

## REPORTING

### **Note X - Contingencies and Litigations**

The (city/county/district) has recorded in its financial statements all material liabilities, including an estimate for situations which are not yet resolved but where, based on available information, management believes it is probable that the (city/county/district) will have to make payment. In the opinion of management, the (city/county/district's) (insurance policies and/or self-insurance reserves) are adequate to pay all known or pending claims.

As discussed in Note X, *Long-Term Debt*, the (city/county/district) is contingently liable for repayment of refunded debt.

The (city/county/district) participates in a number of federal- and state-assisted programs. These grants are subject to audit by the grantors or their representatives. Such audits could result in requests for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. (Other than the instances described above,) (city/county/district) management believes that such disallowances, if any, will be immaterial.

### **INSTRUCTIONS TO PREPARER**

Litigation is simply one (prevalent) type of contingency. Other types of contingencies include uncollectability of receivables, encumbrances, guarantees, the pledge of the government's *full faith and credit* on G.O. debt intended to be financed by enterprise revenues, and various types of uncompleted contracts where the city/county/district is obligated to perform. All significant accrual contingencies should be disclosed in the notes. If no accrual was made for loss contingency, disclosure should be made when there is at least a reasonable possibility that a loss or an additional loss may have been incurred. The disclosure should indicate the nature of the contingency and should give an estimate or range of the potential loss or state that such an estimate cannot be made.

To keep the financial statements from being misleading, it may be necessary to disclose information regarding a loss contingency that did not exist at the date of financial statement, but was available after the date of financial statement and before their issuance.

Also, the loss contingencies related to a guarantee should be disclosed even though the possibility of loss may be remote. The disclosure should include the nature and amount of the guarantee. If estimable, the value of any expected recovery should also be disclosed. In addition, contingencies for which it is probable that the city/county/district will incur a loss should be accrued as liabilities, as should all claims and judgments. For more details see GASB Statement 62, Certification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, paragraphs 106-110.

If a lawsuit has been settled adversely and is not currently under appeal, the government's liability should be disclosed together with changes in long-term liabilities rather than here.

Where the uninsured risk to the city/county/district from individual lawsuits is minor, the disclosure illustrated above is adequate. However, if there are major lawsuits pending against the government or material disputed contracts, specific disclosure of the issues and the present status of each case (including the range of possible loss, if estimable) is required.

**Be sure to consult with the government's attorney and auditor for appropriate wording of the disclosure.**