Budgeting, Accounting and Reporting System (BARS)

GAAP

For Cities, Counties and Special Purpose Districts

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Reporting Year: 2021	

BARS GAAP Manual

Cities, Counties and Special Purpose Districts (GAAP)

The BARS Manual is currently updated for all applicable GASB Statements required for fiscal year 2024 reporting. This update occurred on December 3, 2024.

The annual report for the fiscal year ended December 31, 2024, is required by Friday, May 30, 2025 (RCW 43.09.230).

The Budgeting, Accounting and Reporting System (BARS) Manual prescribes accounting and reporting for local governments in accordance with RCW 43.09.200. Its purpose is to provide (1) uniform accounting and financial reporting to allow for meaningful use and comparison of financial data; (2) accounting and reporting instructions as a resource for local government managers; and (3) a consistent framework for financial reporting to intended users, including managers, governing bodies, granting and regulatory agencies, the state Legislature, and the general public.

The manual is maintained by the State Auditor's Office with input from theLocal Government Advisory Committee. It is continuously reviewed to ensure prescription and instructions remain current and appropriate to meet the needs of intended users. Accounting and reporting guidance incorporates analysis of generally accepted accounting principles (GAAP) published by the Governmental Accounting Standards Board as they become effective.

This manual is designated for all GAAP cities, counties and special purpose districts.

Governments should refer to the source standards when researching or early implementing GASB Statements, by visiting https://gars.gasb.org/.

View the detailed Alerts and Changes tab for current year updates.

In need of technical assistance? Visit the Help Desk.

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.

Charts of Accounts

BARS Account Exports

BARS Account Exports
In this section, governments can access a report providing information on the allowability of BARS codes in fund types as well as export a chart of accounts specific to a government type.

BARS Codes to Fund Type
BARS codes may be restricted for use in the annual report filing system. The following matrix "Codes to Funds" identifies which fund group(s) that each active BARS code may be reported in.

Download FY2024 Codes to Funds **here**. *Codes are as of November 14, 2024*

Note: It is recommended to use this matrix in conjunction with the government specific BARS Account Export provided below.

BARS Account Export
Download a government specific BARS Chart of Accounts in the export box at the bottom of this page.

Your annual report requires seven digits for all account codes however, their display in the chart of accounts export varies. The expenditure or expense accounts are presented in the export without object codes. Object codes will need to be added to the BARS Code to complete the required

seven digits for the annual report. Additional details about object codes are available in the BARS Manual 1.4. Reporting at the sub object level is not required.

How to use the BARS Account Export

Select a government type
The government type selection will limit the BARS accounts that are applicable to the selected government type. If ***all*** is selected, the export will include BARS accounts for all government types.

Select basis of accounting
The basis of accounting selection will limit the BARS accounts that are applicable to the basis of accounting selected (GAAP or Cash). If ***all*** is selected, the export will include all the BARS codes regardless of their applicability to a specific basis.

Select export type
The Excel option provides a spreadsheet which you can format.
The PDF is formatted to highlight the different categories of account codes and for printing. For display purposes, the account codes contain decimal points which should be excluded in your annual report.

Select a reporting level
Above and Prescribed option includes all the accounts, including the accounts in which other codes are rolled up into for category presentation. These above prescribed codes are not valid for reporting; however they provide detailed information on the category of the codes. This listing also provides the Prescribed accounts, which are the required accounts for annual report filing.
The Prescribed option includes only the accounts which are the valid BARS account codes for annual report filing.

Account Structure Applicability

1 **Charts of Accounts**

1.1 **Account Structure**

1.1.1 **Applicability**

1.1.1.10 The *Budgeting, Accounting and Reporting System*(BARS) must provide a complete record of financial transactions to ease preparation of the prescribed financial reports.

1.1.1.20 The prescribed chart of accounts represents an orderly means of classifying transactions. Only the accounts applicable to a particular entity type should be used. This uniform system of accounts is best applied consistently throughout the budgeting, accounting and reporting cycles. ***However, it is permissible to use a different system of numbers for internal accounting, so long as equivalent detail is maintained for reporting purposes***.

1.1.30 The following policies will govern the application of this accounting system by local governments following GAAP:

1. Double-entry accounting should be employed. This method requires that appropriate journals and ledgers be maintained to reflect the flow of financial transactions from the original source documents to the final posting. Journals provide a chronological history of financial transactions and systematic means by which the transactions can be distributed and summarized for convenient posting to ledger accounts. Subsidiary ledgers provide detail necessary to support or supplement control accounts in the general ledger. The general ledger control accounts record financial information in summary form for the local government.

2. The modified accrual basis of accounting is mandatory for the general (current expense), special revenue, debt service, capital projects and permanent funds.

3. The accrual basis of accounting is prescribed for enterprise, internal service, investment, pension (and other employee benefits), private-purpose and custodial funds.

4. The prescribed chart of accounts ***must*** be used for detail reporting of revenues and

expenditures/expenses. If a different system of numbers is used for internal accounting, it must contain equivalent detail throughout the budgeting, accounting, and reporting processes.

Structure

1 **Charts of Accounts**

1.1 **Account Structure**

1.1.2 **Structure**

1.1.2.10 The BARS structure requires a ten-digit capability to accommodate the required coding. Of these ten digits, seven digits are fully reserved for the account code. This means, if the local government decides to use unassigned digits for local purposes, it should be aware that these digits may be prescribed in the future and the new prescription will supersede the local applications.

1.1.2.20 The remaining three digits are designated for the fund number.

1.1.2.40 The BARS code structure has the following components:

Fund codes

The three digit code is used to identify different fund types. Except for fiduciary funds where the second digit is prescribed, only the first digit has to follow the designated numbers. See *Fund Types and Accounting Principles* for GAAP or cash-basis governments.

General (Current Expense) Fund	**0**00-099
Special Revenue Funds	**1**00-199
Debt Service Funds	**2**00-299
Capital Projects Funds	**3**00-399
Permanent Funds	**7**00-799
Enterprise Funds	**4**00-499
Internal Service Funds	**5**00-599
Investment Trust Funds	**60**0-609
Pension (and Other Employee Benefit) Trust Funds	**61**0-619
Private-Purpose Trust Funds	**62**0-629
Custodial Funds (for External Investment Pool Funds use code 699)	**63**0-699

First digit

3 (three) denotes revenues and other financing source accounts.[1]

5 (five) denotes expenditures/expenses and other financing use accounts[2]

Second and third digits

Revenue – The numbers assigned to identify different functions and activities for which

expenditures/expenses are incurred.

Expenditures/Expenses – The numbers assigned to identify different functions and activities for which expenditures/expenses are incurred.

Fourth and fifth digits

Revenue – The numbers assigned to further identify specific types of revenues within a particular source.

Expenditure/Expense – The numbers assigned to further identify specific elements and sub-elements of activities related to the particular function and activity.

Sixth and seventh digits (Object Codes)

Revenue – The numbers have not been defined, and are available for the additional coding by the local government. However, as the BARS manual is updated, they may be assigned for specific purposes.

Expenditure/Expense – The numbers assigned to identify expenditures/expenses according to the character and the type of items purchased or services obtained.

Minimum levels for reporting revenues and expenditures/expenses

1.1.2.50 The following chart summarizes the amount of detail required.

Digit	Example	REVENUES
Fund	**0**01	Required [3]
First	**3**00	Required
Second	3**4**0	Required
Third	34**2**	Required
Fourth	342**2**0	Optional [4]
Fifth	3422**1**	Optional [4]
Sixth	34221**1**	Optional
Seventh	342211**1**	Optional

Digit	Example	EXPENDITURES/EXPENSES
Fund	**0**01	Required [3]
First	**5**00	Required
Second	5**1**0	Required
Third	51**4**	Required
Fourth	514**2**0	Optional [4]
Fifth	5142**0**	Optional [4]
Sixth	51420**2**1	Required
Seventh	514202**1**	Optional

Footnotes

[1] *Except 308 - beginning fund balance/net position*
[2] *Except 508 - ending fund balance/net position.*
[3] *Except for fiduciary funds where the second digit is required.*
[4] *Except when specifically prescribed in the BARS Manual.*

Revenue and Expenditure Accounts Overview

1 **Charts of Accounts**

1.3 **Revenue/Expenditure Accounts Overview**

1.3.10 The overview includes the ***major*** categories of revenues and expenditures. For the full listing of all revenue and expenditure codes go to BARS Account Export.

Revenues by source

310 Taxes
320 Licenses and Permits
330 Intergovernmental Revenues
340 Charges for Goods and Services
350 Fines and Penalties
360 Miscellaneous Revenues
370 Proprietary Funds Revenues
380 Other Increases in Fund Resources
390 Other Financing Sources

Revenues by source and type

310		**Taxes**
	311	Property Tax
	313	Retail Sales and Use Taxes
	316	Business and Occupation Taxes
	317	Excise Taxes in Lieu of Property Tax
	318	Other Taxes
320		**Licenses and Permits**
	321	Business Licenses and Permits
	322	Non-Business Licenses and Permits
330		**Intergovernmental Revenues**
	331	Federal Direct Grants
	332	Federal Revenues
	333	Federal Indirect Grants
	334	State Grants, Awards, and Other Contributions
	335-336	State Shared Revenues, Entitlements and Impact Payments
	337	Local Grants, Entitlements and Other Payments
340		**Charges for Goods and Services**
	341	General Government
	342	Public Safety
	343	Utilities
	344	Transportation
	345	Natural and Economic Environment
	346	Social Services
	347	Culture and Recreation
	348	Internal Service Funds Sales and Services
350		**Fines and Penalties**
	351	Superior Court - Felony/Misdemeanor Penalties
	352	Civil Penalties
	353	Civil Infraction Penalties
	354	Civil Parking Infraction Penalties
	355	Criminal Traffic Misdemeanor Fines
	356	Criminal Non-Traffic Fines
	357	Criminal Costs
	359	Non-Court Fines and Penalties
360		**Miscellaneous Revenues**
	361	Interest and Other Earnings
	362	Rents and Leases
	367	Contributions and Donations from Nongovernmental Sources

368	Special Assessments
369	Other
370	**Proprietary Funds Revenues**
371	Share in Joint Ventures Income
372	Insurance Recoveries
373	Gains (Losses)
374 - 375	Capital Contributions - Federal/State Grants
379	Capital Contributions
380	**Other Increases in Fund Resources**
385	Special or Extraordinary Items
386	Court Remittances
388	Other Increases in Fund Equity
389	Custodial Activities
390	**Other Financing Sources**
391	Long-Term Debt Issued
392	Premiums on Bonds Issued
393	Refunding Long-Term Debt Issued
395	Disposition of Capital Assets
397	Transfers-In
398	Insurance Recoveries

Expenditures/expenses by function

501	Depreciation
510	General Government
520	Public Safety
530	Utilities
540	Transportation
550	Natural and Economic Environment
560	Social Services
570	Culture and Recreation
580	Other Decreases in Fund Resources
598	Miscellaneous Expenses
591*-593*	Debt Service
594*-595*	Capital Expenditures/Expenses
596*, 597, 599*	Other Financing Uses
	*****These codes are listed together with appropriate operating activities.

Expenditures/expenses by function and activity

510	**General Government**
511	Legislative Activities
512	Judicial Activities
513	Executive Activities
514	Financial, Recording and Election Activities
515	Legal Activities
517	Employee Benefit Programs
518	Centralized/General Services
519	Risk Management Services
520	**Public Safety**
521	Law Enforcement Activities
522	Fire and Emergency Medical Activities
523	Detention/Correction Activities
524	Protective Inspection Services
525	Disaster Services

	527 Juvenile Services
	528 Dispatch Services
530	**Utilities**
	531 Storm Drainage Utilities
	532 Television/Cable/Internet Utilities
	533 Electric/Gas Utilities
	534 Water Utilities
	535 Sewer/Reclaimed Water Utilities
	536 Cemetery
	537 Solid Waste Utilities
	538 Combined Utilities
	539 Irrigation/Reclamation Utilities
540	**Transportation**
	541 Roads/Streets Construction – Preservation Projects
	542 Roads/Streets Maintenance
	543 Roads/Streets General Administration and Overhead
	544 Roads/Streets Operations
	545 Roads/Streets Extraordinary Operations
	546 Airports and Ports
	547 Transit, Railroads and Other Transportation Systems
	548 Public Works – Centralized Services
550	**Natural and Economic Environment**
	551 Public Housing Services
	552 Employment Opportunity
	553 Conservation
	554 Environmental Services
	557 Community Services
	558 Community Planning and Economic Development
	559 Property Development
560	**Social Services**
	561 Hospitals, Assisted Living and Convalescent Facilities
	562 Public Health Services
	563 Coroner/Medical Examiner
	564 Mental Health Services
	565 Welfare/Veterans Services/Services for Disabled/Homeless Services/Domestic Violence
	566 Chemical Dependency Services
	567 Children Services
	568 Developmental Disabilities Services
	569 Aging and Disability Services
570	**Culture and Recreation**
	571 Educational and Recreational Activities
	572 Libraries
	573 Cultural and Community Activities
	575 Cultural and Recreational Facilities
	576 Park Facilities
598	**Miscellaneous Expenses**
580	**Other Decreases in Fund Resources**
	588 Other Decreases in Fund Equity
	589 Custodial Activities
591-593	**Debt Service**
	591 Redemption of Long-Term Debt
	592 Interest and Other Debt Service Costs
	593 Advance Refunding Escrow
594-595	**Capital Expenditures/Expenses**
	594 Capital Expenditures/Expenses

595 Roads/Streets and Other Infrastructure: Improvements and New Construction Projects

596, 597, 599 Other Financing Uses

596 Issuance Discount on Long-Term Debt
597 Transfers-Out
599 Payments for Refunded Debt

Balance Sheet codes for Schedule 01 reporting

300 Fund Balance/Net Position - Beginning
308 Fund Balance/Net Position - Beginning

800 Assets/Deferred Outflows/Liabilities/Deferred Inflows
810 Cash, Cash Equivalents and Investments
820 Other Current Assets
830 Other Noncurrent Assets
840 Deferred Outflows
850 Current Liabilities
860 Noncurrent Liabilities
870 Deferred Inflows

500 Fund Balance/Net Position - Ending
508 Fund Balance/Net Position - Ending

Expenditures/expenses by fourth and fifth digit

Use this table only with accounts beginning with 591-594, 596 and 599.

General Government
11 Legislative Activities
12 Judicial Activities
13 Executive Activities
14 Financial, Recording and Election Activities
15 Legal Activities
17 Employee Benefit Programs
18 Centralized/General Services
19 Risk Management Services

Public Safety
21 Law Enforcement Activities
22 Fire and Emergency Medical Activities
23 Detention/Correction Activities
24 Protective Inspections Services
25 Disaster Services
27 Juvenile Services
28 Dispatch Services

Utilities
31 Storm Drainage Utilities
32 Television/Cable/Internet Utilities
33 Electric/Gas Utilities
34 Water Utilities
35 Sewer/Reclaimed Water Utilities
36 Cemetery
37 Solid Waste Utilities
38 Combined Utilities
39 Irrigation/Reclamation Utilities

Transportation

41 Roads/Streets Construction–Preservation Projects
42 Roads/Streets Ordinary Maintenance
43 Roads/Streets General Administration and Overhead
44 Roads/Streets Operations
45 Roads/Streets Extraordinary Operations
95 Roads/Streets and Other Infrastructure
46 Airports/Ports
47 Transit/Railroads and Other Transportation Systems
48 Public Works–Centralized Services

Natural and Economic Environment
51 Public Housing Services
52 Employment Opportunity
53 Conservation
54 Environmental Services
57 Community Services
58 Community Planning and Economic Development
59 Property Development

Social Services
61 Hospitals, Assisted Living and Convalescent Facilities
62 Public Health Services
63 Coroner/Medical Examiner
64 Mental Health Services
65 Other Social Services
66 Chemical Dependency Services
67 Children Services

68 Developmental Disabilities Services
69 Aging and Disability Services

Culture and Recreation
71 Educational and Recreational Activities
72 Libraries
73 Cultural and Community Activities
75 Cultural and Recreational Facilities
76 Park Facilities

Determining Operating, Nonoperating Revenues and Expenses in Proprietary Funds

1 **Charts of Accounts**

1.5 **Determining Operating/Nonoperating Revenues/Expenses in Proprietary Funds**

1.5.10 The Proprietary Fund Statement of Revenues, Expenses, and Changes in Net Position requires governments to distinguish operating revenues and expenses from non-operating revenues and expenses. Several BARS codes have been defined as operating or non-operating, however some BARS codes can be either operating or nonoperating. The following matrix "Operating vs. Non-operating" identifies the classifications as they are reflected in the annual filing system. BARS codes that can be either operating or non-operating will need to be allocated in the annual filing system. The governments may use the matrix as a ***guide*** for the preparation of their statement of revenues, expenses and changes in net position (operating statements).

Download the Operating vs. Non-Operating matrix here.

1.5.20 Because operating revenues/expenses are not authoritatively defined in the accounting literature, there is no assurance that the usage of these term is standardized. Since the State Auditor's Office is required to provide comparative statistics for all local governments, the Office made some decisions which are based on a reasonable extension of existing standards that do not have direct citations in GAAP literature.

1.5.30 GASB Statement 34, *Basic Financial Statements - Management Discussion and Analysis - for State and Local Governments*, paragraph 436, states that there are two criteria to consider when defining revenues and expenses as operating: (1) does the revenue/expense result from the fund's **principal purpose**, and (2) is the revenue/expense allowed to be considered operating on the statement of cash flows [again, this is a guideline, ***not*** a requirement].

1.5.40 The operating nature of revenue is derived **from the source** of the revenue ***NOT*** **its purpose**. The fact that the revenue supports the operations does not impact its classification which again refers to the revenue origin.

1.5.50 GASB Statement 34, paragraph 100 requires proprietary fund revenues to be reported by major source (net of discounts and allowances). Paragraph 100, further requires proprietary to distinguish between operating and nonoperating revenues and expenses.

1.5.60 The objective of the distinction of nonoperating and operating is to display the extent to which operating expenses are covered by revenues generated by principal ongoing operations (2015-1 Comprehensive Implementation Guide, Question 7.73.4). For example, interest is operating revenue if the principal activity of the fund is to provide loans to generate income. The ongoing principal operation is determined by the purpose of the individual enterprise fund.

1.5.70 GASB Statement 34, paragraph 102, indicates that one consideration for defining operating revenues and expenses is how individual transactions would be categorized for cash flows from operating activities in the cash flows statement. Operating revenues are generally those that enter into the determination of the operating income. This is a guideline, ***not*** a requirement. [See reference to footnote 42 on page 36, after paragraph 104 of GASB Statement 34.]

1.5.80 According to the GASB Statement 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting* operating cash flows category would ***exclude*** most revenues that considered to be non-exchange and exchange-like transactions and financing and investment-related revenues/expenses, including:

- Operating grants and contributions (both received and made) and grants and contributions that are not restricted to either operating or capital. Capital grants are always excluded. [Grants that are essentially the same as a contract for services, however, may be reported as an operating activity.]
- Exchange-like transaction revenues, such as passenger facility charges, certain tap fees, certain developer contributions and certain grants when restricted for capital or non-capital financing purposes.
- Property or other tax revenues.
- Gains or losses on sales of capital assets.
- Interest and dividends and realized and unrealized gains and losses on investments.
- Interest expense, including premium or discount amortization on debt and debt issue expense.

1.5.90 Generally governments should record the following proprietary fund operating revenues:

- Charges for services/goods (340);
- Fees related ***directly*** to their principal operations (e.g., connection fees if offset by current period expenses, i.e., not capitalized, etc.);
- Miscellaneous revenues provided they are operating revenues (i.e., directly related to principal operations).

1.5.100 **Taxes (310)**

GAAP governments are not created to generate tax revenue. Taxes are not comparable to charges for services, as they are result of statutory authority only. It does not matter how specific the tax is regarding its use or purpose. Property and other taxes should be always reported as **nonoperating** revenue in proprietary fund statements.

Licenses and Permits (320)

Licenses and permits are generally exchange or exchange-like transactions. Usually the price of paying the cost of issuing a license or permit amounts to the cost necessary to process that

permit. Permit may be considered operating if it is an integral component of the enterprise funds' primary operations, and if it is considered operating from the perspective of the cash flows statement. Another example of permits and licenses being an operating revenue would include a permit fee collected by an enterprise fund whose purpose is to issue permits.

Grants/Intergovernmental Revenues (330)

Operating grants and contributions (both received and made) that are not restricted for capital purposes [these are reported as capital contributions] are excluded from an operating category since these are result of non-exchange transactions. Capital grants are always excluded. GASB Statement 9, paragraph 21b, footnote 9, specifically includes grants or subsidies provided to finance operating deficits in the noncapital financing category, rather than the operating activities category. Based on that guidance, annual operating grants and subsidies should be reported as **nonoperating** revenues.

