoritative literature for possible guidance relevant to risks associated with intergovernmental financial dependency.)

*Major issues included in the prospectus were:*

1. Should amounts reported on the face of a government’s financial statements be disaggregated to make intergovernmental financial interdependency more clear? (For example, should revenues be disaggregated to show amounts that a local government receives from Federal or state governments?) Some of the factors to be evaluated would be feasibility of disaggregation, especially in the statement of activities, the particular classes of disaggregation, whether that be by level of government, by nature of the assistance program, or by program or function supported, and overall balance in the level of detail in a financial statement.
2. What categories of intergovernmental support would be most useful to assist users in assessing intergovernmental dependency risk? One aspect of understanding the risk is understanding what entities are providing the support so that a financial assessment of those entities can be made. Additionally, information about the specific assistance programs or categories of assistance programs may be needed. For example, assistance that is provided through continuing appropriations is likely perceived to be less risky than the assistance that is continued only with specific action of a legislative body. Assistance that is funded through dedicated revenue sources is less risky than assistance funded through general revenues. It may be easier to reach agreement on appropriate categories of assistance providers that on categories that describe the nature of the assistance program.
3. What kinds of disclosures associated with intergovernmental financial dependency and related risks should be made? The guidance in Concepts Statement No. 3 should be applied is determining what methods of communication are appropriate. But first a decision about what types of the information used to assess intergovernmental financial dependency risk would be included in general purpose external financial statements will need to be made. It is possible that some of the information is too detailed for general purpose external financial reporting, and it is possible that some of the information is already available in some other form.

*The last topic before the explanation of the project plan and timeline was alternative courses of action:*

One possible alternative to issuance of a stand-alone Statement on intergovernmental financial dependencies would be to combine this project with the Economic Condition project. Some might view an understanding of the financial support from other governments as one aspect of economic condition. When staff discussed this issue with users of financial statements, the discussion often broadened to a discussion of information helpful in assessing economic condition. For example, if someone is considering what would happen to an entity should a certain source of intergovernmental revenue not be continued, a logical course of analysis is to examine other sources or potential sources of revenue to ascertain whether other sources can be drawn on and to examine the nature of the programs provided by the government to see whether there is flexibility in the level of service



provided. A benefit to this alternative is that it would provide a more complete set of information for user analysis. A drawback, of course, is that this would delay the timing of issuance of guidance significantly.

A second alternative to adding this project to the current technical agenda now is to conduct the research described below (developing categories to classify intergovernmental revenues and researching feasibility and cost/benefit of possible disclosures) first. When this research has been completed, the Board would reassess the approach to the project and whether it would be added to the current technical agenda. The benefit of conducting this additional research would be knowing whether useful, consistent classifications for intergovernmental revenues can be readily developed and whether such presentations are feasible to implement. If this research does not produce a single method of desirable classifications, the project plan could conceivably be changed to include issuance of an Invitation to Comment of Preliminary Views document prior to deliberations leading to an Exposure Draft and eventual Statement.

(Note: See Supplemental Appendix: E, “GASB April 2007, Intergovernmental Dependency Risks (Project) Prospectus,” Intergovernmental Financial Dependency and Related Risks — Volume Three, for a full presentation of the prospectus as it was provided to the Board.)

**Cherry, Bekaert & Holland Establishes Research Project, “Establishing a Model for Reporting and Disclosure of Intergovernmental Financial Dependency and Related Risks by State and Local Governments, August 7, 2007.”**

In April 2007, the Governmental Accounting Standards Board (GASB) unanimously approved the project on Intergovernmental Financial Dependency and Related Risks, and committed to beginning active deliberations by December 2007. The objective of this new project, as stated in the Board-approved prospectus, was:

“... to establish standards for reporting and/or disclosing information related to risks associated with intergovernmental financial dependence. These risks may arise as a result of financial reliance between any level of government, such as Federal support to state governments, state support to local governments, and Federal support to local governments.”

The prospectus indicated that GASB was likely to issue an Exposure Draft (ED) in mid-2008 and a final standard in mid-2009. (Source of quoted material: Intergovernmental Financial Dependency Risk Prospectus, March 19, 2007)

In August 2007, Ed Mazur, former GASB Board member and now Senior Advisor for Governmental Financial Management with Cherry, Bekaert & Holland, proposed conducting independent research into possible approaches for reporting intergovernmental financial dependency and related risks. It was thought that such research could eventually be shared with GASB staff and assist the Board as it developed a standard addressing this topic.

**GASB Memorandum for October 2007 GASB Meeting Reflects Results of September Research Forum:**

The following quoted paragraphs were excerpted from the GASB Memorandum for October 2007 Meeting. Additional commentary is *italicized*.

On September 20, 2007, a research forum was held with the primary focus of determining how information about intergovernmental revenues should be disaggregated. Secondly, the Board members explored preferences for where in a financial report this information should be presented. At the research forum, all participants were asked to respond to three specific questions provided to them in advance. With the remaining time, Board members asked questions of the group.

The first question was:

1. Which level of disaggregation by source is most useful and important to you?
  - a. Level of government (Federal, state, etc.)
  - b. Names of governments providing support

c. Detail by grant or program

How would you use this information? Would you consider any of these levels of detail to be *essential* to your analysis?

