

4. REPORTING

4.6 Notes to Financial Statements

4.6.1 Instructions

4.6.1.10 The notes to financial statements are intended to communicate information necessary for a fair presentation of financial position and results of operations that is not readily apparent from, or cannot be included in, the financial statements themselves. The notes are an integral part of the financial statements and should supplement them. The notes which follow are designed to illustrate the disclosures required for GAAP local governments. The notes must reflect the local government's accounting policies and must include disclosure in the areas listed as they relate to the government's financial position.

4.6.1.20 Note disclosure requirements apply only to material items. A disclosure is considered to be material if some financial statements users would consider its omission important because of its size (quantitative materiality) or inherent interest (qualitative materiality).


4.6.1.30 **Delete** the notes that do not apply and **add** others that are needed for readers to understand the financial statements:

- Example notes presented in the manual are considered the minimum requirement for disclosure, as applicable. However, they are not all inclusive and additional disclosures may be needed due to the local governments' unique circumstances. For example, the government should disclose specific FASB pronouncements if their application has a significant impact on the government's financial presentation.
- Notes should not include irrelevant, obsolete, trivial or superfluous information. For example, governments should refrain from negative disclosure (stating that a potential disclosure is inapplicable, such as *there were no subsequent events requiring disclosure*).

4.6.1.40 Governments submitting their comprehensive annual financial reports (CAFR) for the GFOA Certificate of Achievement for Excellence in Financial Reporting should follow the criteria and required disclosures set forth in the *Codification of Governmental Accounting and Financial Reporting Standards*, Section 2300.


4.6.1.50 Attach the notes immediately behind financial statements. The following is a suggested sequence of the notes disclosure. The government should determine most meaningful method of presenting the necessary notes to financial statements.

 **Summary of significant accounting policies** (Note 1 in BARS Manual)


 **Details of reconciliation**

 **Stewardship, compliance and accountability**

- Violations of fiscal policies
- Deficit fund balances

 **Accounting changes**

- Prior period adjustments
- Changes in accounting principle
- Changes in estimate
- Changes in entity

 **Bankruptcies**

Detailed notes on all activities and funds

- Assets
 - Cash deposits with financial institutions
 - Investments
 - Derivative instruments
 - Reverse repurchase agreements
 - Security lending transactions
 - Receivable balances
 - Capital assets
 - Collections
 - Impairment and insurance recoveries
 - Sponsors disclosure for external investment pools
 - Lease receivables
 - Rights to service mortgage loans
 - Assets valuation allowances
- Deferred outflows of resources
- Liabilities
 - Payable balances
 - Pension plan and OPEB obligations
 - Termination benefits
 - Construction and other significant commitments
 - Claims and judgments
 - Lease obligations (capital and operating)
 - Short-term debt and liquidity
 - Long-term debt
 - Landfill closure and postclosure care
 - Pollution remediation obligations
 - Financial guarantees
 - Assets Retirement obligations (ARO)
- Deferred inflows of resources
- Net position/fund balance
 - Net position
 - Fund balance
- Interfund receivables and payables and interfund eliminations
- Revenues and expenditures/expenses
 - Discounts and allowances
 - Interest expenses included in direct expense
 - Future revenues that have been sold
 - On-behalf payments for fringe benefits and salaries
 - Transactions that would be reported as special items that had they been within the control of management
 - Significant transactions involving major discretely presented component units
 - Transactions not reported because not measurable
 - Foreign currency transactions
 - Nonmonetary transactions
 - Retail land sales
 - Contracts to perform research and development
 - Service concession arrangements
 - Tax abatements
- Donor restricted endowments
- Interfund transfers

- ✚ **Segment information for enterprise funds**
- ✚ **Individual major discretely presented component unit disclosure**
- ✚ **The nature of the primary government's accountability for related organizations**
- ✚ **Joint ventures and jointly governed organizations**
- ✚ **Related-party transactions**
- ✚ **Summary disclosure of significant contingencies**
 - Loss contingencies
 - Contingent liability for debt
 - Gain contingencies
- ✚ **Significant effects of subsequent events**
- ✚ **Bankruptcies**
- ✚ **Going-concern consideration**
- ✚ **Government combinations**

4.6.1.60 Example notes in BARS Manual consist of *Sample Text* but all contain *Instructions to Preparer*.

Sample Text – example of common or standard language meant to help write the note. Sample text should be modified, deleted or added to as necessary to fairly present the government's circumstances. While sample text is given, it is the local government responsibility to determine accuracy and adequacy of the disclosure.

Instructions to Preparer - comments and instructions on how to write the note, including required elements or additional versions of the note not shown in the sample text.

4.6.1.70 The notes to financial statements can be presented in any format (i.e., narratives, tables, schedules, matrixes, etc.) as long as they contain the required information. Note disclosures should be expressed as clearly and simply as possible and include explanations as necessary to ensure it is understandable by users. However, this does not mean that disclosures should avoid precise technical terms or omit or abridge information that may be complicated or difficult to understand.

4.6.1.80 If the government prepared comparative financial statements the notes have to include information for both years. Comparative financial statements mean two complete sets of financial statements for each of comparative year. Each set should contain basic financial statements (including notes) and RSI (including MD&A). Both years may be combined in one presentation; however, each element (MD&A, basic financial statements, notes, and RSI) have to include information for both years.

4.6.1.90 Make sure each page of the financial statements contains references to the notes.

4.6.1.100 Notes should not include irrelevant, obsolete, trivial or superfluous information. For example, governments should refrain from negative disclosure (i.e., stating that a potential disclosure is inapplicable, such as: *The {entity name} did not have any subsequent events.*).

4.6.1.110 Note disclosures should be expressed as clearly and simply as possible and include explanations as necessary to ensure it is understandable by users. However, this does not mean that disclosures should avoid precise technical terms or omit or abridge information that may be complicated or difficult to understand.