For example grants reported in a transit enterprise funds should not be reported as operating revenue but, rather, as non-operating revenue or as capital contributions [reported separately after non-operating revenues and expenses]. This is because the grants are funding the deficit and are not received because the state/feds are paying on-behalf of riders or passengers.

However, grants that are essentially the same as a **contract for services**, should be reported as **operating** revenues. Grants primarily benefit particular grantee furthering grantees own purpose or program. Grantor involvement is limited to administration and monitoring. It also benefits the grantor own program directly (e.g., federal government providing Medicare by law). This is in substance an ***exchange transaction***.

Operating grants (vs. capital) are intended to finance operations, but **they are not a result of operations**.

Charges for Goods and Services (340)

If these revenues are result of the governments' ***principal operations***, they should be coded as **operating**.

Fines and Penalties (350)

GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions* classifies fines as imposed non-exchange transactions, which excludes them from the operating revenue category. They should be reported as **nonoperating** revenues.

Miscellaneous Revenues (360)

Majority of the miscellaneous revenues are considered **nonoperating** unless they are directly related to the government principal operation; if so, then they should be coded in the functional area. For example, interest revenue should be reported as **nonoperating**. They can be operating only if proprietary fund's principal operation is to provide loans. We believe there are no governments in the Washington State established only for this purpose.

Also, rentals and leases are all **nonoperating** unless the rental is directly related to the principal operation, (a port district that primarily functions as marina, should code all non-marina rentals as nonoperating, etc.).

Service-type special assessments are exchange or exchange-like transactions which affect only those who directly benefit from a given service. Unlike the capital-type special assessments which should be reported as capital contributions, the service-type assessments can be reported as operating revenues if they are directly related to the principal operations of the government.

The immaterial amounts of all other revenues, not specifically listed in the BARS manual, should be coded either to 36991, *Miscellaneous Other* or 36992, *Miscellaneous Other Nonoperating* depending on their relationship to the governments' primary operations.

1.5.110 **Expenses**

Since there is no authoritative definition what constitutes the operating expenses, each government must disclose the basis on which it separates operating from nonoperating expenses. This distinction should allow to demonstrate the extent to which the government is able to recover from its customers the cost of producing goods and providing services. So, the cost of goods sold and services provided constitute operating expenses.

Object Codes

1 **Charts of Accounts**

1.4 **Object Codes**

00 Depreciation, Amortization, Other Decreases in Fund Resources and Transfers-Out

Use this category with the accounts 501, 581, 582, 585, 586, 588, 589, and 597.

10 Salaries and Wages

Use this object code for the gross amounts paid for personal services rendered by employees in accordance with the rates, hours, terms and conditions authorized by law or stated in employment contracts. This category also includes overtime, hazardous duty or other compensation construed to be salaries and wages. Governments may subdivide this account as necessary for detailed local purpose reporting (i.e., regular pay, overtime pay, sick pay (employee related), sick pay (non-employee related), vacation pay, shift differential, and other taxable compensation).

Personal services do not include fees and out-of-pocket expenditures for professional or consultant services performed on assignments. Such services are properly classified as object code 40.

20 Personnel Benefits

Use this object code for the employer's share of benefits provided to employees, in addition to compensation, that are part of the conditions of current or past employment. Governments may subdivide this account as needed for detailed local purpose reporting (i.e., health/vision/dental insurance, unemployment compensation payments and/or premiums, Social Security, Medicare taxes, uniforms, pension, and workers' compensation).

Payments for pay-as-you-go health and welfare plans, or pension/OPEB plans would be coded to personnel benefits. Payments to fund either a self-insurance fund for health and welfare type benefits or a pension/OPEB fund would also be coded to personnel benefits, then subsequent payment from the self-insurance funds and non-fiduciary pension/OPEB funds for all claims would use object code 40 for the payments.

30 Supplies for Consumption and Resale

Use this object code for:

- items purchased for consumption and use by the government:
  - Examples: office supplies, forms, agricultural supplies, chemicals, laboratory supplies, cleaning supplies, clothing, construction materials, drugs, electrical supplies, feed for animals, household supplies, lubricants, medicines, painting and plumbing supplies, books, publications, etc.;
  - fuel used to generate power, heating, and operate engines and vehicles (e.g., coal, diesel fuel, gasoline, oil, propane gas, wood, etc.);
  - small tools and minor equipment
- items purchased for resale – (i.e., inventory):
  - Examples: automotive repair parts, grave markers and liners, central store merchandise, maps, code books, concession supplies, fuel, trees, books and other literary materials, office supplies, forms, agricultural supplies, chemicals, laboratory supplies, cleaning supplies, clothing, construction materials, drugs, electrical supplies, feed for animals, household supplies, lubricants, medicines, painting and plumbing supplies, books, publications, etc.;
  - Note: power, gas, water and waste disposal services purchased for resale only to the government's customer – for the government's own use, use object code 40.

40 Services and Pass-Through Payments

Use this object code for professional and technical services which are provided by other governments (federal, state, local), other funds, or by private entities as well as for pass-through payments as described below.

Services include but aren't limited to the following examples:

- professional services (e.g., accounting, auditing, advertising, computer services, medical, dental and hospital, management consulting, custodial, messenger, testing, monitoring,

cleaning, engineering, architectural, legal, investment services, etc.);
- communication (e.g., postage, internet, telephone, facsimile, shipping, etc.);
- travel (e.g., mileage, lodging, meals, etc.);
- taxes (e.g., sales and use, B&O tax, etc.) and operating assessments (i.e., payments to other governments or funds based on levies against property or income of the government or a fund);
- permits, licenses, accreditation, certification and other fees which are necessary for operations paid to the federal, state or local governments (e.g., survey fees, laboratory accreditation fees, disposal fees, discharge permits, biosolid permits, FERC licenses, etc.);
- short-term lease and subscription payments (GAAP entities should use object 60 for long-term leases and SBITAs; cash basis entities should use object 70 for payments on long-term leases and SBITAs);
- insurance payments: e.g., liability, theft, bonds, casualty, etc.; some payments may use object 20 for insurance applicable to personnel benefits (see object code 20 for more information);
- utility services: e.g., water, sewer, gas, electricity, waste disposal, television, etc. that are used by the government itself. *Use object 30 for power, gas or water purchased for resale* (see object code 30 for more information);
- contracted repairs and maintenance (use object 60 for capital asset construction contracts);
- other (e.g., court costs, investigation, judgments, damages, dues, subscriptions, memberships, registrations, information and credit services, laundry and sanitation services, filing, recording, witness fees, printing, binding, tuition, etc.).

Pass-through payments include eligible intergovernmental payments, contributions and grants that the government has received from federal, state, or other local governments and are passed through to other entities.

60 Capital Outlays

Use this object code for expenditures related to the purchase or construction of assets considered capital according to the government's capitalization threshold policy. This object code should be used only with accounts 594 and 595.

Include expenditures related to acquisition of, rights to, or additions to capital assets, including incidental costs such as legal, appraisal and brokerage fees, land preparation and demolishing buildings, fixtures and delivery costs. This category includes purchases and construction of major capital assets which are purchased or constructed by the external party. Assets constructed or fabricated by the municipality should be classified under other object codes; i.e., wages under object code 10, materials, small tools and minor equipment under object code 30, etc. Include:

- land and related other land improvements (e.g., easements, site improvements such as excavation, fill, grading, utility installation, removal, relocation or reconstruction of property, retaining walls, fencing, landscaping, land acquisition costs and related expenditures, intangible rights to land, etc.);
- acquisition, construction, and improvements of buildings (e.g., administrative and office buildings, garage, shops, firehouses, jails, libraries, zoos, park buildings, coastal and riverine structures);
- infrastructure and other tangible or intangible assets (e.g., alleys, athletic fields, water/sewer systems, fuel depots, dikes, levees, signs and signals, landscape and vegetation, artwork, computer software, etc.);
- machinery and equipment (e.g., vehicles, police dogs and horses, computer hardware, etc.);
- assets acquired under executory conditional sales contracts (RCW39.30.010).

70 Debt Service – Principal

Use this object code with codes 591, 593, 594 (cash basis only), 596 and 599. Include general obligation, revenue, special assessment bonds, long-term leases/SBITA, installment purchases, anticipation and other notes, anticipation warrants, contracts, intergovernmental loans, other debt, LOCAL program payments, etc.

80 Debt Service – Interest and Issuance Costs

Use this object code with codes 592, 593, 594 (cash basis only) and 599. Include interest on short and long-term external debt, interest on interfund debt, interests on debt to joint ventures and affiliates, LID assessments, interest on intergovernmental debt, leases, interest paid on overdue taxes (RCW 84.69.070), debt issuance and other debt service costs.

Optional - General Ledger Accounts

1 **Charts of Accounts**

1.2 **Optional - General Ledger Accounts**

1.2.10 The specific account numbers contained here are***not prescribed***, with an exception for selected liabilities accounts which are required to be reported on the Schedule of Liabilities (Schedule 09). This general ledger has been carefully designed to meet several needs.

1.2.20 First, the accounts provide for identification of assets, deferred outflows, liabilities, deferred inflows and fund balances/net position that any local government fund might acquire. Throughout the general ledger, the fourth or fifth and subsequent digits have been left for local governments to use in establishing more detailed breakdowns where needed.

1.2.30 Second, the general ledger has been designed to permit logical summarization of the detailed accounts at various levels. The table below illustrates in detail the structure of the general ledger.

1.2.40 Third, the comprehensiveness of the general ledger combined with the uniform summarization outlined above is designed to make the preparation balance sheets/statement of net position a simple matter of extracting the balances at the same level for all the funds of a government. The headings on the attached chart identify which digits to sort or summarize by for reporting purposes. The presentation of a balance sheet/statement of net position is structured in similar manner as the general ledger accounts as shown in the attached chart.

1.2.50 The following excel file provides the list of optional general ledger accounts. The “GL Accounts” tab provides account titles and their corresponding account number. The “GL Accts w Descriptions” tab provides account titles and their corresponding account number along with account descriptions.

Download the excel workbook here:General Ledger Accounts

Budgeting

Budget Compliance Introduction

2 **Budgeting**

2.4 **Budget Compliance**

2.4.1 **Introduction**

2.4.1.10 A budget is a legal document that forecasts the financial resources of a government and authorizes the spending of those resources for a fiscal period. At a minimum, local governments' budget must meet the requirements of Washington state law and the State Auditor's Office. The SAO does not prescribe how to budget or what a budget should look like. The adopted budget should be of sufficient detail to be meaningful and meet the intention of the law. The SAO considers budgets showing revenues and expenditures at the legal fund level to be the minimum acceptable level of detail.

2.4.1.20 Budgeting is more than just an activity to satisfy state law. It is a sophisticated process of strategic planning, communication and policy development resulting in a detailed plan of operations for allocating and monitoring the use of limited resources among various competing demands. Teaching how to budget is outside the scope of the BARS. However, there are many educational resources available to local governments, such as the Municipal Research and Services Center (mrsc.org) and the Government Finance Officers Association (gfoa.org).

2.4.1.30 **Glossary of budgetary terms:**

Annual/biennial appropriated budget – A fixed budget adopted for the government's fiscal period. The appropriated budget was traditionally used to determine a government's property tax levy, and a ceiling on expenditures was made absolute so that the expenditures of a government unit would not exceed its revenues. This budget was also historically a balanced budget, estimated revenues equaling appropriations. The appropriated budget is still used to set tax levies and some budget statutes still require balanced budgets, but it is more generally used to authorize a specific amount of expenditures regardless of whether estimated resources meet or exceed that amount. Appropriated budgets are required by statute in cities (Chapter 35.32A RCW, Chapter 35.33 RCW and Chapter 35A.33 RCW), counties (Chapter 36.40 RCW), and most other local governments in Washington State. These budgets are also called legal budgets, adopted budgets, or formal budgets. The appropriated budgets should be adopted by ordinance or resolution.

Appropriation – The legal spending level authorized by a budget ordinance or resolution. Spending should not exceed this level without prior approval of the governing body.

Capital improvement budget – Consists of two elements: the annual/biennial portion of capital projects and annual/biennial appropriations for the purchase, construction or replacement of major fixed assets in the current fiscal period.

Comprehensive budget – A government-wide budget that includes all resources the government expects and everything it intends to spend or encumber during a fiscal period. The comprehensive budget contains annual/biennial appropriated budgets, the annual/biennial portion of continuing appropriations such as the capital improvement projects, debt amortization schedules, and grant projects, flexible budgets and all non-budgeted funds.

Continuing appropriation – A fixed budget which authorizes expenditures for a fiscal period that differs from the government's fiscal year, such as capital projects, debt issues, grant awards, and other service projects. These expenditures require an ordinance or resolution to authorize the project, establish the assessment roll, adopt the debt amortization schedule, or accept the grant award. Such ordinances or resolutions set an absolute maximum or ceiling on the expenditures, but the time period for incurring expenditures does not coincide with the government's fiscal year; it may even cover several years. The major difference between annual/biennial appropriated budgets and continuing appropriations is that the latter do not lapse at fiscal period end; this implies that no legislative action is required to amend the annual/biennial portion of a continuing appropriation, unless the total authorized expenditures would exceed the entire appropriation.

Encumbrances – Commitments related to unperformed (executory) contracts for goods or

services should be utilized to the extent necessary to assure effective budgetary control and to facilitate cash planning. Encumbrances outstanding at year end represent the estimated amount of expenditures ultimately to result if unperformed contracts in process are completed; they do not constitute expenditures or liabilities.

Final amended budget – The original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year, whenever signed into law or otherwise legally authorized.

Fixed budget – Those budgets which set an absolute maximum or ceiling on the expenditures of a particular fund, department, or other specific category. A fixed budget can be either an annual/biennial appropriated budget or a continuing appropriation. Fixed budgets must be adopted by ordinance or resolution, either for the government's fiscal period or at the outset of a service project, debt issue, grant award, or capital project.

Flexible budgets – Are usually regarded as managerial tools, which do not set a ceiling on expenses or expenditures but establish a plan for them at various levels of service. They are especially appropriate for the day-to-day operations of a public utility where it is essential to plan fluctuations in the demand for services and where revenues will automatically increase with demand, so that a balanced budget does not depend on establishing a ceiling for expenses.

Operating budget – Presents the estimated expenditures and available resources necessary to provide the services for which the government was created. An operating budget will contain flexible budgets and fixed budgets; the fixed budgets will include annual/biennial appropriations for services and the annual/biennial portion of continuing appropriations for debt service and for service projects.

Original budget – The first complete appropriated budget. The original budget may be adjusted by reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes before the beginning of the fiscal year. The original budget should also include actual appropriation amounts automatically carried over from prior years by law.

Working capital budget – Combines flexible and fixed budget elements in one document for enterprise and internal service funds. Current operations are flexibly budgeted based on the estimated level of services to be provided and long-range sources and uses of assets are controlled by annual/biennial appropriations and continuing appropriations.

Budget Adoption and Amendments

2 **Budgeting**

2.4 **Budget Compliance**

2.4.3 **Budget Adoption and Amendments**

2.4.3.10 All taxing districts must file certified levies and budgets with the county per RCW 84.52.020. All taxing districts are required to hold a public hearing on the proposed levy and budget (excluding capital, enterprise, and special-assessment funds) and adopt their levy by ordinance or resolution per RCW 84.55.120.

2.4.3.20 Additional specific requirements for local governments that ***are required to expend within their budget*** are as follows:

- **Air Pollution Control Authorities (RCW 70A.15.1590).** The budget year of each activated authority is July 1st to June 30th. On or before the fourth Monday in June of each year, the activated authority must adopt a budget sufficient to carry out the provisions of all applicable ordinances, resolutions, and local regulations related to the reduction, prevention, and control of air pollution.
- **Cities over 300,000 in population (Chapter 35.32A RCW).** No later than 90 days prior to the beginning fiscal year, the mayor must submit the proposed budget to the city council who may accept or revise the budget. A summary of the proposed budget must be advertised in the official city newspaper at least once. Public hearings must be scheduled on two or more days, and the scheduled hearings must be published in the city official newspaper and provided to general news media. No later than 30 days prior to the beginning of the fiscal year, the city council must adopt an ordinance approving the budget submitted by the mayor. The detail of the budget is specified by the state statute, and in no

case can the adopted budget expenditure allowances exceed total estimated revenues unless accompanied by proposed legislation to raise an equivalent amount of additional revenue. The detail of the budget is specified by the state statute.

- **Cities under 300,000 in population (Chapter 35.33 RCW).** At least 60 days prior to the beginning of the fiscal year (or other time as established by ordinance or charter), the chief administrative officer must submit the preliminary budget to the legislative body. The clerk must publish a notice once a week for two consecutive weeks in the official city newspaper that includes the following information: a copy of the preliminary budget is available to any taxpayer; and the date, time, and place the legislative body will meet to discuss the budget (must be on or before the first Monday of the month preceding the beginning of the fiscal year). Prior to the beginning of the fiscal year, the legislative body must adopt an ordinance approving the budget. A complete copy of the final budget as adopted must be transmitted to the Association of Washington cities. The detail of the budget is specified by the state statute.

- **Counties (Chapter 36.40 RCW).** On or before the first Tuesday of September each year, the auditor must submit the budget to the board of county commissioners, who may accept or revise the preliminary budget. Immediately following the adoption of the preliminary budget, the county legislative authority must publish a notice once a week for two consecutive weeks in the official county newspaper that includes the following information: a copy of the preliminary budget is available to any taxpayer; and the date, time, and place the legislative body will meet to discuss the budget and making tax levies. Copies of the preliminary budget must be available two weeks prior to the first Monday in October. At the conclusion of the budget hearing the county legislative authority must adopt a resolution approving the budget.

- **Diking, Diking Improvement or Consolidated Diking Districts (RCW85.38.170).** On or before December 1st each year, the governing body must adopt a resolution approving the budget and special assessments sufficient to finance the budget. A copy of the resolution must be forwarded immediately to the county commissioners and county treasurer.

- **Drainage, Drainage Improvement or Consolidated Drainage Districts (RCW85.38.170).** On or before December 1st each year, the governing body must adopt a resolution approving the budget and special assessments sufficient to finance the budget. A copy of the resolution must be forwarded immediately to the county commissioners and county treasurer.

- **Flood Control Districts (RCW 86.09.466).** On or before November 1st each year, the board must adopt a budget including the amount of funds necessary for any and all district purposes. The district must submit this budget for approval by the county commissioners, who may accept the budget as submitted or revised. The district's assessments for the year are limited to the approved budget.

- **Flood Control Zones (RCW 86.15.140).** Annually, at the same time that county budgets are required to be prepared, the board of supervisors must adopt a budget. The detail of the budget is specified by the state statute. The budget shall only be approved after a public hearing with notice per RCW 36.32.120(7).

- **Library Districts (RCW 27.12.210).** Annually, prepare and certify a budget to deliver to the county in ample time for the county to levy taxes.

- **Sewerage Improvement Districts (RCW 85.38.170).** On or before December 1st each year, the governing body must adopt a resolution approving the budget and special assessments sufficient to finance the budget. A copy of the resolution must be forwarded immediately to the county commissioners and county treasurer.

2.4.3.30 Requirements for local governments that ***are not*** limited to expenditures within their budget are as follows:

- **Fire Districts (RCW 52.16.030).** Annually, after the county board has equalized the assessments for general tax purposes, the district secretary must prepare and certify a budget for each fund. The budget must be delivered to the county board in ample time for the tax levies to be made for the district.

- **Hospital Districts (RCW 70.44.060(6)).** On or before November 1st, the superintendent must prepare and submit a proposed budget to the district commission. The district must publish a notice of a public hearing once a week for two consecutive weeks in a newspaper printed in and of general circulation of the county that states the date, time, and place the commission body will meet to discuss the budget. The hearing must be held on or before

November 15th. At the conclusion of the hearing, the commission must adopt a resolution approving the budget. *Note: Hospital districts are not required to amend their budgets if actual expenditures exceed those budgeted.*

- **Housing Authorities.** Not required by state law to create or follow a budget. However, authorities are required to create budgets for most of the federal grants they receive. The authority's responsibilities for these budgets would be a matter of grant compliance.
- **Irrigation/Reclamation Districts (RCW 87.80.160).** Not required by state law to create or follow a budget. However, Boards of Joint Control established under Chapter 87.80 RCW must prepare annual budgets.
- **Port Districts (Chapter 53.35 RCW).** On or before the September 15 each year, port commission must prepare a preliminary budget showing estimated revenues and expenses. Between September 15 and the first Tuesday (following the first Monday) in October, the port must advertise, hold a hearing and adopt a final budget by resolution. The port has until the first Wednesday (following the first Monday) in October to submit a certified copy of the budget to the county. However, ports are not required to limit expenses to budgeted amounts.
- **Public Development Authorities.** Not specifically required by state law to create or follow a budget. However, PDAs operations and funds are subject to the creating government's limitations and budgeting restrictions.
- **Public Facilities Districts.** As a proprietary fund, PFDs are not subject to budgeting requirements; they are not required by state law to create or follow a budget.
- **Public Utility Districts (RCW 54.16.080).** *If property taxes are levied,* a budget is required, although the PUD is not required to limit expenses to budgeted expenses. On or before the first Monday in September, the district must prepare a preliminary budget. A notice of the budget hearing must be published at least two consecutive weeks in a newspaper of general circulation within the county. The hearing must occur on the first Monday in October, at which the commission must adopt the budget by resolution.
- **Water/Sewer Districts.** As a proprietary fund, water-sewer districts are not subject to budgeting requirements.