A few participants preferred disaggregation by level of government. None mentioned detail by name of government as his or her preference. The majority indicated that detail by grant or program is most useful. However, some participants noted that detail by grant or program could be so voluminous as to be burdensome to the government to prepare, and possibly inefficient for the user to evaluate. A method for reducing the volume of detail, perhaps by including detail for only the ten largest programs or for only the largest programs totaling to 80 percent of intergovernmental revenues, might be needed. A few of the participants mentioned that disaggregation by source was not as useful as disaggregation by character.

The second question was:

2. Which level of disaggregation by character is most useful and important to you?

- a. Recurring and nonrecurring
- b. Formula grants and lump-sum grants
- c. Identification of recipient government's program

How would you use this information? Would you consider any of these levels of detail to be "essential" to your analysis?

The range of views regarding disaggregation by character was broader than that for disaggregation by source. A few participants suggested that intergovernmental revenues be separated between operating and capital. A few mentioned separating recurring from nonrecurring. However, it became clear that not everyone interprets those terms in the same way. Some viewed recurring revenues as those from ongoing programs and nonrecurring revenues as those that are one-time only. Someone else viewed recurring revenues as those that continue into future years without any action required on the part of the recipient government and nonrecurring revenues as those that a recipient government must apply for each year. One participant used the labels *active* and *passive* to describe this disaggregation. One participant suggested that intergovernmental revenues be disaggregated into levels of political decision associated with the revenues. Categories of this type might include:

- Pass-through revenues, which need no political decision for transfer to another government,
- Formula-based revenues,
- Earmarked revenues, which need no annual appropriation,
- Revenues needing annual appropriation, and
- One-time and exceptional revenues.

Another participant believed that disaggregation by level of flexibility and reliability is most useful, focusing on whether a revenue source is limited to a specific purpose or not. Several participants preferred a qualitative, narrative discussion of risks related to intergovernmental revenues, and even risks related all revenues sources, such as is found in bond offering documents. A few participants believed that Management's Discussion and Analysis (MD&A) was the appropriate place to include more information about risks related to intergovernmental revenues. A couple of the participants viewed disaggregation by character as less useful than disaggregation by source.

The third question was:

3. Where would you prefer that the disaggregated information be presented in the financial report — on the face of the financial statements, disclosed in notes to the financial statements, as required supplementary information (RSI), or as supplementary information (SI)? Some of the things to consider regarding the location of disaggregated information are the number of years of information that can be provided, the level of detail that could be presented, the level of audit assurance, and the conceptual purpose for the various communication methods.



The responses to this question were more easily summarized. Five participants believed this information could be presented in either RSI or SI. Five participants preferred RSI, with one also wanting a discussion of risks in MD&A. Three preferred SI. Two preferred a discussion of risks in MD&A, with five years of trend information. Two participants, who also favored disaggregation between operating and capital, noted that this information could easily be presented on the face of the financial statements with trend information reported in the applicable statistical section schedules. There was consensus that five years of trend information was the appropriate number of years needed.

Board Members then had the opportunity to ask additional questions of the panel. To the question as to whether it is appropriate for a disaggregation of intergovernmental revenues to be included in a comprehensive annual financial report (CAFR), most participants indicated that they believed that it is not essential that this information be included in a CAFR. When asked about concerns participants may have about this project, several items were mentioned including:

- Concern that the information may be misunderstood and used for political purposes
- Concern that additional requirements would make producing a CAFR more expensive leading to fewer governments issuing CAFRs
- Concern with the use of the terms *dependency* and *risk*, which some may perceive pejoratively.

*Upon consideration of the October 2007 Memorandum and after weighing various options for pursuing the Project, as recommended by Staff, the Board decided to remove the Project from its “current technical agenda” and merge future consideration of the topic into the Board’s “research project” on the Reporting of Economic Condition.*

#### **Subsequent Considerations by Cherry, Bekaert & Holland Resulting in the Preparation of this Report**

In light of the past efforts and actions of the GASB and GASB staff, including the reported results of GASB directed research and the Board’s October 2007 decision, it was concluded within Cherry, Bekaert & Holland that an expanded research project should be pursued. That effort, which was principally carried out between December 2007 and September 2008, resulted in the proposed modifications to reporting standards presented within this Report. The Cherry, Bekaert & Holland research project recognized that:

- a) Intergovernmental financial dependency is widespread and typically significant to reporting governments.
- b) Information about intergovernmental flows of a general purpose nature, focused more on the organizational source and program affiliation of funds, in contrast to more finite categories, such as recurring vs. non-recurring.
- c) Information about intergovernmental flows was readily available and either had existing auditor association, or was established under formal and documented practices, as in the case of information from the U.S. Census Bureau.
- d) Information required for disaggregating amounts reported as both operating and capital grants, and contributions within Government-wide financial statements generally exist within the accounting records of state and local governments.
- e) Information required for disaggregating investments in the debt obligations of other governments generally is reported in current CAFRs or is available within the accounting records of state and local governments.
- f) Presentation and placement of recommended reporting elements and disclosures can be readily established through following guidance in GASB Concept Statement No. 3, *Communication Methods in General Purpose External Financial Reports That Contain Basic Financial Statements*.

Accordingly, the project resulted in: (1) the development of a recommended model for the comprehensive reporting and disclosure of intergovernmental financial dependency and related risks information within the comprehensive annual financial report (CAFR) of a state or local government, and (2) a pilot test of the required information gathering and reporting and disclosure methodologies using the CAFRs and other public information associated the Commonwealth of Virginia, and its local governments.