Budget amendments

2.4.3.40 For governmental funds (except those types specifically identified above in 2.4.3.30), budgeted appropriations are legally binding. This means that the government cannot spend more than the amount budgeted. As new information becomes available throughout the year, the government can amend (increase) the budget through formal processes. Budget compliance is determined at the end of the fiscal period. Therefore, amendments may be done at any time during the fiscal period, but *cannot be done after the fiscal period* If the entity adopts a biennial budget, amendments may be made at any time during the biennium. Regardless, budgetary authority must be in place ***before*** actual expenditures are made.

The following local governments have specific requirements for adoption of supplemental budgets:

- **Flood Control Zones (RCW 86.15.140).** If additional funds become available, a supplemental budget may be done covering additional authorized improvements. Supplemental budgets shall only be approved after a public hearing with notice per RCW 36.32.120(7).
- **Port Districts (RCW 53.35.050).** Supplemental budgets may only be adopted by resolution subsequent to a hearing that is advertised between 5 and 15 days in advance of the hearing.

Budget Process

2 **Budgeting**

2.4 **Budget Compliance**

2.4.2 **Budget Process**

2.4.2.10 The budgetary process encompasses a number of different activities and decisions over a period of several months. See the budget calendar below for cities and counties. Similar steps

can be used to develop all types of budgets.

BUDGET CALENDAR

Steps in Budget Preparation	Cites	Counties
BUDGET ESTIMATES **1** Department heads are requested by clerk to prepare estimates of revenue and expenditures for the next fiscal year.	On or before the second Monday of the fourth month prior to the beginning of the city's/town's next fiscal year (i.e., September). RCW 35.33.031 (2nd, 3rd, towns, 1st class RCW 35.34.050 (Biennial Budgets) RCW 35A.33.030 (Code Cities) RCW 35A.34.050 (Code Cities - Biennial Budgets)	On or before the second Monday in July. RCW 36.40.010
BUDGET ESTIMATES **2** Estimates are to be filed with the city clerk/county auditor.	On or before the fourth Monday in September. RCW 35.33.031 (2nd, 3rd, towns, 1st class RCW 35.34.050 (Biennial Budgets) RCW 35A.33.030 (Code Cities) RCW 35A.34.050 (Code Cities - Biennial Budgets)	On or before the second Monday in August. RCW 36.40.010
PROPOSED PRELIMINARY BUDGET **3** Estimates are presented to the chief administrative officer for modification, revision, or additions.	On or before the first business day in October. RCW 35.33.051 (2nd, 3rd, towns, 1st class RCW 35.34.070 (Biennial Budgets)	County auditor or chief financial officer shall prepare the county budget. RCW 36.40.040

		RCW 35A.33.050 (Code Cities) RCW 35A.34.070 (Code Cities - Biennial Budgets)	
	PRELIMINARY BUDGET		
4	Chief administrative officer provides the legislative body with:	(a) Revenue estimates (setting of levies) due no later than the first Monday in October.	(a) Revenue estimates are part of the preliminary budget process and due when preliminary budget is due. See next section.
	(a) Estimates of revenues (setting of levies),	RCW 35.33.135 (2nd, 3rd, towns, 1st class RCW 35.34.230 (Biennial Budgets) RCW 35A.33.135 (Code Cities) RCW 35A.34.230 (Code Cities - Biennial Budgets)	RCW 36.40.040; RCW 36.40.090
	(b) Clerk's proposed preliminary budget, and	(b) Preliminary budget at least 60 days before the beginning of the next fiscal year and,	(b) Preliminary budget submitted by the auditor to the Board of County Commissioners on or before the 1st Tuesday in September for adoption of the preliminary budget.
	(c) Copies of the preliminary budget are made available to the public.	(c) Copies are made available to the public not later than six weeks before the beginning of the city's next fiscal period.	(c) Copies of the preliminary budget are available to the public not later than two weeks immediately preceding the first Monday in October.
		RCW 35.33.055 (2nd, 3rd, towns, 1st class RCW 35.34.080 (Biennial Budgets) RCW 35A.33.052 (Code Cities) RCW 35A.34.080 (Code Cities - Biennial Budgets)	RCW 36.40.050; RCW 36.40.060

5	**NOTICE OF PUBLIC HEARING** Clerk publishes notice of filing of preliminary budget with city clerk and publishes notice of public hearing on final budget once a week for two consecutive weeks.	Published no later than the first two weeks in November.	Notice shall be published once each week for two consecutive weeks immediately following adoption of the preliminary budget.
		RCW 35.33.061 (2nd, 3rd, towns, 1st class	RCW 36.40.060
		RCW 35.34.100 (Biennial Budgets)	
		RCW 35A.33.060 (Code Cities)	
		RCW 35A.34.100 (Code Cities - Biennial Budgets)	
6	**PUBLIC HEARING** Budget hearing is held.	On or before the first Monday of December, and may be continued from day to day but not later than the 25th day prior to the commencement of the new fiscal year.	On the first Monday in October.
		RCW 35.33.071 (2nd, 3rd, towns, 1st class	RCW 36.40.070
		RCW 35.34.110 (Biennial Budgets)	
		RCW 35A.33.070 (Code Cities)	
		RCW 35A.34.110 (Code Cities - Biennial Budgets)	
7	**FINAL BUDGET** Adoption of budget for next fiscal year.	Following the conclusion of the hearing and prior to the beginning of the fiscal year, the legislative body shall by ordinance adopt the budget in its final form.	At the conclusion of the budget hearing, the county legislative authority shall by resolution adopt the budget.
		A copy of the finalized budget must be sent to the Association of Washington Cities.	A copy of the finalized budget must be sent to the State Auditor's Office.
		RCW 35.33.075 (2nd, 3rd, towns, 1st class	RCW 36.40.080

RCW 35.34.120 (Biennial Budgets)

RCW 35A.33.075 (Code Cities)

RCW 35A.34.120 (Code Cities - Biennial Budgets)

Which funds need budgets?

2.4.2.20 Generally, all governmental funds including the general fund (also called the current expense fund) and special revenue funds of a local government must have annual/biennial appropriated budgets. Most debt service and capital project fund budget requirements are met by the continuing appropriation contained in the enabling legislation. These funds may not need annual/biennial appropriated budgets.

2.4.2.30 Expenses of proprietary, internal service and fiduciary funds are not considered to be appropriations and therefore are only subject to budgeting requirements as required by the government's policy.

2.4.2.40 Fiduciary and permanent funds are subject to the trust agreement and their use is restricted by such.

2.4.2.50 Local governments may separately account for different aspects of a legal fund in several "sub-funds" on their general ledger for managerial purposes and roll-up these funds for financial reporting purposes. The minimum level of detail for budget purposes is the legal fund level.

2.4.2.60 Budgeted expenditures (or estimated expenses) should be limited to the amount of budgeted revenues plus the beginning fund balance. Governments are not authorized to appropriate (or estimate) more resources for expenditures than are available. Note that this requirement only applies at the legal fund level. Entities may budget a negative fund balance for departments, programs or sub-funds so long as the combined fund balance for the legal fund is positive.

What constitutes appropriations?

2.4.2.70 All final amounts budgeted as expenses, expenditures, transfers and other financing uses for a fund or department is the appropriation. The government cannot legally exceed this amount. Ending fund balance and nonrevenues (BARS 508 and 58X, if shown on the budget) would not be considered an appropriation. Only line items shown as expenditures (BARS 51X-57X and 59X) would be considered appropriations.

Accounting

Accounting Principles and Internal Control
Accounting Principles

3 **Accounting**

3.1 **Accounting Principles and Internal Control**

3.1.10 **Accounting Principles**

Quick Links

3.1.10.20 Common terminology and classification

3.1.10.30 Measurement focus and basis of accounting in the basic financial statements - Government-wide financial statements

3.1.10.40 Measurement focus and basis of accounting in the basic financial statements -Fund financial statements

3.1.10.50 Reporting capital assets

3.1.10.60 Reporting long-term liabilities

3.1.10.70 Revenue, expenditures, expense and transfer account classifications

3.1.10.80 Annual financial reports

3.1.10.90 Accounting changes and error corrections -Definitions

3.1.10.100 Accounting changes and error corrections - Accounting and reporting

3.1.10.110 Accounting changes and error corrections - Required Supplementary Information (RSI) and Supplementary Information (SI)

3.1.10.10 The following principles of accounting and financial reporting are based on those set forth in the Governmental Accounting Standards Board's (GASB) Codification of Governmental Accounting and Financial Reporting Standards (Cod.). The BARS manual permits accounting and financial reporting that conforms to these principles in all respects and requires GAAP municipalities to account and report in conformity with these principles, except that the annual report required is not as extensive as the Annual Comprehensive Financial Report (ACFR).

3.1.10.20 **Common terminology and classification**

A common terminology and classification should be used consistently throughout the budget, the accounts, and the financial reports of each fund.

3.1.10.30 **Measurement focus and basis of accounting in the basic financial statements- Government-wide financial statements**

The government-wide statement of net position and statement of activities should be prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions should be recognized when the exchange takes place. Revenues, expenses, assets, and liabilities resulting from nonexchange transactions should be recognized in accordance with the Governmental Accounting Standard Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards (Cod.) Section (Sec.) N50 – "Nonexchange Transactions".

3.1.10.40 **Measurement focus and basis of accounting in the basic financial statements - Fund financial statements**

In fund financial statements, the modified accrual or accrual basis of accounting, as appropriate, should be used in measuring financial position and operating results.

a. Financial statements for governmental funds should be presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues should be recognized in the accounting period in which they become available and measurable. Expenditures should be recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term liabilities, which should be

recognized when due.

b. Proprietary fund statements of net position and revenues, expenses, and changes in fund net position should be presented using the economic resources measurement focus and the accrual basis of accounting.

c. Financial statements of fiduciary funds should be reported using the economic resources measurement focus and the accrual basis of accounting, except for the recognition of certain liabilities of defined benefit pension plans and certain postemployment healthcare plans. Additionally, governments should review assets received or disbursements made soon after the end of a fiscal year to evaluate the need for accruals in the fiduciary funds.

d. Transfers should be reported in the accounting period in which the interfund receivable and payable arise.

Note: The various fund types may be grouped in the following manner to more clearly portray their relationship to an accounting basis:

Flow of Current Financial Resources Measurement Focus Funds– use the modified accrual basis:

000-099: General (Current Expense) Fund
100-199: Special Revenue Funds
200-299: Debt Service Funds
300-399: Capital Projects Funds
700-799: Permanent Funds

Flow of Economic Resources Measurement Focus Funds– use full-accrual basis:

400-499: Enterprise Funds
500-599: Internal Service Funds
600-609: Investment Trust Funds
610-619: Pension (and Other Employee Benefit) Trust Funds
620-629: Private-Purpose Trust Funds
630-698: Custodial Funds
699: External Investment Pool Fund

3.1.10.50 **Reporting capital assets**

A clear distinction should be made between general capital assets and capital assets of proprietary and fiduciary funds. Capital assets of proprietary funds should be reported in both the government-wide and fund financial statements. Capital assets of fiduciary funds should be reported only in the statement of fiduciary net position. All other capital assets of the government are general capital assets. They should not be reported as assets in governmental funds but should be reported in the governmental activities column in the government-wide statement of net position. The *Capital Assets* (BARS 3.3.9, 3.3.10 and 3.3.11) sections of the BARS manual provide additional information regarding accounting and reporting of capital assets.

3.1.10.60 **Reporting long-term liabilities**

A clear distinction should be made between fund long-term liabilities and general long-term liabilities. Long-term liabilities directly related to and expected to be paid from proprietary funds should be reported in the proprietary fund statement of net position and in the government-wide statement of net position. Long-term liabilities directly related to and expected to be paid from fiduciary funds should be reported in the statement of fiduciary net position. All other unmatured general long-term liabilities of the governmental unit should not be reported in governmental funds but should be reported in the governmental activities column in the government-wide statement of net position.

3.1.10.70 **Revenue, expenditures, expense and transfer account classifications**

a. At a minimum, the statement of activities should present:

(1) Activities accounted for in governmental funds by function to coincide with the level of detail required in the governmental fund statement of revenues, expenditures, and changes in fund balances
(2) Activities accounted for in enterprise funds by different identifiable activities.
(3) Contributions to term and permanent endowments, contributions to permanent fund principal, other capital contributions, special and extraordinary items, and transfers between governmental and business-type activities should each be reported separately from, but in the same manner as, general revenues.

b. In governmental fund statement of revenues, expenditures, and changes in fund balances:

(1) Revenues should be classified by fund and source. Expenditures should be classified by fund, function (or program), organization unit, activity, character, and principal classes of objects.
(2) Proceeds of general long-term debt issues should be classified separately from revenues and expenditures.
(3) Transfers should be classified separately from revenues and expenditures
(4) Special and extraordinary items should be reported separately after “other financing sources and uses”.

c. In proprietary fund statement of revenues, expenses, and change in fund net position should present:

(1) Revenues should be reported by major sources and expenses should be classified in essentially the same manner as those of similar business organizations, functions, or activities. Revenues and expenses should be distinguished as operating and nonoperating.
(2) Contributions to term and permanent endowments, other capital contributions, and special and extraordinary items should be reported separately after nonoperating revenues and expenses.
(3) Transfers should be reported after nonoperating revenues and expenses.

3.1.10.80 **Annual financial reports**

The items listed below and in the *GAAP Reporting Requirements* (BARS 4.1.1) section follow ***national standards*** of financial reporting. They should not be confused with ***legal reporting requirements***, which are prescribed by the State Auditor’s Office for all local governments in Washington State. The legal requirements are consistent with these national standards, but they are not identical. Specific legal reporting requirements can be found in the *BARS Reporting Requirements* (4.1.2) section.

The financial statements should include the financial reporting entity which consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s basic financial statements to be misleading or incomplete. For more information see BARS 4.1.1.

a. General purpose external financial reports should be prepared and published. Governments engaged in ***governmental and business-type activities*** should include, at a minimum:

(1) Management’s discussion and analysis (MD&A).
(2) Basic financial statements. The basic financial statements should include:

(a) Government-wide financial statements.
(b) Fund financial statements.
(c) Notes to the financial statements.

(3) Required supplementary information (RSI) other than MD&A.

b. Governments engaged ***only in business-type*** activities should present only the financial statements required for proprietary funds. They should include:

(1) Management’s discussion and analysis (MD&A)
(2) Proprietary fund financial statements
(3) Notes to the financial statements
(4) Required supplementary information (RSI) other than MD&A, if applicable.

An Annual Comprehensive Financial Report (ACFR) may be prepared and published covering all activities of the financial reporting entity. The ACFR includes not only the financial reports listed above but also an introductory section, combining and individual fund statements, schedules, narrative explanations, and a statistical section. Preparation of an ACFR is not required.

3.1.10.90 **Accounting changes and error corrections -Definitions**

The Government Accounting Standards Board (GASB) C*odification of Governmental Accounting and Financial Reporting Standards* (Cod.) Section (Sec.) 2250—Additional Financial Reporting Considerations establishes standards of accounting and reporting regarding accounting changes and error corrections.

There are four categories of accounting changes and error corrections defined as follows:

Change in accounting principle:
A change in accounting principle is the application of an accounting principle to transactions, or

events, of similar type that is different than the accounting principle previously applied.

A change occurs when:

a. A change in the application of one generally accepted accounting principle to another that is justified on the basis that the new one is preferable
b. The implementation of new pronouncements

Change in accounting estimate:
An accounting estimate is an amount subject to measurement uncertainty that is calculated based on inputs and disclosed in the basic financial statements. Inputs can be data, assumptions, or measurement methodologies.

A change in accounting estimate occurs when the inputs (which could be a change to data, assumptions, or measurement methodologies) used to calculate the accounting estimate have changed. Changes may result from a change in circumstances, new information or more experience.

Change to or within the financial reporting entity:
A change to or within the financial reporting entity occurs when the any of the following occur:

a. The addition or removal of a fund that results from the movement of continuing operations within the primary government, including its blended component units
b. A change in a fund's presentation from major or nonmajor
c. The addition/removal of a component unit to the financial reporting entity
d. There is a change in a component unit's presentation as blended or discretely presented

Error correction:
An error occurs when any of the following are identified as of the previous financial statement date:

a. Mathematical mistake
b. Mistake in the application of accounting principles
c. Oversight or misuse of facts that existed at the time the financial statements were issued about conditions that existed as of the financial statement date is identified.

3.1.10.100 **Accounting changes and error corrections - Accounting and reporting**

Accounting and reporting for each accounting change and error correction category is discussed below. If a government has separately displayed in the financial statements the effects of *each* accounting change or error correction by reporting unit, those effects need not be repeated in the notes to the financial statements. Additionally, note disclosure requirements for each accounting change and error correction can be found at Note X - Accounting Changes and Error Corrections.

Change in accounting principle:
In the absence of other specific guidance, governments that experience a change in accounting principle should report the change retroactively by restating the beginning net position, fund balance, or fund net position by the cumulative effect of the change on prior periods.

Change in accounting estimate:
Governments that experience a change to an accounting estimate calculation should recognize the change prospectively in the reporting period that the change occurs, unless other specific requirements address how a change would be reported.

Change to or within the financial reporting entity:
Governments that experience a change to or within the financial reporting entity should recognize the change by adjusting the current period beginning net position, fund balance or fund net position. The recognition of this will appear as if the change occurred at the beginning of the reporting period.

Error correction:
In the case that a government is required to correct an error, the correction should be reported retroactively by restating the financial statements for all periods presented. The restatement amount should total the cumulative effect of the error on the net position, fund balance or fund net position impacted by the error.

For guidance on how to apply accounting changes and error corrections to comparative financial statements, see GASB Cod. Sec. 2250.

3.1.10.110 **Accounting changes and error corrections - Required Supplementary Information (RSI) and Supplementary Information (SI)**

Change in accounting principle and to or within the financial reporting entity
For reporting periods that are presented in the basic financial statements, the same periods presented in required supplementary information (RSI) (including management's discussion and analysis [MD&A]) or supplementary information (SI) should be consistent with the manner in which the information for those periods is presented in the basic financial statements. (That is, the reporting periods should be adjusted or restated in the same manner as the basic financial statements.)

For prior reporting periods that are earlier than those presented in the basic financial statements, information for those prior periods that is presented in RSI (including MD&A) or SI should not be restated for a change in accounting principles or a change to or within the financial reporting entity.

If prior-period information presented in RSI (including MD&A) or SI is not consistent with current-period information as a result of a change in accounting principle or a change to or within the financial reporting entity, an explanation of why the information is not consistent should be provided in RSI (including MD&A) or SI, as applicable. In MD&A, that explanation should include a reference to the related note disclosure in the basic financial statements.

Error correction
For reporting periods that are presented in the basic financial statements, the same periods presented in RSI (including MD&A) or SI should be restated. If the error affects periods earlier than those presented in the basic financial statements, all affected information should be corrected by restating the information for those prior periods in RSI (including MD&A) or SI, if practicable.

Information presented in RSI (including MD&A) or SI that is affected by an error should be identified as restated or not restated, as appropriate, and an explanation about the nature of the error should be provided in RSI (including MD&A) or SI, as applicable.

In addition, if it is not practicable to restate information in RSI or SI in the reporting year of the error correction, an explanation of why it is not practicable to restate should be provided in RSI (including MD&A) or SI, as applicable. It is expected that the restatement of the RSI and SI will be performed in the next reporting period's financial statements.

Fund Accounting and Fund Types

3 **Accounting**

3.1 **Accounting Principles and Internal Controls**

3.1.1 **Fund Accounting and Fund Types**

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3.1.1.20 Accounting and reporting capabilities
3.1.1.30 Fund accounting systems
3.1.1.40 Types of funds
Governmental funds
Code 000 - General (Current Expense) Fund
Code 100 - Special Revenue Funds
Code 200 - Debt Services Funds
Code 300 - Capital Projects Funds
Code 700 - Permanent Funds
Proprietary funds
Code 400 - Enterprise Funds
Code 500 - Internal Service Funds
Fiduciary funds
Code 600 - Fiduciary Funds
Codes 600-609 - Investment Trust Funds
Codes 610-619 - Pension (and Other Employee Benefit) Trust Funds
Codes 620-629 - Private-Purpose Trust Funds
Codes 630-698 - Custodial Funds
Code 699 - External Investment Pool Fund
3.1.1.50 Number of funds

3.1.1.10 The following principles of accounting and financial reporting are based on those set forth in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards (Cod)*. The BARS manual permits accounting and financial reporting that conforms to these principles in all respects and requires GAAP municipalities to account and report in conformity with these principles, except that the annual report required is not as extensive as the Annual Comprehensive Financial Report (ACFR).

3.1.1.20 **Accounting and reporting capabilities**

A governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities at the government in conformity with generally accepted accounting principles; and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

3.1.1.30 **Fund accounting systems**

A governmental accounting system should be organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Fund financial statements should be used to report detailed information about the primary government, including its blended component units. The focus of governmental and proprietary fund financial statements is on major funds.

3.1.1.40 **Types of funds**

In fund financial statements, governments should report governmental, proprietary, and fiduciary funds to the extent that they have activities that meet the criteria for using these funds.

Presented below is a system to classify all funds used by local government and the assignment of code numbers to identify each type of fund. A three-digit code is used: the first digit identifies the fund type, and the next two digits will be assigned by the governmental unit to identify each specific fund.

Governmental funds

Code 000 - General (Current Expense) Fund – should be used to account for and report all financial resources not accounted for and reported in another fund.

Although a local government has to report only one general fund in its external financial reports, the government can have multiple general *subfunds* for its internal managerial purposes. These managerial *subfunds* have to be combined into one general fund for external financial reporting.

Code 100 - Special Revenue Funds – should be used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects. *Restricted* revenues are resources externally restricted by creditors, grantors, contributors or laws or regulations of other governments or restricted by law through constitutional provisions or enabling legislation (similar to the restricted component of net position used in government-wide reporting). *Committed* revenues are resources with limitations imposed by the highest level of the government, and where the limitations can be removed only by a similar action of the same governing body. Revenues do not include other financing sources (long-term debt, transfers, etc.).

The term *proceeds of specific revenue sources* establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund. They should be expected to continue to comprise a ***substantial*** portion of the inflows reported in the fund. While GASB Cod. 1300 – Fund Accounting has not provided a numeric range for *substantial* portion of inflows, it was recommended that at least 20 percent is a reasonable limit for reporting a special revenue fund. Local governments need to consider factors such as past resource history, future resource expectations and unusual current year inflows such as debt proceeds in their analysis.

They may use the calculation below to determine whether an activity would qualify for reporting as a special revenue fund.

$$\text{Substantial portion of inflows} = \frac{\text{(restricted revenues + committed revenues)}}{\text{total resources* reported in the fund}}$$

*Total resources would include all revenues and other financing sources.

Other resources (investment earnings and transfers from other funds, etc.) also may be reported in the fund if these resources are restricted, committed, or assigned to the specific purpose of the fund.

Governments should discontinue reporting a special revenue fund, and instead report the fund's remaining resources in the general fund, if the government no longer expects that a substantial portion of the inflows will derive from restricted or committed revenue sources.

Codification requires all revenue to be recognized in the special revenue fund. If the resources are initially received in another fund, such as the general fund, and subsequently remitted to a special revenue fund, they should not be recognized as revenue in the fund initially receiving them. They should be recognized as revenue in the special revenue fund from which they will be expended.

Special revenue funds should not be used to account for resources held in trust for individuals, private organizations, or other governments.

The general fund of a blended component unit should be reported as a special revenue fund.

The state statutes contain many requirements for special funds to account for different activities. The legally required funds do not always meet GAAP standards for external reporting. So, while the local governments are required to follow their legal requirements, they will have to make some adjustment to their fund structure for external financial reporting.

Code 200 - Debt Service Funds – Should be used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should be used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in debt service funds. The debt service transactions for a special assessment for which the government is not obligated in any matter should be reported in an custodial fund. Also, if the government is authorized, or required to establish and maintain a special assessment bond reserve, guaranty, or sinking fund, GASB Cod. S40 – Special Assessments requires using a debt service fund for this purpose.

Note: Debt service funds should not be used in proprietary funds (400 and 500). Use enterprise funds (400) or internal service (500) for debt payments related to utilities and other business type activities.

Code 300 - Capital Projects Funds – should be used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities or other capital assets. Capital outlays financed from general obligation bond proceeds should be accounted for through a capital projects fund. Capital project funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments (private-purpose trust funds).

Note: Capital project funds should not be used in proprietary funds (400 and 500). Use enterprise funds (400) or internal service (500) for capital payments related to utilities and other business type activities.

Code 700 - **Permanent Funds** – should be used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs – that is for the benefit of the government or its citizens (public-purpose).

Generally, only the principal amounts, interest revenue, and transfers to the appropriate operating fund for interest revenue use should be reported in this fund. *Note: if the allowable use of the interest earnings is related to operating expenses that are normally reported in another fund, the permanent fund should transfer the allowable amount to the appropriate operating fund.*

Permanent funds do not include private-purpose trust funds which account for resources held in trust for individuals, private organizations, or other governments.

Proprietary funds

Code 400 - Enterprise Funds - ***may*** be used to report any activity for which a fee is charged to external users for goods or services. Enterprise funds are ***required*** for any activity whose principal revenue sources meet any of the following criteria:

- ***Debt backed solely by a pledge of the net revenues from fees and charges.***
- ***Legal requirement to recover cost.*** An enterprise fund is required to be used if the cost of providing services for an activity including capital costs (such as depreciation or debt

service) must be legally recovered through fees or charges.
- ***Policy decision to recover cost.*** It is necessary to use an enterprise fund if the government's policy is to establish activity fees or charges designed to recover the cost, including capital costs (such as depreciation or debt service).

These criteria should be applied in the context of the **activity's principal revenue source**.

The term **activity** generally refers to programs and services. This term is not synonymous with *fund*. As a practical consequence, if an activity reported as a separate fund meets any of the three criteria, it should be an enterprise fund. Also, if a "multiple activity" fund (e.g., general fund) includes a ***significant*** activity whose principal revenue source meets any of these three criteria, the activity should be reclassified as an enterprise fund.

The determination of an activity's **principal revenue source** is a matter of professional judgement. A good indicator of the activity's significance may be comparing pledged revenues or fees and charges to total revenue. For example, consider a county auditor's office that charges fees to provide a payroll service to various taxing districts. Even if the fee is meant to cover the cost of the service, the county auditor function as a whole is primarily supported with tax dollars from the general fund. It would be allowable in this case to leave the activity all within general fund.

Finding an appropriate fund type requires a careful analysis since there is not always a clear choice. For example, building permit fees may be accounted for in the general fund or a special revenue fund in certain circumstances, such as when they are partially supported by taxes. However, if there is a pricing policy to recover the cost of issuing those individual building permits, they should be reported in an enterprise fund.

In addition, GAAP mandates the use of enterprise funds for the separately issued financial statement of public-entity risk pools. Public-entity risk pools also are accounted for as enterprise funds when they are included within a sponsoring government's report, provided the sponsor is not the predominant participant in the arrangement. Otherwise, they can use the general fund or an internal service fund.

Separate funds should ***not*** be reported for bond redemption, construction, reserves, or deposits, for any utility that is accounted for on the full accrual basis, using either the BARS accounts or a nationally recognized utility chart of accounts such as FERC or NARUC. Separate funds should not be reported even though bond covenants may stipulate a bond reserve fund, bond construction fund, etc. The bond covenant use of the term *fund* is ***not*** the same as the use in governmental accounting. For bond covenants, *fund* means only a segregation or separate account, not a self-balancing set of accounts. (See account 150 in the general ledger chart of accounts.)

Code 500 - Internal Service Funds – may be used to report any activity that provides goods or services to other funds, departments or agencies of the government, or to other governments, on a cost-reimbursement basis. Internal service funds should be used only if the reporting government is the predominant participant in the activity. Otherwise, the activity should be reported in an enterprise fund. For more information on accounting for these funds see 3.9.6 and for reporting see 4.3.6.

Fiduciary funds

Code 600 - Fiduciary Funds – should be used to account for assets, including capital assets, held by a government in a trustee capacity or as a custodian for individuals, private organizations, other governmental units, and/or other funds (GASB Cod. 1300 – Fund Accounting). These include (a) investment trust funds, (b) pension (and other employee benefit) trust funds, (c) private-purpose trust funds, and (d) custodial funds.

For more information on determining if a transaction is fiduciary, please see the Determining Fiduciary Custodial Activities page.

Codes 600-609 - Investment Trust Funds – should be used to report fiduciary activities from the external portion of investment pools and individual investment accounts that are held in a trust that meets the following criteria: the assets are (a) administered through a trust in which the government itself is ***not*** a beneficiary, (b) dedicated to providing benefits to recipients in accordance with the benefit terms, and (c) legally protected from the creditors of the government.

In addition to the trust criteria requirements above, all individual investment accounts are *required* to be reported as an Investment Trust Fund.

Codes 610-619 - Pension (and Other Employee Benefit) Trust Funds – should be used to report fiduciary activities for the following:

- Pension plans and OPEB plans that are administered through trusts that meet the criteria in GASB Codification Pe5 “Pension Plans Administered through Trusts That Meet Specific Criteria – Defined Benefit and GASB Codification Pe6 “Pension Plans Administered through Trusts That Meet Specific Criteria – Defined Contribution”.
- Other employee benefit plans for which (1) resources are held in trust that meets the following criteria: the assets are (a) administered through a trust in which the government itself is ***not*** a beneficiary, (b) dedicated to providing benefits to recipients in accordance with the benefit terms, and (c) legally protected from the creditors of the government **and** (2) contributions to the trust and earnings on these contributions are irrevocable.

Codes 620-629 - Private-Purpose Trust Funds – should be used to report all fiduciary activities that (a) are ***not*** required to be reported in pension (and other employee benefit) trust funds or investment trust funds, and (b) are held in a trust that meets the following criteria: the assets are (a) administered through a trust in which the government itself is ***not*** a beneficiary, (b) dedicated to providing benefits to recipients in accordance with the benefit terms, and (c) legally protected from the creditors of the government.

Code 630-698 - Custodial Funds – should be used to report all fiduciary activities that arenot required to be reported in pension (and other employee benefit) trust funds, investment trust funds or private purpose trust funds. The external portion of the investment pools that are not held in trust that meets criteria listed above should be reported in a separate external investment pool fund column under the custodial funds classification, as stated below.

Note: The custodial funds are required to be used by business-type activities and enterprise funds, **except** when the resources will normally be held for less than ninety (90) days.

Code 699 - External Investment Pool Fund – The external portion of the investment pools that are not held in trust and meet criteria listed above. Although this is considered a custodial fund, it should be reported in a ***separate*** external investment pool fund column under the custodial funds classification.

3.1.1.50 **Number of funds**

Governments should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established. Using numerous funds results in inflexibility, undue complexity and inefficient financial administration.

Local governments should periodically undertake a comprehensive evaluation of their fund structure to ensure that individual funds that became superfluous are eliminated from accounting and reporting.

Elected officials should be educated to the fact that accountability may be achieved effectively and efficiently by judicious use of department, program and other available account coding or cautious use of managerial (internal) funds

Bank Reconciliations

3.1. **Accounting Principles and Internal Controls**

3.1.9 **Bank Reconciliations**

3.1.9.5 **Purpose**

The purpose of a bank reconciliation is to compare cash and investment**balances** and **activity** (also known as a “proof of cash”) according to the bank to the government’s accounting records and reconcile or follow up on any differences.

Depending on the government’s organization, the bank reconciliation process may be done in stages or parts. For example, separate reconciliations may be done on different schedules, or by different people, for various government accounts, which are later aggregated as part of a global reconciliation.

Bank reconciliations are a necessary control to safeguard cash against fraud and losses, and to ensure the accuracy of accounting records. A reconciliation of cash activity is necessary to demonstrate that activity is valid and to safeguard against certain types of fraud. A global reconciliation is necessary to effectively compare and reconcile bank accounts to accounting records since individual bank accounts do not normally correspond exactly to individual accounts in the accounting records. It also demonstrates the completeness of the reconciliation by showing

that all bank accounts and all cash accounts in the accounting records are able to be compared.

In this section, “cash” is inclusive of cash and investments. “Bank accounts” and “bank reconciliations” are likewise inclusive of investment accounts (such as certificates of deposit and bonds), zero-balance accounts (such as clearing accounts described in BARS Manual 3.8.6 and transmittal accounts described in BARS Manual 3.6.1) and accounts held by fiscal agents. For governments that use the County as their treasurer, bank reconciliations would refer to the reconciliation of the government’s accounting records to the county treasurer’s report.

3.1.9.10 Accounting

Accounting records typically track cash by fund and classification. This does not normally result in a one-for-one relationship between bank accounts and general ledger accounts. In absence of specific legal or contractual requirements, is it not necessary for governments to use separate bank accounts to segregate funds so long as accounting records separately track cash balances by fund in sufficient detail.

Money receipted by fiduciaries or third party vendors on behalf of the government should be considered a cash receipt for the government as described in BARS 3.6.1.60. If such deposits are remitted to the government, they may need to be identified as a deposit in transit on the bank reconciliation. If the government’s funds are receipted and held by others in a fiduciary capacity, the report from the fiscal agent may need to be treated similar to a bank or county treasurer account during the bank reconciliation process.

Imprest and petty cash funds should be recorded at their authorized amounts as described in BARS 3.8.7. Since these accounts are subject to separate monthly controls, the authorized balance is typically used as a reconciling item between accounting records and bank accounts.

Funds should not have a negative cash balance in the accounting records. Any negative cash balance in the accounting records should be resolved with an interfund loan as described in BARS Manual 3.9.1.

3.1.9.15 Controls

Governments must document a global bank reconciliation that includes reconciliation of both the ending balance of cash as well as cash activity at least monthly.

A global bank reconciliation consists of:

1. Compiling the ending balance, receipts and deposits for the month across all bank statements. This will normally be done by creating a schedule to summarize (or series of schedules that are then aggregated, if the reconciliation is done in parts or stages).

2. Compiling the ending balance, additions and deductions for the month for all cash accounts in the accounting records. This will normally be done by running a report from the accounting system.

3. Identifying reconciling items for differences between bank receipts, deposits and ending balance and the corresponding accounting record revenues, expenditures and ending balance. Reconciling items could include any of the following items:

a. Timing differences between when a transaction is recorded in the accounting records and when it affects the bank account. For example, some of these reconciling items would include deposits in transit, outstanding items or open period items.

b. Bank activity that is not recorded in the accounting records. For example, some of these reconciling items would include transfers between bank accounts or transactions that are netted when recorded in the accounting records.

c. Reportable activity recorded in the accounting records that is not a receipt or deposit in the bank records. For example, some of these reconciling items would include interfund transfers, loans or taxes, internal service fund charges, or the difference between gross and net amounts from offsetting agreements.

4. Identifying transactions from the bank accounts need to be recorded in the accounting records. For example, some of these items could include interest earned, bank fees or charges, NSF checks, and unrecorded deposits (such as lockbox transactions, EFTs, or other electronic deposits made directly into the bank account by outside parties).

   Accounting records should be updated for all such transactions identified in the bank

statements. Unrecorded deposits should be investigated and recorded. If unknown at the time of the reconciliation, they should be recorded to a suspense fund until they can be investigated and resolved as described in BARS 3.6.11.

5. Following up on any unreconciled differences. After adjusting for reconciling items, there should be no further differences between bank statements and accounting records. If there are differences, research should be performed to determine the cause– that is, what bank or accounting record transaction is the source of the difference and what does it represent. If it is an error in the accounting records, it should be corrected. If it is a bank error, it should be communicated and resolved with the bank.

Governments should consider more frequent reconciliations, such as daily reconciliations for accounts with a large amount of activity or that are at higher risk for fraud or invalid payments, such as the main checking account for a larger government.

SAO does not prescribe how governments might organize their bank accounts or the corresponding accounting records. However, the number and type of accounts, banking practices, organization of accounting records, and the methods, division and stages of reconciliation established by the government should not represent a barrier to effective control.

Internal Control

3 **Accounting**

3.1 **Accounting Principles and Internal Control**

3.1.3 **Internal Control**

Purpose and definition of internal controls

3.1.3.10 Internal control refers to the means by which management runs its organization and achieves organizational objectives.

The Government Accountability Office (GAO) publishes Standards for Internal Control in the Federal Government, also known as the “Green Book,” which provides a comprehensive conceptual framework for designing, implementing and evaluating a government's system of internal control. The Green Book is not authoritative for Washington governments, but is the basis for this section of the BARS manual and represents a resource for local governments. The Green Book is compatible with similar guidance on internal control published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and is referenced in professional auditing standards and Uniform Guidance for federal grants.

3.1.3.20 Internal control is a process designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations performance
- Compliance with applicable laws and regulations and safeguarding of public resources
- Reliability of financial reporting

3.1.3.30 A government's management and governing body are responsible for its performance, compliance and financial reporting. Therefore, the adequacy of internal controls is to provide reasonable assurance in achieving these objectives is also the responsibility of management, with oversight from the governing body. The governing body has *ultimate* responsibility for ensuring adequate controls to achieve objectives, even though *primary* responsibility has been delegated to management. Since management and the governing body are assumed to work in harmony, both parties are collectively referred to as “management” throughout the rest of this section.

The State Auditor's Office is not part of a local government's internal control system and cannot be a replacement or supplement to an adequate system of internal control. In accordance with Washington law, the State Auditor's Office also provides certain guidance, resources and educational materials. Such materials do not relieve management of their responsibility to evaluate the relevance of such information and decide whether and how to apply it in the context of their government. The role of the auditor is to provide independent accountability and assurance to the public and the government's stakeholders. However, this independence assurance, along with any recommendations provided by the auditor, also represents valuable feedback to management.

3.1.3.40 An effective system of internal control is composed of five interrelated components, as

follows:

1. ***Control environment –*** The tone set by management that influences the control consciousness of staff. Control environment includes communication of integrity and ethical values, commitment to ensure that staff are competent, management's philosophy and operating style, extent of participation by the governing board in scrutinizing activities and holding management accountable, and human resource practices (hiring, organization, development, evaluation, promotion and remedial action).

2. ***Risk assessment –*** Management's identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be addressed or controlled. Risk assessment includes identification of internal and external risks to the achievement of objectives, such as new contracts or grants, changing regulations and accounting standards, new technology, new personnel, new or discontinued activities and programs, new or discontinued organizational policies and procedures, obsolescence of facilities, and so on. Risk assessment also includes evaluation of risks and determining how to best address them.

3. ***Information and communication –*** Systems to support the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities. This encompasses the organization's methods of capturing and sharing information as well as its software, including its accounting information systems.

4. ***Control activities –*** Specific policies or procedures that directly address risks related to the achievement of objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities such as approvals, reviews, reconciliations, segregation of duties, performance measurement, tracking events or assets, etc.

5. ***Monitoring –*** Management's review of the operation of internal controls over time. Monitoring allows the system of internal controls to be self-sustaining and self-correcting over time. Monitoring is accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two. Ongoing monitoring occurs during the course of operations when management observes controls and can discern whether they were effective. Separate evaluations occur when management reviews and assesses a particular control to determine if it has been effective.

3.1.3.50 Internal control should be viewed as an integral or inherent part of the policies, systems and procedures management uses to operate and oversee the organization. This is not to say effective control will never require additional or incremental effort. Rather, controls exist to provide reasonable assurance about the achievement of objectives and so should be integrated into all the organization's fundamental business processes. Controls are normally most effective when built into the government's infrastructure rather than being treated as supplemental or separate processes. In the same way, implementation and monitoring of internal controls should not be viewed as a singular event, but rather a continuous or iterative process.

3.1.3.60 Since internal control is as fundamental as the objectives the controls relate to, the need for effective control is applicable to all organizations, regardless of size. While small entities may implement internal controls differently than larger ones, effective internal control is still both necessary and possible.

Determining what specific controls to implement

3.1.3.70 It is a management decision as to what specific controls to implement and how such controls are designed and operated.

3.1.3.80 There are many ways to attain effective internal control. Governments and their control needs vary considerably by statutory purpose, regulations, activities and programs, size, organizational structure, contractual and program structures, technology and information systems, expertise of staff and the policies of the governing body. In addition, there are often many different methods or combinations of methods that would result in effective internal control for any given situation. Thus, while all entities should have effective internal control, the specific controls in place may look very different from one government to another.

3.1.3.90 When choosing among different methods of achieving effective control, management often considers the costs and benefits of different control options.

- ***Costs -*** Certain controls may be less costly or require less staff resources , or may allow the process to operate faster.

- ***Effect on other control or policy objectives –***Certain controls may be able to achieve multiple objectives or may also serve to support the organization's values or operating principles.

- ***Organizational limitations -*** Control options may be limited by organizational or program policy or structure, expertise of staff, software limitations and other decisions made by management. However, if such factors limit options for effective control to only those that management believes are infeasible or not cost effective, management should consider how it might change the limiting factors rather than ignore the need for effective control.

3.1.3.100 The Washington State Auditor's Office does not require specific controls to be implemented by governments. Management is only required to ensure that whatever controls they choose to implement be adequate to provide reasonable assurance regarding compliance and financial reporting risks. The burden of demonstrating the adequacy of internal controls rests on management, since management is responsible both for the achievement of objectives and the determination of the design and operation of controls.

Controls over compliance

3.1.3.110 This objective refers to compliance with laws, regulations, contracts, grant agreements and government policies, including the requirement to safeguard public resources against misappropriation, misuse and loss.

3.1.3.120 In meeting this objective, the government should have controls that accomplish the following key functions:

- ***Identification of requirements –*** Controls should ensure that requirements are identified and that employees whose actions may affect compliance are aware of applicable requirements. When statutory, regulatory or contractual provisions are unclear, the government should seek clarification through legal counsel, research or communication with regulatory agencies or contracting parties.

- ***Compliance –*** Controls should prevent non-compliance or detect non-compliance in a timely enough manner for the government to remedy the situation. Such controls vary greatly, depending on the nature of the compliance requirement.

- ***Safeguarding of public resources –***Controls should prevent misappropriation or misuse of public resources or detect misappropriation or misuse in a timely manner and assign responsibility to individuals charged with custody of assets. Such controls should cover all receipts and receivables, expenditures and commitments, provisions of goods or services and the safekeeping of all public assets at risk of misappropriation, misuse or loss.

Controls over financial reporting

3.1.3.140 This objective refers to fair presentation of financial statements and required schedules in all material respects in accordance with the stated basis of accounting.

3.1.3.150 In meeting this objective, the government should have controls that accomplish the following key functions:

1. Identification of financial events – Controls should ensure financial events and transactions are properly identified and recorded.

2. Properly applying accounting standards – Controls should ensure correct criteria and methodology is applied when accounting for financial events. When the correct method of accounting for or reporting a transaction is unclear, the government should seek clarification by performing research, contracting for accounting assistance, or communicating with the State Auditor's Office or standard setting bodies.

3. Correctly accounting for all financial events – Controls should ensure that:

- Only valid transactions are recorded and reported.
- All transactions occurred during the period are recorded and reported.
- Transactions are recorded and reported at properly valued and calculated amounts.
- Recorded and reported transactions accurately reflect legal rights and obligations.
- Transactions are recorded and reported in the account and fund to which they apply.

4. Preparation of the annual report – Controls should ensure that financial statements and required schedules are properly compiled and prepared from source accounting records. Controls should also ensure correct presentation of statements and schedules.

Limitations of internal control

3.1.3.170 No matter how well designed and operated, internal controls cannot provide absolute assurance that the government will achieve its objectives due to inherent limitations. These limitations include the following:

- ***Judgment –*** If controls depend on human judgment, the effectiveness of controls may be limited by the experience and qualifications, time available, information available, motivations, and pressures on the person applying the control. Moreover, differences in these factors over time and in different people applying the control may result in inconsistencies in the operation of the control. *This limitation, when applicable, can be mitigated through a good control environment, clear policies or instructions, redundant controls, supporting controls such as check figures or exception reports and adequate monitoring of controls.*

- ***Breakdowns –*** Breakdowns could occur due to changes, failure or obsolesce of data, technology, assumptions, procedures, programming or other dependencies that controls may rely upon for effective functioning. *This limitation, when applicable, can be mitigated by thorough risk assessment, redundant controls and adequate monitoring of controls.*

- ***Collusion –*** Many controls assume that employees (or certain employees) will not collude. When individuals act together, they may be able to overcome controls. This is typically only a risk when employees have a motivation to overcome controls, such as misappropriation or misuse of public resources. *This limitation, when applicable, can be mitigated by a good control environment, redundant controls and adequate monitoring of controls.* Control override – Personnel with responsibility to resolve issues identified by controls may decide to ignore or override prescribed policies or procedures. *This limitation, when applicable, can be mitigated by a good control environment and adequate monitoring of controls.*

- ***Control override –*** Personnel with responsibility to resolve issues identified by controls may decide to ignore or override prescribed policies or procedures. *This limitation, when applicable, can be mitigated by a good control environment and adequate monitoring of controls.*

- ***Mistakes –*** Although internal controls may be designed in such a way as to reduce the likelihood of mistakes, is it always possible that a mistake may be made. *This limitation can be mitigated by a good control environment, redundant controls, automated controls, supporting controls such as check-figures or exception reports, and adequate monitoring of controls.*

- ***Unforeseen circumstances –*** Controls may operate incorrectly when faced with unforeseen situations or permutations. *This limitation can be mitigated by thorough risk assessment and adequate monitoring of controls.*

- ***External factors –*** Achievement of operational performance objectives (efficiency and effectiveness) may depend on factors outside of the government's control, such as regulation, resource limitations, environmental changes, decisions made by service recipients or stakeholders, actions of key suppliers, customers or program partners, etc. *This limitation can be mitigated by thorough risk assessment.*

3.1.3.180 Although controls are not an absolute guarantee of success, effective internal controls are expected to consistently and reliably achieve objectives, year after year. However, even well-designed controls have a remote possibility of failure. This possibility increases with the number and primacy of external factors, as is often the case for performance objectives.

3.1.3.190 Ultimately, providing reasonable assurance of achieving compliance and financial reporting objectives is within the government's control and depends primarily on how well controls are designed and operated. Achievement of operational performance objectives also depends in large part on effective internal controls. By implementing effective controls a government can have reasonable assurance that it is doing all it can to meet its objectives.

Original Supporting Documentation

3 **Accounting**

3.1 **Accounting Principles and Internal Control**

3.1.4 **Original Supporting Documentation**

3.1.4.10 Local governments are responsible for obtaining and ensuring the integrity and retention of the original vouchers, receipts, and other documents – regardless of physical form – necessary to isolate and prove the validity of every transaction relating to the receipt, use and disposition of public funds or property (RCW 43.09.200). This requirement extends to all accounting entries, including interfund transactions or allocations of overhead costs.

In addition, governments are required to comply with public records retention requirements (Chapter 40.14 RCW) and the Local Government Records Retention Schedule published by the Secretary of State in accordance with RCW 40.14.070.

Physical documentation

3.1.4.20 Physical documentation should be recognizable and legible. Internal controls should provide reasonable assurance of the accuracy, durability and availability of physical records.

Electronic documentation

3.1.4.30 Electronic supporting documentation for transactions is appropriate where safeguards exist to ensure that the documentation cannot be changed or altered and that the documentation is retained for as long as is necessary. In cases where source documents are initiated electronically and the local government's accounting system does ***not*** have sufficient controls to ensure the integrity of the data, such electronic records should be printed, reviewed and signed by an appropriate person. The printed records would then be considered the official source document supporting the transaction.

Internal controls ensuring the integrity of data supporting public transactions should include policies and procedures ensuring the accuracy, durability and availability of the data. This would include, but is not limited to, establishing an audit trail and/or system for identification of changes made and users making subsequent modification to the source documents to ensure a proper chain of custody.

See Chapter 434-662 WAC for records retention regulations for electronic records.

Scanned documentation

3.1.4.40 Scanned original documents are acceptable to support the receipt; use and disposition of public funds given the above mentioned controls are in place to ensure their integrity, completeness and accuracy. The original imaged source records cannot be destroyed unless the local government has complied with the Secretary of State's "*Requirements for the Destruction of Non-Archival Paper Records after Imaging "Scanning and Tossing"* document. This document can also be found on the Secretary of State's Records website on the Records Management webpage. Alternatively, the original imaged source records may also be destroyed if the local government's application requesting early destruction of records after electronic imaging has been approved by the Secretary of State. See Chapter 434-663 WAC.

Authorization of transactions

3.1.4.50 Local governments are responsible for ensuring transactions are properly authorized and have the appropriate type of signature approval. For audit purposes, log-in authentication is an acceptable means of limiting access or segregating duties with user account permissions, establishing accountability and chain of custody for records, and evidencing review or approval. For these controls to be effective, sufficient controls must be in place over user accounts, passwords, sessions, and audit trails or logs.

Physical signature

3.1.4.60 If there is a legal requirement for a signature on an electronic document (i.e. contract, etc.), it can have a digital signature. If a local government chooses to use a digital signature, they are responsible for complying with RCW 1.80.

Facsimile signature

3.1.4.70 Instruments of payments (i.e., check/warrant) can have a legal facsimile signature. A facsimile signature is a reproduction of a signature by engraving, imprinting, stamping or other means. If a local government chooses to use a facsimile signature, they are responsible for complying with Chapter 39.62 RCW.

Non-legal facsimile signature

3.1.4.80 Documents that do not require a legal signature can be authorized by a non-legal facsimile signature. A non-legal facsimile signature is a reproduction of a signature by engraving,

imprinting, stamping, or other means.

Log-in identification

3.1.4.90 A number of accounting applications have been developed to use an individual's log-in identification to authenticate an approval. This can be acceptable if there is no legal requirement for a written signature, if transaction records identify the user, and if there are sufficient user account controls in place to assign accountability for transactions to an individual.

Sources of GAAP

3 **Accounting**

3.1 **Accounting Principles and Internal Control**

3.1.2 **Sources of GAAP**

3.1.2.10 There are two primary authoritative sources of generally accepted accounting principles (GAAP) for local governments:

1. GASB – Governmental Accounting Standards Board
2. AICPA – American Institute of Certified Public Accountants

3.1.2.20 The GASB Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* promulgates the GAAP hierarchy for state and local governments.

3.1.2.30 The GAAP hierarchy, as prescribed by the GASB Statement 76, has two categories of sources of accounting principles. If an accounting treatment is not specified in Category A, a government should consider if it is specified in Category B:

- Category A: Officially established accounting principles – Governmental Accounting Standards Board (GASB) Statements and Interpretations.

- Category B: GASB Technical Bulletins, GASB Implementation Guides and, if specifically made applicable to state and local governmental entities by the American Institute of Certified Public Accountants (AICPA) and cleared by the GASB, AICPA literature. Authoritative GAAP included in Category A and B are periodically incorporated in the Codification of Governmental Accounting and Financial Reporting Standards.

3.1.2.40 In the absence of specific treatment within Category A or B, the state and local governmental entities may consider nonauthoritative accounting literature, but only after consideration is made for a similar transaction or event within Category A or B. Nonauthoritative accounting literature includes, for example, GASB Concepts Statements, the pronouncements of the Federal Accounting Standards Board (FASB), Federal Accounting Standards Advisory Board (FASAB), International Public Sector Accounting Standards Board and International Accounting Standards Board, as well as all AICPA literature not previously cleared by the GASB. Nonauthoritative literature also includes practices that are widely recognized and prevalent in state and local government, literature of other professional associations or regulatory agencies, and accounting textbooks, handbooks, or articles.

Assets
Compensating Balances

3 **Accounting**

3.2 **Assets**

3.2.5 **Compensating Balances**

3.2.5.10 Some banks may require a government to maintain a predetermined average daily balance in noninterest bearing bank accounts to compensate the bank for handling the government's bank services.

3.2.5.20 A government's procurement of banking services will normally consider costs such as fees, minimum balance and compensating balance requirements compared to benefits such as interest rates, locations and services, along with other factors as described in MRSC and GFOA advisory content.

3.2.5.30 As part of their procurement of banking services, governments should consider whether the amount of foregone interest revenue is reasonable in relation to fees avoided in order to ensure the agreement does not represent a gift of public funds.

County's External Investment Pool

3 **Accounting**

3.2 **Assets**

3.2.2 **County's External Investment Pool**

This guidance applies only to counties.

3.2.2.10 Generally Accepted Accounting Principles (GAAP) require the use of fiduciary funds to account and report assets held in a trustee or agency capacity for others. Custodial funds are used to account for situations where the government's role is purely custodial. They are most commonly used by counties to account for taxes collected on behalf of special purpose districts. Trust funds normally are subject to a trust agreement that affects the degree of management involvement and length of time that resources are being held. Assets classified as trust or custodial funds cannot be used to support the government's own programs.

3.2.2.20 In accordance with accounting standards, when counties provide investment services to other entities under RCW 36.29.020 whether through investment pool(s) or by individual investment accounts, the county is considered a sponsoring government, and therefore has a fiduciary responsibility for those investments. A county is sponsoring an external investment pool when commingling (pooling) the monies of more than one legally separate entity that are not part of the same reporting entity as the sponsoring government, and invests, on the participant's behalf. This includes investing in the Local Government Investment Pool when all the funds are held in the county's name. When a County Treasurer invests any funds in its custody not required for immediate expenditure, whether or not at the request of a district, the County Treasurer is investing on behalf of the districts. The districts' share in the risk of loss of those investments, so long as the County Treasurer has complied with the statutory requirements in making those investments, and said funds should be reported as an investment pool by the county. **Per guidance from the Attorney General's Office all counties operate a pool.**

3.2.2.30 As such, the county should report investments in either the investment trust fund or the custodial – external investment pool per the criteria located in BARS Manual 4.3.1, *Fund Types*.

3.2.2.40 Reporting investments in both an investment trust fund or the custodial – external investment pool fund and custodial funds, will cause duplicative reporting of the same cash.

Deposits and Investments

3 **Accounting**

3.2 **Assets**

3.2.1 **Deposits and Investments**

Investment Requirements

3.2.1.10 Each municipal corporation should, by action of its governing body, authorize investment of any moneys which are not required for immediate expense and which are in the custody of the county treasurer or other municipal corporation treasurer.

3.2.1.20 State law (primarily Chapter 39.59 RCW, along with Chapter 35.39 RCW for cities and Chapter 36.29 RCW for counties) limits the types of investments allowable for local governments. Limitations on eligible investments reflect preservation of capital and liquidity of funds as primary objectives for investment of public funds. In general, local governments may invest in reasonably safe investments, such as:

- Obligations of the federal government, its agencies and government sponsored organizations
- Obligations of Washington State and local governments

- Obligations of other States and local governments located in other states that have one of the three highest credit ratings of a nationally recognized credit agency at the time of purchase
- The Washington State Treasurer's Investment Pool (Chapter43.250 RCW)

Absent statutes specifically authorizing a local government to make an investment in a certain investment type. For example, the following investments are generally not eligible for investment of public funds:

- Corporate stocks
- Corporate bonds
- Foreign government obligations
- Futures, options, swaps and other derivatives
- Real estate or commodities
- Limited partnerships
- Negotiable certificates of deposit
- Certificates of deposit from banks that are not designated as qualified public depositories
- Money market or mutual funds

For a detailed description of eligible and non-eligible investments, along with policy considerations and suggested controls over investing activities, local governments should consult the Office of State Treasurer's *Guide to Public Funds Investing for Local Governments*

In addition to restrictions imposed by state law, investments of local governments may be further restricted by policy, contract or regulation. For example, debt covenants or arbitrage requirements may restrict investment of bond proceeds. Local governments should consult with bond counsel for guidance on such restrictions.

Deposit requirements

3.2.1.60 Except for funds deposited pursuant to a fiscal agency contract with the state fiscal agent or its correspondent bank, no public funds should be deposited in demand or investment deposits except in a public depositary located in this state or as otherwise expressly permitted by statute (RCW 39.58.080).

3.2.1.70 WAC 389-12-020(3) allows public depositaries to arrange for the investment of public funds in certificates of deposit issued by one or more federally insured financial institutions wherever located on behalf of a treasurer provided the funds are initially invested in an authorized Washington public depositary.

3.2.1.80 The total deposits of public funds by any treasurer in any one public depositary may not exceed that depositary's net worth. If a public depositary's net worth is reduced, a treasurer may allow public funds on deposit in excess of the reduced net worth to remain until maturity as long as the depositary provides collateral equal to one hundred percent of the excess deposits (RCW 39.58.130). Net worth for public depositaries may be adjusted by the Public Deposit Protection Commission (PDPC) to reflect the depositaries proportional net worth position in Washington State.

3.2.1.90 A financial institution receives designation as a public depositary from the PDPC. This designation is readily verified, either from the financial institution (via a letter of authority from the PDPC) or directly from the PDPC. A quarterly list of each public depositary and its net worth is published on the Washington State Treasurer's website at www.tre.wa.gov.

3.2.1.100 Washington state and federally chartered credit unions may also accept public deposits within limitations set forth in RCW 39.58.240. State law allows up to two hundred fifty thousand dollars on deposit for any one depositor of public funds in any one credit union. A quarterly list of each approved credit union and its public deposit balances is also available on the Washington State Treasurer's website.

Joint Ventures

3 **Accounting**

3.2 **Assets**

3.2.8 **Joint Ventures**

3.2.8.10 Local governments may cooperate under certain conditions with other local governments. The basis is for mutual advantage to provide services and facilities. This is accomplished in a manner and pursuant to forms of governmental organization that will accord best with geographic,

economic, population, and other factors influencing the needs and development of local communities.

3.2.8.20 All cooperative efforts created by State law can be joint ventures. All joint ventures are either joint operating agencies or contracted interlocal agreements. Specific laws dictate other limitations or requirements, depending on the purpose and entity. Descriptions of some cooperative efforts are as follows.

Joint operating agencies (Chapter 43.52 RCW and Chapter 54.44 RCW)

3.2.8.30 A joint operating agency (JOA) is a legal entity created between any two or more cities or public utility districts. This agency is a municipal corporation of the state of Washington. A JOA has authority to enter into contracts involving electric energy, fisheries, flood control, and natural resources.

3.2.8.40 Management and control of a JOA vests with the board of directors. The directors are appointed by the legislative body of each member of the JOA.

3.2.8.50 For guidelines and requirements, see Chapter 43.52 RCW for operating agencies and Chapter 54.44 RCW for nuclear power plants.

3.2.8.60 For accounting treatment, joint operating agencies should be treated as a public utility district (RCW 43.52.391).

Interlocal agreements (Chapter 39.34 RCW)

3.2.8.70 An interlocal agreement is a contract entered into between two or more public agencies for joint or cooperative action. This action must be a power, privilege, or authority already capable of being exercised by the public agencies involved, and the manner of financing should be as provided by law. The agreement could establish a separate entity as described below.

3.2.8.80 If the interlocal agreement does establish a separate legal or administrative entity, this entity must be legally created (Insurance Boards RCW 48.62.041, RCW 48.62.101, Irrigation Districts RCW 87.03.018, Hydroelectric Resources RCW 87.03.828). The agreement must specify duration, organization, purpose, manner of financing and methods of termination. Funds of this separate entity would be subject to audit in the manner provided by law for the auditing of public funds.

3.2.8.90 If the interlocal agreement does not establish a separate legal entity by law, the agreement must specify the criteria listed above and must also provide for an administrator or a joint board responsible for administering the cooperative undertaking. Provisions are also required to detail the manner of the joint board in acquiring, holding, and disposing of real and personal property used in the joint undertaking. The joint board is also authorized to establish an operating fund with a county, city, or district treasurer of one of the involved public agencies.

3.2.8.100 The interlocal agreement is filed with the county auditor, and if applicable, a state officer or agency with statutory powers of control.

Chapter 39.34 RCW issues various guidelines and requirements applicable to interlocal agreements.

3.2.8.110 For accounting treatment, an interlocal agreement must be evaluated for each member agency to determine whether joint venture treatment is applicable. If joint venture treatment is applicable, see the accounting treatment below. If joint venture treatment is not applicable, interlocal agreement should be footnoted and accounted for in an appropriate fund. Contractual requirements take precedence over accounting requirements (i.e., a contract may require one member to be reporting entity when it does not exercise “oversight responsibility”).

Accounting procedures for the joint ventures

3.2.8.120 GASB Statement 14, *The Financial Reporting Entity* defines the joint venture as a legal entity or other organization that results from a contractual agreement and is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain an ongoing financial interest or an ongoing financial responsibility.

3.2.8.130 ***Joint control*** means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

3.2.8.140 ***Ongoing financial interest*** means an equity interest or any other arrangement that allows a participating government to have access (directly or indirectly) to joint venture’s resources.

3.2.8.150 ***Ongoing financial responsibility*** means that the participating government is obligated in some manner for the debts or the funding of the joint venture.

3.2.8.160 Lack of the ongoing financial interest or the ongoing financial responsibility designates the entity as a jointly governed organization, subject to different disclosure requirements.

3.2.8.170 When the number of participants in a joint venture increases their financial responsibility may decrease. Statement 14 does not establish any break point for the determination if the participant is financially responsible or not. A decision, in the marginal cases, is left to the professional judgment of the government.

3.2.8.180 For financial reporting purposes there are two types of joint ventures:

1. Joint ventures whose participants have equity interest.
2. Joint ventures whose participants do not have equity interest.

3.2.8.190 The indication of an equity interest is an ownership of shares of the joint venture's stock or other ***explicit and measurable rights***to net resources (usually based on investment of financial or capital resources in the joint venture). To be considered explicit and measurable the rights to the present or future claims to the joint venture's resources and the methods to determine the amounts have to be clearly defined in the joint venture agreement. If equity interest in the joint venture is implied rather than explicitly stated the joint venture participants should consider modifying the agreement to clarify its intent.

Reporting equity interest in joint venture

3.2.8.200 The proper accounting and financial reporting for joint ventures depends on whether the underlying contract creates an explicit, measurable equity interest in some or all of the joint venture's resources. If there is an explicit, measurable equity interest in the joint venture, the government's investment in the joint venture should be reported as a single line item in the government-wide statement of activities. The same treatment applies to the proprietary fund financial statements.

3.2.8.210 In the case of governmental funds, however, an investment in the joint venture should be reported in a governmental fund only to the extent that it represents a financial asset rather than an interest in the underlying capital assets of the joint venture. Joint ventures not involving an explicit, measurable equity interest are reported simply as note disclosures.

3.2.8.220 The following examples illustrate how the provisions of theGASB Statement 14 would be applied to a particular set of hypothetical circumstances.

Example 1: Twin City Airport Authority

Facts: The Twin City Airport Authority was created jointly as a separate legal entity by two cities. At inception, City A contributed 60 percent and City B contributed 40 percent of the initial capital (to purchase land). The cities jointly issued construction revenue bonds and facility revenue bonds to finance construction of the airport. The construction bonds are payable solely from and secured by airport revenues, and the facility bonds are payable solely from and secured by net rent revenues payable from various leases. The cities are not obligated in any manner for the authority debt. The initial capital investments of the two cities are to be returned to the cities by the authority over a period of time not to exceed fifteen years.

The authority is governed by a ten-member board composed of the mayor of each city and three members of City B's city council and five members of City A's city council. Despite the numerical imbalance of the board, the joint venture agreement provides for joint control; that is, both cities must approve the budget, the issuance of debt, and other significant activities.

The cities individually have executed covenants, by ordinance, to levy a maintenance tax (subject to rate limitations) if necessary to insure that the airport will be operated and maintained efficiently. The authority board has entered into agreements with each airline that uses the airport, providing for adjustments to rentals, fees, and other charges that management believes would preclude losses from being incurred. To date, no maintenance tax has been levied by either city, and the airport has generated sufficient revenues to make annual payments to the cities in accordance with the repayment agreement for their initial capital contributions.

Conclusions: The airport authority is a joint venture because it was created as a separate legal entity and both cities have on ongoing financial responsibility for the entity. The fact that City A appoints a numerical majority of the authority's board is negated by the two cities' agreement for joint control of the authority. The initial capital contributed by the cities has the characteristics of an equity interest, but the agreement with the airport authority, in effects, converts the equity interest to a long-term receivable. Therefore, rather than reporting an equity interest in the joint

venture in the general capital assets, the cities would report a receivable in the fund that receives the annual payments from the authority. The cities do, however, have ongoing financial responsibilities for the authority because they have obligated themselves to fund the deficits of the airport by agreeing to levy maintenance tax if needed. The cities would make the required joint venture disclosure.

Example 2: Bi-State Port Authority

Facts: Two state governments create a port authority as a separate legal entity. Each state appoints six governing board members for the authority; the chairperson is elected by the twelve members from within the board. the authority is autonomous from a day-to-day operations perspective. Neither state provides start-up funds; the authority's facilities were financed with its own revenue bonds.

Neither state is obligated for the authority's debt and neither state is obligated for its deficits or entitled to its operating surpluses, either directly or indirectly. The authority is financially self-sufficient. It is perpetual and no provisions are made in its charter or by-laws for the distribution of assets at termination.

Conclusions: The authority is a jointly governed organization. It is not a component unit because neither state appoints a voting majority of the authority's governing board. It is not a joint venture because the states do not have an ongoing financial interest or responsibility for the authority. If, however, the states could influence the management of the authority (through veto power over the authority's decisions regarding major projects, for example) to undertake projects that would benefit the states, an ongoing financial interest would exist and them authority would be considered a joint venture. In either case, the states should make the appropriate disclosures about their relationship to the authority.

Example 3: Municipal Electric Authority

Facts: Forty-eight cities have formed a municipal electric authority as a public corporation according to state law. The purpose of the authority is to enable small municipal electric systems to efficiently finance, construct, and operate electric power generation and transmission facilities. Each participating city appoints one member to the authority's governing board. Construction of the authority's facilities was financed by revenue debt of the authority. None of the participants is in any way liable for the authority's debt. The authority bills each participant for usage at rates that are calculated to cover the authority's *cost* as defined in the bond indenture. The rates are structured to systematically provide cash for debt requirements, operating expenses (excluding depreciation and amortization), and reserves as specified by the bond indentures. Each city is bound by contract with the authority to annually purchase a minimum number of kilowatt-hours. The contracts are renewable at the cities' option every three years. Except for the minimum purchase contracts, no participant has any other obligation, entitlement, or residual interest. The authority is financially self-sufficient.

Conclusion: The authority should be reported by participants as a jointly governed organization. None of the participating municipalities has an ongoing financial interest, and because of the large number of participants the cities' purchase contracts with the authority do not represent ongoing financial responsibilities.

Money Held in Trust

3 **Accounting**

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3.2.4 **Money Held in Trust**

Deposits

3.2.4.10 Governments may require deposits from customers. For example:

- A housing authority may require deposits in relation to public housing activities.
- A public utility may require deposits from its customers for either initial or restoration services, provided the deposits are reasonable and not discriminatory.

3.2.4.20 Governments should enact policies addressing investment and disposition of interest on deposits by considering legal and contractual requirements and public policy. Governments are encouraged to disclose such policies in applications and official documents related to deposits to ensure a clear mutual understanding of such policies with depositors.

Investment of superior court trust funds

3.2.4.50 Pursuant to RCW 36.48.090, whenever the clerk of the superior court has moneys held in trust for any litigant or for any purpose, they should be deposited in a separate bank account designated *Court Trust Fund*. These moneys should not be commingled with any public funds. The clerk is subject to the same investment limitations as the county treasurer (RCW 36.29.020). See Sweeping Interest and Investment Returns into General Fund

Interest income

3.2.4.60 Unless provided otherwise, interest earned on trust investments should be forwarded to the county treasurer as current expense fund revenue. If however, the trust principal amounts to $2,000 dollars or more and a litigant in the matter had filed a written request, the interest should be held in trust and paid to the beneficiary upon termination of the trust. The clerk should assess a five percent investment service fee, subject to statute limitations, on interest earned on behalf of beneficiaries.

3.2.4.70 All litigants not represented by an attorney and who have $2,000 dollars or more being held by a superior court clerk should receive written notice of the provision for receiving interest income on the funds.

Accounting requirements

Clerks making trust fund investments must maintain an investment ledger and reconcile the ledger to bank and investment account statements and the county general ledger on a monthly basis. The investment ledger must:

(1) Be sufficient to indicate the total amount of funds invested at any given time (a control account).

(2) List each investment purchased by purchase date, trust account check number or EFT number, description of investment and identification (passbook or CD number, financial institution holding investment, interest rate, maturity date, etc.) and purchase price.

(3) Show for each investment sold: total proceeds, interest due the current expense fund, interest due to other recipients, sales date, clerk's receipt number, and investment fee.

(4) Maintain individual records for each case as part of the ledger either as part of the investment ledger or as periodically reconciled to the investment ledger. Records should contain the name, address, case number, investment balance and accrued interest. An example record layout is provided on the following page.

3.2.4.90 Investment interest earnings remitted to the current expense fund and investment service fees deducted from interest due to others should be coded to the revenue account. Moneys to be paid to the county treasurer should be remitted each month together with other remittances.

3.2.4.100 Interest paid to litigants may need to be reported to the Internal Revenue Service. Governments should contact the IRS Federal, State and Local Government Division if tax advice is needed.

EXAMPLE INVESTMENT RECORD

Line No.	Date Purchased	Description	Purchase Price	Date Sold	Sales Price	Receipt Number	Investment Fee	Interest Earnings	To Be Remitted to Beneficial Owner	To Remit Trea

Special Assessments

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3.2.7 **Special Assessments**

3.2.7.10 **Introduction**

Some capital improvements or services provided by local governments are intended primarily to benefit a particular property owner or group of property owners rather than the general citizenry. The costs of providing the capital improvements or services are charged either partially or totally to the property owners who receive the benefit. There are two types of assessments: operating/service assessments and capital assessments.

3.2.7.20 **Operating/Service assessments**

Operating/service assessments are for operating activities and do not result in the purchase or construction of capital assets (e.g., street cleaning or snow plowing). The revenues and expenses/expenditures should be recorded in the fund that best reflects the nature of the transactions. Both the revenues and expenses/expenditures should be recognized on the same basis of accounting for that fund type.

3.2.7.30 **Capital Assessments**

Capital assessments enhance the utility, accessibility, or aesthetic value of the affected properties and generally result in improvements or additions to the government's general capital assets. The project should be recorded in the fund that best reflects the nature of the transactions. Assessment projects that are an integral part of the government's enterprise activities should be recognized in the enterprise fund.

3.2.7.40 **Assessment Receivable and Revenue**

At the time of the levy, a special assessments receivable should be recognized. In a governmental fund, it should be offset by a deferred inflow of resources. The deferred inflow of resources should be reduced as the assessments become measurable and available.

In a proprietary fund and the government-wide financial statements, the full amount will be recognized as revenue at the time of the levy..

3.2.7.50 **Special Assessment Debt**

Special assessment debt for which the government is obligated in some manner, as defined in the GASB Codification Section S40 – Special Assessments, should be reported as a liability of the government.

The phrase *obligated in some manner* is defined very broadly and includes all situations *other than* those in which (a) the government is *prohibited* (by constitution, charter, statute, ordinance, or contract) from assuming the debt in the event of default by the property owner or (b) the government is not legally liable for assuming the debt and makes no statement, or gives no indication, that it will, or may, honor the debt in the event of default. It would be very rare, if ever, that special assessment debt should not meet these criteria.

3.2.7.60 **Debt Service**

If the special assessment is related to governmental-type activities, the debt service transactions may be recorded in a debt service fund. Recognition of bond principal and interest expense should be similar to other long-term debt. Any portion that is related to an enterprise fund or expected to be repaid from an enterprise fund revenue should be reported in the enterprise fund. Short-term debt service expenditures should be recognized in the fund recording the associated debt.

3.2.7.70 **Capital Assets**

The capital assets constructed by a capital improvement special assessment should be reported together with other capital assets.

3.2.7.80 **Budgeting**

Capital improvements funded by special assessments should be budgeted on a project basis. Although improvement district statutes vary, they normally require formal adoption of an assessment roll. The LID formation ordinance is an adequate budget for the life of the LID. The amount of the assessment roll is determined by the estimated costs of construction and debt service, which are approved by the same action. If construction costs exceed estimates, legislative approval is normally required. That approval should be recorded as a budget modification.

3.2.7.90 **References**

	Authority to Establish and Assess for	**RCW Reference**
Cities and Towns	LID & ULID	Chapter 35.43 RCW thru Chapter 35.56 RCW
Counties/County Roads	CRID	Chapter 36.88 RCW
Fire Districts	LID & ULID	Chapter 52.20 RCW
Port Districts	LID & ULID	Chapter 53.08 RCW
Irrigation Districts	LID & ULID	RCW 87.03.480 thru RCW 87.03.527
Irrigation Districts	O&M	RCW 87.03.240 thru RCW 87.03.420

	Authority to Establish and Assess for	RCW Reference
Park and Recreation Districts	LID	RCW 36.69.200 thru RCW 36.69.305
Water/Sewer Districts	ULID	Chapter 57.16 RCW
Counties Sewerage, Water and Drainage System	LID & ULID	RCW 36.94.220 thru RCW 36.94.400
Flood Control Zone Districts	LID & ULID	RCW 86.15.160, RCW 86.15.165
Flood Control Districts	O&M	RCW 86.09.380 thru RCW 86.09.517
Diking Districts	O&M	RCW 85.05.270, RCW 85.05.355, RCW 85.18.150
Drainage Districts	O&M	RCW 85.06.125, RCW 85.38.140 thru RCW 85.38.170
Diking, Drainage and Sewage Improve. Dist.	O&M	RCW 85.08.410, RCW 85.08.420, RCW 85.08.480, Chapter 85.16 RCW
Public Utility Districts	ULID	RCW 54.16.120 thru RCW 54.16.170

CRID - County Road Improvement District
LID - Local Improvement District
ULID - Utility Local Improvement District
O&M - Operations & Maintenance, Debt Service, etc.

Sweeping Interest and Investment Returns into General Fund

3 **Accounting**

3.2 **Assets**

3.2.3 **Sweeping Interest and Investment Returns into General Fund**

This guidance applies only to cities and counties.

3.2.3.10 Based on the current economic environment in which they operate, local governments are actively looking for ways to generate additional unrestricted revenues, so often there are questions regarding the transfer of interest income associated with certain revenues to the general fund and/or other funds.

3.2.3.20 The answers to these questions may be “Yes: or “No”, based on the statutory language that authorized the imposition of taxes and levies or the distribution of fees and taxes by the state. These answers are also affected by the type of entity receiving the revenue.

Counties

3.2.3.30 County legislative authorities have the power to direct the investment of county funds, and when they do so, the interest earned stays with the original fund. If the legislative authority does not provide this direction RCW 36.29.020 allows a county treasurer to allocate the interest and other income earned on the investment of a county’s own funds into county general fund.

3.2.3.40 As discussed in the AGO 2010 No. 10, the three statutes listed below are examples of a

specific legislative intent which overrides the general authorization granted counties in RCW 36.29.020.

- RCW 73.08.080 – Veterans' assistance fund
- RCW 81.100.080 – High occupancy vehicle system fund
- RCW 41.16.050 – Firefighters' pension fund

3.2.3.50 Again, the statutes listed above are not meant to provide an exhaustive list of all revenues where the allocation of interest is restricted. It is the county's responsibility to carefully review the statutory language governing a particular revenue source to determine restrictions related to interest and other investment income.

Cities

3.2.3.60 Cities may transfer interest income to their general fund if the transfer is in compliance with RCW 35.39.034 (non-code cities) or RCW 35A.40.050 (code cities).

Capital Assets
Capital Asset Accounting

3 **Accounting**

3.3 **Capital Assets**

3.3.10 **Capital Asset Accounting**

Quick Links

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Asset Impairment Decision Process (Flowchart)

3.3.10.10 **Recording**

Once the capital asset system is in operation, the government needs to make sure that assets which should be capitalized are properly recorded and that records are brought up to date when assets are disposed of or replaced.

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3.3.10.20 **Determining ownership of capital assets**

While assets may be jointly acquired, constructed or used, an asset can only be asserted to be owned by one government and therefore may only be reported as such on one set of financial statements. Generally, the government that owns the asset and holds the title determines who should report the asset even if used or paid for by someone else. For example, a city pays to construct a park on port property. The port owns the land and as such, should report the asset. However, when a title is not available, it may be difficult to determine who owns the asset. In such cases, the party responsible for managing and maintaining the asset should be considered the owner and report it. In the previous example, even if the city assumed responsibility for maintaining the park, the port would report the asset since they own the land. However, there is a potential for the city to report a leased asset if there is a lease agreement in place for the park.

Whenever there is a question about ownership or the correct classification or reporting of an asset that was acquired, constructed or used jointly, the government should check with the other parties involved to ensure consistency in reporting the asset and clarify any applicable contracts or agreements as needed.

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3.3.10.30 **Cost to be recorded**

Original cost (historical cost) is the amount spent to acquire an asset. This cost is based on the actual price paid, including related taxes, commissions, installation costs and any other costs related to acquiring the asset or preparing the asset for use. Costs should only be capitalized when directly attributable to a specific asset. As such, costs related to studies that determine feasibility or the best location of an asset should not be capitalized. On the other hand, legal, engineering, architectural and other ancillary fees related to acquiring, or putting in service, a specific piece of property could be capitalized.

Land costs typically include: the purchase price; closing costs, such as title to the land, attorney fees, and recording fees; assumptions of any liens, mortgages, or encumbrances on the property; costs incurred in getting the land in condition for its intended use, such as excavation, grading, filling, draining, clearing, removal, relocation or reconstruction of property of others; retaining walls; parking lots; fencing; landscaping; and any additional land improvements. Any proceeds obtained in the process of getting the land ready for its intended use, such as salvage receipts on the demolition of an old building or the sale of cleared timber, should be treated as a reduction in the price of the land.

The actual price should approximate fair market value. If the information regarding original cost is not available, the government needs to estimate the original cost. This cost principle applies to both governmental and proprietary capital asset acquisitions.

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3.3.10.40 **Additional cost considerations**

Costs that do not add to the utility of an asset should not be capitalized. For example, expenditure to repair a piece of equipment that was damaged during shipment should be expensed. In addition, training on how to use a newly acquired asset should not be capitalized as it would not meet the criteria of a necessary cost to place the asset into service.

Costs clearly related to the acquisition or construction of capital assets that are shared across more than one capital project, should be capitalized. These costs should be allocated to the individual projects.

Each capital asset purchase should be analyzed carefully to determine which portions of the cost should be capitalized.

Specific guidance on this topic may be provided in industry publications or mandated by certain regulatory agencies. For example, FERC guidance for PUDs, provides that any amounts incurred for plant additions that are in excess of just and reasonable charges should be expensed. Likewise, if excess costs are incurred to replace individual units of property damaged in a storm so as to restore the utility system to operating condition without delay, then only the normal or fair cost is charged to plant, the balance to maintenance.

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3.3.10.60 **Donated and contributed assets**

Assets are sometimes donated to a government. Donations of cash to be used to purchase or construct a specific asset should be reported as revenue (In governmental funds: BARS 331/333/334, *Federal Direct Awards/Federal Indirect Awards/State Awards*; BARS 337, *Local Grants, Entitlements, Tribal Government Distributions, and other payments*; or BARS 367, *Contribution and Donations from Nongovernmental Sources*. In proprietary funds: BARS 374/379, *Capital Contributions*.).

Contributed capital assets intended to be used in operations should be reported at the acquisition value plus any applicable ancillary charges. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date, or the amount at which a liability could be liquidated with the counterparty at the acquisition date. Contributed capital assets intended to be sold should be reported at fair value.

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3.3.10.61 **Transferred assets**

Assets are sometimes transferred within a government and between governments. Capital assets transferred between funds or between financial reporting entity components should be transferred at their current carrying value, both the original cost and accumulated depreciation amounts will transfer. For additional information, see Governmental Accounting Standard Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*Section S20—"Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues" or *Codification of Governmental Accounting and Financial Reporting Standards* (Cod.) Section (Sec.) Co10— "Combinations and Disposals of Operations"

Assets transferred between governments that qualify as a transfer of operations (such as with annexations) should be accounted for and valued consistent with guidance in GASB Cod. Sec. Co10. For example, the transfer of assets relating to an annexation should be recorded at the carrying value of the transferor (the government giving up the assets). Annexations are considered a transfer of operations. In addition, such transfers are reported as a special item.

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3.3.10.65 **Acquisition of another entity or its operations and government mergers**

Government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. In this case, assets acquired (and liabilities assumed) are required to be measured based on acquisition values.

A government merger includes combinations of legally separate entities without the exchange of significant consideration. In this scenario, the use of carrying values should be used to measure the assets and liabilities.

For reporting requirements, see GASB Cod. Sec. Co10 for further details.

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3.3.10.70 **Works of art and historical treasures**

Works of art, historical treasures, and similar assets are considered to be capital assets and as such they should be capitalized at their historical cost if purchased or acquisition value if donated.

Exhaustible assets (such as exhibits whose useful lives are diminished by display or educational or research applications) should be depreciated over their estimated useful lives. Governments should not depreciate collections or items considered inexhaustible (i.e., the individual works of art or historical treasures that have extraordinarily long useful lives). Distinctions of exhaustible and inexhaustible items or collections, or their useful lives need to be made by each government.

For reporting requirements, see GASB Cod. Sec. 1400 for further details.

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3.3.10.80 **Improvements, repairs and maintenance**

Costs relating to an existing asset need to be carefully evaluated as they are incurred to determine whether they should be expensed or capitalized. This evaluation will depend on the nature of the cost as well as the government's policy.

Routine repair and maintenance costs should be expensed as they are incurred.

Costs that represent betterments, such as those that increase service capacity or efficiency

should be capitalized. For example, an example of an increase in service capacity is a road that is widened to include another lane. An example of an increase in efficiency might be the ability to raise the speed limit of a road due to the addition of entrance or exit ramps. To the extent that a project is partially a betterment, the amount of the betterment should be estimated and capitalized.

Costs that extend useful life should also be capitalized. For example, a road that is fully depreciated undergoes a significant reconstruction. The costs of the reconstruction should be capitalized.

For major maintenance or replacements of components of a pre-existing asset, there are several approaches that might be used. Local governments should determine in advance what approach(s) will be used, address the approach(s) to be used in its policy, and then apply it consistently.

- Componentization. This allows for recording key components as separate asset records and depreciating over respective useful lives. See BARS section 3.3.10.150 for more information. For example, if the roof is recorded as its own component, then the old asset record would be removed and the new asset record added.
- Expense the replacement or major maintenance. This approach is recommended when using group or composite depreciation as assets are part of a pool and no longer have individual identity.
- Adjust the existing asset record for the addition and the removal. Capitalize subsequent replacements or major maintenance (such as a new roof) and adjust the existing asset record (and accumulated depreciation) for the removal or disposal (such as of the old roof). A gain or loss on the disposal should be recognized, unless the composite/group depreciation method is used. The local government's policy should address how the original costs will be determined when the existing asset record is updated for the replacement.

If the modified approach is used, different guidance applies to improvements, see BARS section 3.3.10.145.

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3.3.10.90 **Date placed in service**

Capital assets should be depreciated over their useful lives. Purchased or acquired assets are presumed to be useful upon receipt and therefore recorded as "placed in service" for accounting purposes. Constructed assets should be re-classified from construction in progress and begin to be depreciated when they are substantially completed or otherwise available for use. Construction in progress reflects the status of construction activities of buildings, other structures, infrastructure, etc. Construction in progress is a non-depreciable capital asset since the asset's useful life has not yet begun.

Local governments should use professional judgement to determine the timing of the transition from construction in progress to a depreciable capital asset. An asset would be considered substantially completed when it can at least partially perform its intended function. For example, an empty building for which the government obtained the occupancy permit, or a structure that is completed except for the landscaping, or equipment that was delivered but has not yet been tested, configured or assigned would all be considered substantially complete – these are available for use even though the government is not actively using them. A multilane road with cars using some of the lanes, a partially constructed building, or an asset that is being used even if not all "punch list" items are completed would similarly be considered substantially complete – these assets are available for use, even though use may be limited or subject to additional capitalizable improvement.

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3.3.10.100 **Depreciation**

Most capital assets, including infrastructure should be depreciated. There are some exceptions to depreciation for assets such as land and art and historical treasures, if those assets are inexhaustible. In addition, an asset that has been surplused or that is held for possible future use is an investment and should not be depreciated. For quarries, timberlands, and mineral rights, depletion expenses must be recorded. Since properly maintained infrastructure assets have the potential of indefinite useful lives, there is an option of not applying depreciation for infrastructure assets that meet certain criteria as defined in Governmental Accounting Standard Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*(Cod.) Section (Sec.) 1400— "Reporting Capital Assets"; this is referred to as the modified approach.

The objective of depreciation is to spread the costs of capital assets incurred in one period equitably over multiple periods for which the capital asset will benefit. Several items should be considered when depreciating assets, as discussed below.

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3.3.10.105 **Unit of depreciation**

Governments may depreciate by class of assets, by a network of assets (such as a road network), a subsystem of a network (such as residential roads, arterial roads, or highway), or by individual assets. The government's policy should prescribe how assets will be depreciated. Also, regardless of how assets are depreciated, sufficient information and support should be retained to identify them and support their existence.

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3.3.10.110 **Salvage value**

Salvage value is the estimated fair value of a capital asset, infrastructure or otherwise, remaining at the conclusion of its estimated useful life – after considering the cost of demolition or removal. In most cases, it is probable that many infrastructure assets will have no salvage value, given the cost of demolition or removal. For other asset types, salvage value is typically expected to be trivial and if so, can be ignored in establishing the amount to depreciate. However, if scrap or sale proceeds are expected upon disposal and these proceeds exceed the cost of demolition or removal, then this value can and should be factored into the depreciation calculation.

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3.3.10.120 **Estimated useful life**

Depreciation must be based on a reasonable estimate of expected useful life or service life; that is, the number of years, miles, service hours, etc., that the government expects to use that asset in operations. Service life means the time between the date the asset is includible as an asset in service to the date of its retirement.

Ideally, governments should base useful life estimates on its actual experience and plans. For example, internal sources of information about useful life might include property replacement policies or practices, property disposal information, and budgeting information regarding the planned timing for replacement of assets.

However, if this information is not available, the government can look to industry guidelines for a starting estimate and then revise the estimate as additional information becomes known. The use of another's estimate should also be adjusted for differences in application, quality, environment, and maintenance practices that may vary amongst the entities.

The useful estimate should consider:

- Present condition;
- Expected future use, including anticipated changes in future usage rates or patterns; as well as how long it is expected to meet service and technology demands;
- The government's own experience;
- Construction type or quality;
- Maintenance policy;
- The government's historical experience with assets of this type as well as any industry, manufacturer or regulatory guidelines on the life-expectancy of the asset;
- Any legal, regulatory, or contractual provisions that might affect the estimate for an intangible asset.

Governments should maintain support for their useful life estimates as long as they are in use in order to demonstrate how the estimate was determined. Some examples of support might include engineering or depreciation studies.

Depreciation is intended to allocate the cost of a capital asset over its entire useful life to the periods that are benefitted. As useful lives are an estimate, periodically, local governments should consider information available about the existing estimates and make adjustments as needed. For example, governments should evaluate the service life of assets that are replaced or disposed to assess whether useful life estimates for the related class should be updated. Adjustments should be made prospectively to useful life and depreciation expense to ensure costs are allocated up to the end of its service life.

Estimates involving dissimilar assets that are depreciated together (such as using the composite

depreciation method) should be evaluated more frequently than other useful life estimates due to the risk that the makeup of the group may change over time.

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3.3.10.130 **Fully-depreciated assets**

If a government has fully depreciated assets, they should continue to report them until they are disposed of, sold, or replaced. However, fully depreciated assets that are still in use might be a red flag that useful lives are not reasonably accurate. The process of periodically evaluating and adjusting useful lives should prevent a material amount of fully depreciated assets from being reported but still in use. In practice, there are two legitimate reasons there may be fully depreciated assets that are still in use:

(1) The use of average estimated useful lives for entire classes of assets means that at least a few fully depreciated capital assets typically will be reported (i.e., those whose actual lives exceed the group estimate). This is acceptable, but only if such balances do not become material, in which case the estimated useful life for the group would likely need to be changed.

(2) For assets that have multiple components with different useful lives (such as a building) but are recorded and depreciated as one asset record, there might be a composite rate used that might reflects the service life of different components (such as a use of a weighted average). This practice results in accelerated depreciation and the overall building asset may be fully depreciated but still in use.

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3.3.10.135 **Accounting for fully depreciated assets**

As noted above, a significant amount of fully depreciated assets indicates that the useful lives were not appropriate. If a correction needs to be made to reflect the accurate useful lives of the assets, follow these steps:

(1) Create a new estimate for useful life

(2) Calculate the depreciation schedule from the beginning of the asset with the new useful life

(3) Determine what year each asset is in under the new depreciation schedule

(4) Compare the currently reported accumulated depreciation to the amount calculated under the new depreciation schedule.

(5) The difference in the two amounts would be reported as an error correction

There should also be a note disclosure that discusses the error correction.

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3.3.10.140 **Depreciation methods**

There are two primary depreciation methods used by local governments in practice: straight-line or group life.

Straight-line depreciation

Straight-line depreciation is the most common method used. With the straight-line method, the cost of an individual capital asset (less any salvage value) is allocated equally over its estimated useful life.

Group or composite depreciation

Group or composite depreciation should only be used in appropriate circumstances, and should be supported by rationale documented in the capital asset policy.

In group depreciation, similar assets are depreciated as one record, such as a fleet of police cars or lane miles of pavement of a road. It is applied when it does not make practical sense to record and depreciate assets on an individual basis. Composite depreciation is used for dissimilar assets such as for depreciating all the roads and bridges of a state.

This depreciation method cannot be applied across different classes of assets (such as furniture and vehicles) and must not interfere with depreciation being charged to the appropriate functional expense in governmental activities (such as one cannot depreciate public safety assets and

culture/recreation assets together in one group).

The accounting methodology is the same for both methods. The group of assets should be treated as a single asset; a depreciation rate determined based on the average life of the group (can be a weighted average, simple average, or based on an assessment). The depreciation rate is applied to the asset costs each year. Disposals are recognized by adjusting the asset record and accumulated depreciation (with no gain or loss typically recognized except in unusual situations). Governments using this method should be able to identify the assets using other source records such as operational records. When some items within the group are retired, the cost of the items is removed from both the asset and the accumulated depreciation account and no gain or loss is recognized. Depreciation continues to be charged only for the remaining assets at the original rate. The gain or loss is deferred until the entire asset group is disposed of, at which point it would be recognized.

When depreciation charges are based on time periods, charges should be made for each month that an asset is in service. Exceptions such as the half-year convention or excluding depreciation in the first year of service are acceptable, unless this practice results in material distortions in operating income. This might occur when capital asset additions to a fund in any one year are very large. When such large additions are done, depreciation must be charged for no less than each whole month the additions are in service, because it is likely that material distortions in operating income would result from applying more approximate methods.

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3.3.10.145 **Modified approach**

The modified approach is an alternative to depreciating certain infrastructure. Governments make a commitment to maintain the infrastructure at a certain level and therefore, do not depreciate the assets. All maintenance and preservation costs are expensed, regardless of whether they extend useful life. The only costs capitalized are those related to betterments or entirely new additions that did not previously exist. Replacement of a pre-existing asset, such as a bridge, would be expensed as a preservation cost unless there was a portion of the project that was a betterment – such as the new bridge added another lane. Those using the modified approach should ensure they meet all applicable requirements for using this method.

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3.3.10.150 **Componentization of assets**

Componentization involves identifying and separately recording asset components that have different useful lives and depreciating them over their respective useful lives; rather than recording a composite asset as one asset record. For example, a building is a composite asset because it consists of many components such as a foundation, roof, heating and cooling system, and electrical system that might have different useful lives. A road could also be considered a composite asset due to the surface layer and the base/sub-base having different useful lives.

Componentization is a preferred method because it more accurately allocates depreciation over the periods benefitted than use of a composite rate. The decision to componentize assets of different types should be addressed in the government's policy and be consistently applied. It is preferable to begin componentization at the time an asset is constructed or purchased. The costs of the composite asset should be reasonably allocated to the various components.

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3.3.10.160 **Depreciation on donated assets**

Depreciation of assets acquired from contributions is calculated in the same manner as for other assets.

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3.3.10.170 **Capital asset impairment**

GASB Cod. Sec. 1400 portion on Impairment of Capital Assetsrequires the ***immediate*** recognition of decreases in the productive capacity of capital assets that are expected to remain in service, even if there is no change in the estimated useful life of the asset. It does not apply to assets reported using the modified approach.

The Statement identifies five indicators of possible impairment:

1. ***Evidence of physical damage***– such as an office building damaged in a storm;

2. *Changes in legal or environmental factors* – such as an underground storage tank that is no longer usable due to changes in environmental standards;

3. *Technological changes or obsolescence* – such as medical equipment that still can be used, but for which the demand is expected to significantly decrease with the advent of more attractive treatment options;

4. *Changes in manner or duration of use* – such as a school building being used as a warehouse;

5. *Construction stoppage* – legal or practical reasons may cause to abandon a construction project, such as a road construction that threatens the habitat of endangered species).

The presence of one of these indicators does not automatically prove that the impairment has occurred. For example, the alternative use of capital asset could have the same value as its original use. The presence of an indicator, however, does put management on notice that it needs to consider the possibility that an impairment may have occurred.

Only permanent impairments of capital assets should be recognized in the financial statements. If a government recognizes impairment because it cannot determine that the situation is only temporary, it may ***not*** recognize a subsequent recovery in value should the impairment ultimately prove to be temporary.

The following flowchart is designed to help the governments determine if there is a need to calculate and disclose the assets impairment.

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3.3.10.180 **Calculating capital asset impairment**

For permanently impaired assets, the appropriate accounting and financial reporting depends on whether the asset is expected to remain in service. For capital assets expected to remain in service, the impairment loss must be recognized according to methods prescribed in codification.

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3.3.10.190 **Reporting**

In some cases, capital asset impairment will qualify as an extraordinary item. Capital asset impairments subject to management control (e.g., change in manner or duration of use) may qualify as special items. Otherwise, capital assets impairment should be treated as an element of net program cost in the appropriate functional category.

The notes to financial statements should disclose the amount and classification of impairment losses not visible on the face of financial statements. Also, any capital assets that are idle either permanently or temporarily as a result of impairments, should be disclosed.

All insurance recoveries, including those not associated with the impairment of capital assets, should be reported net of the related loss as soon as the recovery is either realized or realizable.

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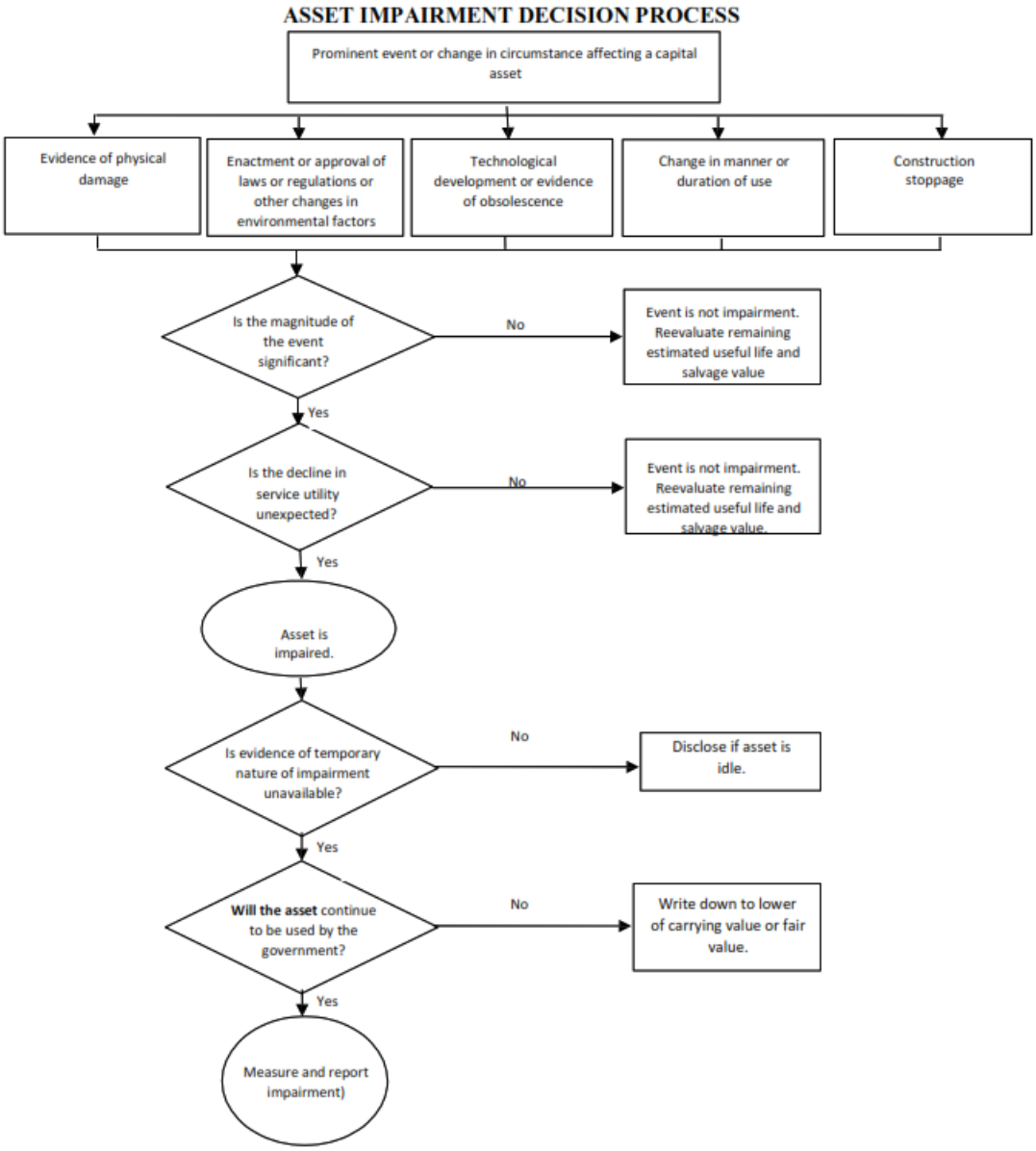

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Capital Asset Management System Requirements

3 **Accounting**

3.3 **Capital Assets**

3.3.9 **Capital Asset Management System Requirements**

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3.3.9.10 **Definition**

Capital assets are tangible or intangible assets having initial useful lives extending beyond a reporting period, including:

- Land and improvements to land, including right of ways and easements
- Buildings and building improvements

- Furniture and fixtures
- Parking lots
- Vehicles
- Machinery and equipment
- Works of art and historical treasures
- Infrastructure assets, such as roads, bridges, sidewalks, water lines, sewers, drainage systems
- Intangible assets, such as easements, water rights, timber rights, computer software, right-to-use lease assets, and right-to-use subscription-based information technology arrangements (SBITA) assets

A capital asset management system is the set of policies and procedures used to control government's capital assets. To the extent that capital assets are a significant and important component of government operations, the system should be designed to satisfy operational, compliance, safeguarding and financial reporting objectives.

3.3.9.20 **Capital asset management system objectives**

The duty to make certain that public property is adequately protected and that its use is properly managed is one of the fundamental responsibilities of public officials. For some types of local governments, statutes contain specific requirements for demonstrating stewardship of public property. For example, county commissioners are required to inventory all county capitalized assets (RCW 36.32.210). But regardless of whether statutes for a particular government identify any specific duties, public officials have several broad responsibilities with respect to capital assets:

- ***Custody*** – A capital asset system should account for assets, which means it is able to answer:
  - What property and equipment does this government own?
  - Where is it?
  - What condition is it in?
  - Is it protected from loss and unauthorized use?

- ***Insurance*** – A capital asset accounting system should provide adequate records to identify and prove any losses. Location, inventory, and maintenance records will confirm that a lost or damaged asset has been in use recently, which will support the validity and timeliness of a theft or damage report. In addition, when a government has elected to self-insure to some degree, officials should be able to evaluate the nature and extent of risk assumed, which cannot be done without knowing what assets are at risk.

- ***Maintenance*** – As a steward of public property, officials have the obligation not only to safeguard assets from loss but also to ensure they are not neglected, wasted or misused. The local government should not find itself surprised by building or equipment repair or maintenance requirements or by predictable problems with down time and availability of spare parts. A capital asset system should allow for identification of assets requiring maintenance, planning of scheduled maintenance necessary to preserve assets, and prompt identification of needed repairs. Moreover, capital asset accounting should provide a framework for capturing costs of maintenance, improvements, impairments and changes in estimated service life or capacity. The system should also provide adequate historical data to allow officials to make informed decisions about the costs of different levels of maintenance or deferred maintenance.

- ***Compliance*** - The capital asset system should allow the government to demonstrate compliance for any assets subject to purpose or use restrictions due to law, contract or grant agreement. For example, assets purchased with federal award funds must demonstrate compliance with federal property management requirements. 2 CFR §§200.310-316 gives specific requirements related to real property, equipment, supplies and intangible property purchased with federal award funds.

- ***Planning (capital budgeting and utilization)*** - – This includes planning for future asset needs, both short and long range. The capital asset system should be able to answer:
  - How well is the government using the facilities and equipment it already has?
  - What does the government already own that could be transferred to another facility instead of purchasing additional equipment?
  - Which items must be replaced, when and at what cost?
  - When will additional facilities or equipment be needed, where and at what cost?
  - Which facilities or equipment will not be needed, and what cost reductions in maintenance, insurance, and security will result from liquidating them?

The extent and nature of capital planning will vary depending on the size of government, whether

demand for its services is stable or changing, whether its functions are capital intensive (like public works and utilities) or labor intensive (like education and welfare services), and how capital outlays are funded (through rates, general taxes, special bond issues, or grants).

3.3.9.30 **Capital asset policy**

Governments should develop a capital asset policy that describes the following key elements at a minimum:

- ***Capitalization thresholds*** – This threshold defines the dollar amount at which the purchase of an asset with a useful life of one year or more will be classified as a capital asset. A government may establish a single capitalization threshold for all capital assets or different capitalization thresholds for different classes of assets. The threshold should be established at a small enough level such that the assets excluded would be clearly insignificant to financial reporting in aggregate. In establishing a threshold, governments may consider the types and groups of capital assets they own and management information needs. Local governments that are recipients of federal awards should ensure capital asset thresholds will allow the government to meet federal requirements in the 2 CFR §200.313 related to tracking assets purchased with federal funds. ***Note the April 22, 2024 revisions to the Uniform Guidance increased in the capitalization threshold from $5,000 to $10,000. The revisions to the administrative requirements and cost principles are effective to*** **new federal awards executed by a federal agency*** ***on or after October 1, 2024.***

- ***Asset Replacement*** – Policies should provide sufficient direction on when assets should be replaced. Replacement may be based on a set schedule, based on specified conditions, or delegated to specified staff positions or groups to determine or recommend on an asset-by-asset basis. Replacement policies often differ by asset type and should be established to align with and support the governments capital budgeting and planning process.

- ***Estimated Useful Lives*** – It is important that governments establish reasonable estimates of the useful lives of capital assets for depreciation purposes. When setting useful lives, governments should consider its own past experiences with similar assets in addition to industry norms if the government needs a starting estimate (has no experience of its own). Industry lives may need to be adjusted due to differences in the quality, location/environment, application (intended use of the asset, volume of usage), and maintenance practices.

- ***Capitalizing components of larger Assets (componentization)***– Some assets are made of multiple components with different useful lives. For example, a building is comprised not only of the structure, but may also include furnishings, a roof and HVAC system that each have an estimated useful life less than the structure. Governments may elect to capitalize all components as a single asset, or to “componentize” the building into several related assets. The decision to componentize or not should be based on the government’s approach to capital budgeting and planning. This policy will affect whether future work should be capitalized or expensed as maintenance, as well as judgments related to impairments, improvements and the asset’s useful life. The government’s approach should be described in policy and be clearly evident in individual capital asset records to ensure consistent application.

- ***Depreciation methods*** – A government should describe the depreciation method to be used. The selected method of depreciation should remain consistent from year to year. Any change in the depreciation method adopted would result in a change in accounting principle and should be disclosed within the notes to the financial statements. See *Capital Asset Accounting* for detailed guidelines.

- ***Inventory requirements*** – Policies should require inventories at reasonable intervals. Inventory policies should conform to any statutory or regulatory requirements, such as the requirement for counties to inventory all capital assets per RCW 36.32.210 or the federal requirement for assets purchased with federal award funds to be inventoried at least once every two years per the 2 CFR §200.313. At a minimum, policy should define maximum inventory periods, assign overall responsibility for conducting the inventory, and specify any specific reporting on results expected by the governing body. RCW 36.32.210 stipulates that each board of county commissioners must file with the auditor of the county a full and complete inventory of all capitalized assets.

- ***Disposition Procedures*** – To the extent procedures are not defined by statute (such as Chapter 39.33 RCW for intergovernmental disposition of property, or property sales for ports in Chapter 53.08 RCW, etc.), policies should define authority and authorized procedures for determining assets require replacement or are otherwise surplus, and their subsequent disposition.

- **Other accounting procedures**, as needed, such as procedures for accumulating costs for self-constructed assets.

Once a policy is adopted, it should be periodically reviewed and updated to ensure it meets the needs of the local government.

3.3.9.40 **Capital asset records**

Capital asset records should enable the government to meet statutory requirements, to produce adequate reports, and to safeguard assets properly. The basis of a capital asset accounting system is the individual capital asset record. The following minimum information is required for each capital asset:

- Category of asset,
- General ledger fund and asset account the asset is recorded in,
- Individual or department assigned custody of the asset,
- Acquisition information, including references to source documents and acquisition dates,
- Source of payment, such as grant, fund, etc.,
- Historical cost,
- Name and description of asset that is sufficient to specifically define and identify the asset, including any identifying numbers or legal descriptions where applicable,
- Estimated useful life,
- Disposition information, including the date and method (such as destruction, scrap, sale, etc.) and any costs or proceeds.

Note: These components are expected to be included in the inventory for counties prepared in accordance with RCW 36.32.210.

Other information that is not mandatory, but desirable, includes:

- Brief directions on where/how to locate the asset,
- Special insurance, maintenance, and repair instructions,
- Physical inspection dates or condition of asset when it was inspected.

Specific information captured may vary by type of asset. For example, the government may find it necessary to capture certain information about roads or bridges that is different than information needed for equipment. Moreover, information necessary to identify the asset will be different based on the asset type.

In addition to information necessary to describe the current state of the asset, the system should also allow for capture of sufficient information on changes to records that may occur over the life of the asset, such as changes in custody, estimated useful life, improvements, impairments, etc., since it may be difficult or impossible to reconstruct these changes at a later date.

3.3.9.50 **System coordination**

Since capital asset information is used for a variety of objectives, a challenge facing local governments is coordinating record-keeping that may be maintained or used by different departments or personnel. When multiple departments within a local government have their own system or listing of assets, these lists should be regularly compared and reconciled to ensure information is shared between the departments as the sources and intended use of the information may differ. When multiple departments are using the same system, common definitions should be used. In any case, coordination between departments and users is essential for a comprehensive and effective capital asset management system.

For example, public works departments generally have information about the location, condition, and replacement schedule of infrastructure assets, such as roads, bridges, water, and wastewater systems. Since the department is responsible for managing the maintenance and repair, they may have insight into any changes related to useful lives that may be needed. Generally, this is also the department most involved in construction of new assets.

In addition, outside agencies, such as the Department of Ecology and the County Road Administration Board, require information about various infrastructure assets, so the public works department maintains a listing of the associated assets, and condition, for regulatory reporting purposes. This information retained by public works could be useful for financial reporting purposes. Therefore, it is recommended that finance and public works work together closely to ensure all information about capital assets is accurate and compiled within the capital asset management system.

Controls Over Capital Assets

3 **Accounting**

3.3 **Capital Assets**

3.3.11 **Controls Over Capital Assets**

3.3.11.10 Controls over capital assets should be sufficient to provide reasonable assurance that capital asset system objectives are demonstrated. Controls over capital assets should include:

- Transaction controls over capital asset records, including asset additions, deletions and changes in custody,
- Reconciliations between capital asset records,
- Periodic inventories,
- Reviews of impairment
- Periodic re-evaluation of useful lives

See BARS Manual 3.1.3 *Internal Control* for general guidance on internal controls.

3.3.11.20 **Transaction controls**

Each time the local government acquires or disposes of a capital asset, transfers an asset between locations, charges depreciation expense or makes an adjustment, an entry must be made on to the capital asset records. Internal controls must be established to ensure that these transactions are properly and promptly recorded; specifically:

1. Staff responsible for processing disbursements or managing capital projects should be familiar with and trained to recognize and properly code capital outlays and to understand the government's capitalization policy.

2. For additions, procedures must be implemented to assure that the accounting department receives information, such as a copy of the receiving report or the invoice. They should also receive a copy of all lease agreements and subscription-based information technology arrangements (SBITAs), progress billings on construction contracts, and worksheets that itemize the costs of assets constructed in-house.

3. For deletions, procedures must be implemented to ensure that the accounting department automatically receives information, such as all resolutions/ordinances that declare property surplus, all property insurance claims, and itemized invoices for acquisitions that involve trade-ins. For infrastructure assets, deletions may occur by abandoning or replacing an asset. Procedures should be implemented to ensure these instances are reported to the accounting department as well. Oversights are difficult to avoid entirely, but they will be detected and corrected when physical inventories are taken.

4. For transfers of assets between locations, funds, or individuals, procedures should be established to communicate these transfers, with both transferor and transferee notified of the custody change.

3.3.11.30 **Reconciliation controls**

To the extent the government maintains separate capital asset lists for different purposes, these lists should be regularly compared and reconciled. In addition, related accounting records and external reporting should also be regularly compared and reconciled, as applicable. Common reconciliations include:

a. Reconcile capital asset subsidiary records to general ledger asset accounts;
b. Reconcile accounting records and operational records maintained for certain infrastructure or other assets (such as vehicle fleet maintenance records or computer equipment records);
c. Reconcile accounting records for land to county land records or for certain infrastructure assets to reports provided to oversight agencies;
d. Reconcile accounting records and asset listing for insurance purposes;
e. Reconcile proceeds from insurance claims and sales or auction lists, claims reports, etc., to report listing capital asset disposals;
f. Reconcile capital outlay expenditures (BARS 594 and 595) to total additions of capital assets; including evaluation for lease, SBITA, or PPP assets;
g. Reconcile significant capital projects or capital grants shown with increases to the capital asset accounts;
h. Reconcile capital assets transferred to other locations, custody or funds with capital assets transferred from other locations, custody or funds;

i. Reconcile physical inventory to capital asset records (see *Physical Inventory* guidelines below).

Any discrepancies identified should be followed up and resolved on timely.

3.3.11.40 **Physical inventory**

A periodic physical inventory of the capital assets is necessary to verify that the assets still exist, confirm the location and other information of assets and provide updates on the condition of the assets. This information demonstrates that the local government is exercising its custodial responsibility for the asset and is beneficial when establishing an insurance claim because it substantiates both the existence and the condition of the asset near the time of loss or damage.

All governments should have a work plan to perform a physical inventory to verify the existence and condition of capital assets. The complexity of the work plan will depend on the government's size, the sophistication of the capital asset accounting system and the significance and types of the government's assets. Whatever approach is used; the government should develop a documented work plan with the following elements at a minimum:

1. Assignments

Overall responsibility for the work plan should be assigned to one or more staff. In turn, responsibility for work plan procedures should be assigned. Assignments should consider:

a. Ability. Staff assigned to perform inventory procedures should be sufficiently trained, knowledgeable and/or have the expertise to be able to identify and locate the asset and perform procedures to assess it. For example: identifying possible impairments may require special training in accounting criteria; reviewing infrastructure asset records may require operational knowledge of how assets are used and system changes during the year; and assessing the condition of a building and its useful life may require special expertise.

b. Segregation of duties: For assets with an identified risk of misappropriation, misuse or loss, inventory procedures should be assigned to someone other than the person with custody over the asset. However, for asset types such as infrastructure or land, it is often more effective to have those with custody over those assets perform procedures, as they are often due to the need for expertise.

c. Supervision. Supervision may be used to supplement the ability of staff assigned or provide for segregation of duties. The work plan may call for direct supervision, spot checking, or just being present and available during the inventory procedures. Further, the need for supervision may vary by location and asset type. An appropriate level of supervision provides a general control if employees are aware their work will be checked. For example, accounting personnel may supervise department employees in performing the inventory to ensure sufficient consideration of accounting criteria and records in combination with the department's knowledge and expertise on the assets, or vice versa.

2. Timing

An inventory schedule should be implemented to minimize administrative burden while also considering risks associated with maintaining assets. The schedule may consist of a single inventory of all assets or establish separate inventories for different locations or asset types. Inventories may be continuous, monthly, annually, on a multi-year basis or performed in sections over a multi-year cycle. Other asset types may need to be evaluated at year end as part of the financial reporting process, like construction in progress. For example, physical inventories of certain asset types may be scheduled to be concurrent with operational work, such as condition assessments for roads and bridges, or regular maintenance on equipment and vehicles.

3. Instructions

Sufficient instructions and forms should be provided to ensure procedures can be properly carried out, documented, and results communicated for resolution.

Procedures and documentation should include identification of:

- Assets that are missing,
- Assets with evidence of misuse,
- Assets that exist but are not included on the inventory list,
- Assets that are not properly marked, tagged or secured,
- Changes in location or custody,
- Incorrect descriptions or other information about the asset,
- Need for repairs or maintenance,
- Damage, obsolescence or other potential impairments,

- Changes in the estimated useful life or scrap value.

4. Resolution of variances

Once the physical inventories are complete, any variances or adjustments to records should be evaluated and resolved including:

- Updating accounting records,
- Investigation of potentially missing, misused, previously unidentified or unsecured assets,
- Re-evaluation of capital asset groupings, componentization or other capital asset policies,
- Updating capital budgets or plans.

3.3.11.50 **Small and Attractive Assets**

These are assets that are below the government's capitalization threshold for financial statement reporting purposes, but may be susceptible to theft or misuse. Each government should perform an assessment to identify those assets that do not meet the definition of a capital asset, but are particularly at risk or that otherwise need to be tracked for operational purposes. For example:

- Assets that are easily misappropriated or misused, such as laptops or high-value tools;
- Assets that may expose the government to liability if lost, such as firearms or computers with confidential or sensitive data;
- Assets that require tracking for assignment, cost control or re-order purposes.
- Assets that are easily replaced through the procurement process without arising suspicion

Governments should implement specific measures to track and control small and attractive assets to minimize identified risks, as appropriate for the nature of the assets, value of the assets and risks. Since small and attractive assets need only be tracked for operational objectives, controls may not need to be as extensive as those for capital assets. Controls may range from basic measures such as policies, tagging, assigned custody, restricted access or other physical controls – to limited systems such as check-out systems or reserve inventories (where only items not in use are tracked) – to comprehensive tracking and inventory controls resembling those for capital assets as discussed above. Governments should also consider the cost/benefit of tracking certain types of assets and the resources it has available when establishing control measures, as compared to the risks involved.

Liabilities
Arbitrage Rebates

3 **Accounting**

3.4 **Liabilities**

3.4.6 **Arbitrage Rebates**

Overview

3.4.6.10 Any local government may engage in arbitrage by borrowing funds at one interest rate and investing those same funds at a higher rate. The primary reason for arbitrage is that the rates of interest paid on tax exempt debt normally are lower than those paid on taxable securities and it is possible for local governments to profit from this disparity in interest by temporarily reinvesting the proceeds of lower interest tax exempt borrowings in higher yielding taxable securities. The proceeds from those transactions are called *arbitrage earnings*.

3.4.6.20 When governments reinvest tax-exempt proceeds at a higher, taxable yield, the*excess* earnings must be remitted to the federal government as arbitrage rebate. There are some important exceptions to this general rule. These special situations are known as *safe harbors* (e.g., small issuer safe harbor, six-month expenditure safe harbor, eighteen-month expenditure safe harbor, twenty-four month expenditure safe harbor).

3.4.6.30 If a government fails to qualify for one of the safe harbors, it must calculate and rebate arbitrage earnings to the federal government. The tax code requires that arbitrage amounts be calculated and remitted every five years and upon maturity of the debt. For accounting and reporting, the calculation should be performed annually to determine whether a liability needs to be reported on the financial statements and on the Schedule of Liabilities (Schedule 09).

Financial accounting and reporting for arbitrage

3.4.6.40 Arbitrage rebates are treated in the same way as any other claims or judgments and are not recognized in the governmental fund financial statements as a liability and expenditure until the rebatable amounts are actually due. **[1]** For full accrual financial statements, the government wide and proprietary fund statements, report the liability and recognize the expenditure for the calculated arbitrage rebate amounts.

3.4.6.50 Annually the arbitrage rebate liability should be recalculated. When calculating the amount of the liability, the *excess* earnings of one year may be offset totally or in part by lesser earnings in a subsequent year. Therefore, the ending liability reported should be the estimated future payment to the federal government. Each year the liability total should be reported on the government-wide statement of net position and proprietary fund statement of net position. The liability should also be reported on Schedule 09 with an appropriate increase or decrease reflecting the calculated change of the arbitrage rebate. The liability should be fully reduced in the year it is paid.

3.4.6.60 The rebatable arbitrage is treated as a tax payment to the federal government, since the earning of interest revenue and the incurrence of a tax liability are considered two separate transactions.

Recording transactions in a governmental fund, following the modified accrual basis of accounting:

When the arbitrage rebate is determined to be payable (every five years or upon maturity of the debt), the governmental funds would recognize a liability and expenditure in the appropriate governmental fund.

592PP80		Expenditures – Arbitrage Rebate Tax	$900	
	231.20	Arbitrage Rebate Tax Payable		$900

(To record the accrued arbitrage rebate expenditure.)

When the arbitrage rebate is paid, the governmental funds would recognize a liquidation of the liability and outflow of cash in the appropriate governmental fund.

231.20		Arbitrage Rebate Tax Payable	$900	
	111.10	Cash		$900

(To record the payment of accrued arbitrage rebate expenditure to the federal government.)

3.4.6.70 In the full accrual basis of accounting, the rebatable arbitrage is reported as a long-term liability on the government-wide and proprietary statements of net position until due and payable to the federal government. When the payable is due within one year, the liability would be considered a current liability.

592PP80		Expense – Arbitrage Rebate Tax	$1,000	
	263.72	Non-current Arbitrage Rebate Tax Payable		$1,000

(To record the current period accrued arbitrage rebate expense and add to liability)

Note: in a year where the arbitrage rebate tax liability is less than previously reported due to accumulative lower excess earnings as discussed in 3.4.6.50 the entry would be as follows:

263.72		Non-current Arbitrage Rebate Tax Payable	$100	
	592PP80	Expense – Arbitrage Rebate Tax		$100

(To record the current period arbitrage rebate liability reduction)

263.72		Non-current Arbitrage Rebate Tax Payable	$900	
	111.10	Cash		$900

(To record the payment of 5-years of accrued arbitrage rebate expense to the federal government.)

Footnotes

[1] Under the modified accrual basis of accounting, claims and judgments are recognized as liabilities in governmental funds only when they become due for payment (GASB Cod. Sec. 1600, “Basis of Accounting”).
Back to Reference 1

Asset Retirement Obligations (AROs)

3 **Accounting**

3.4 **Liabilities**

3.4.19 **Asset Retirement Obligations (AROs)**

3.4.19.10 **Introduction**

An asset retirement obligation is a *legally enforceable* liability associated with the retirement of a tangible capital asset.

- *Legally enforceable* refers to some legal requirement by a third party such as due to federal, state, or local laws or regulations; a legally binding contract with a third party, or issuance of a court judgement. Due to these legally enforceable liabilities, other parties could compel the government to fulfill an asset retirement obligation, leaving the government with little or no discretion to avoid the obligation.

An asset retirement obligation also must arise from *normal operations* of tangible capital assets associated with any one of the following:

- Retirement of a tangible asset (retirement encompasses its sale, abandonment, recycling or disposal in some other manner)
- Disposal of a replaced part that is a component of a tangible asset
- Environmental remediation associated with the retirement of a tangible asset that results from normal operation. For example, if you have an underground fuel tank that leaks a very small amount as part of its normal operation – then any environmental remediation resulting from this leakage would be included in an asset retirement obligation, assuming other criteria are met. However, if leakage was more than what occurs in normal operation, then this would not be an asset retirement obligation, but would fall under GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*; also see BARS Manual 3.4.20, *Pollution Remediation*.

GASB Statement 83 describes the criteria for asset retirement obligations, gives some general examples, but does not describe all tangible assets that might qualify. This is a determination that must be made by the implementing government, based on research and evaluation.

3.4.19.20 **Criteria for ARO determination**

A government should recognize a liability (for the asset retirement obligation) when it is incurred and reasonably estimatable.

Incurred

An ARO is incurred when there is a legally enforceable obligation (see discussion above) for the retirement of a tangible capital asset, and when the tangible capital asset meets any one of the following:

a) Placed into operation (if you do not incur the liability based on the use of the tangible capital asset). For example, the act of installing a water well that will later have to be properly decommissioned at the end of its life. Regardless of how much you use the well, you will have to do the decommissioning activities the same regardless.

b) Placed into operation and the usable capacity has begun to be used (if the pattern of incurrence of the liability is based on use of the tangible capital asset). For example, a gravel mining operation where excavation has begun and therefore land reclamation will have to be done at the end of the useful life.

c) Contamination is occurring as a result of normal operation (such as nuclear power plant or other radioactive machinery that has been turned on and contaminated certain parts that will later require special disposal).

d) Acquisition of a tangible capital asset that has an existing ARO (such as the purchase of a used MRI machine that has an existing ARO).

e) The tangible capital asset is abandoned before it is placed in operation (we would expect this to be rare, but historically has happened in the electric industry where power plants were partially completed but due to falling demand and cost overruns, they were abandoned before completion)

Estimatable

An ARO must also be reasonable estimatable to be recognized. There might be uncertainty in estimating the ARO, and this would be addressed by weighting the probability of various

outcomes (when sufficient evidence is available or can be obtained at a reasonable cost). Uncertainty, by itself does not preclude recognition.

The ability to estimate might be affected by whether you can reasonably estimate the period over which to amortize the deferred outflow (i.e. useful life of the tangible capital asset). If the assertion is that the asset will be maintained in perpetuity and end of life cannot be reasonably estimated, then this assertion must be supported by adequate evidence.

If you do not recognize an ARO because it is not reasonable estimatable, those reasons must be disclosed in the notes to the financial statements in conjunction with disclosure about the ARO. Support must be retained for any assertion by management that an ARO is not estimatable.

3.4.19.30 **Calculating the ARO amount**

The ARO is the estimated current cost of what it would take to meet the legal obligation – taking in all available evidence that can be obtained at a reasonable cost. The current cost should include all legally required outlays to be incurred, as if this obligation were to be taken care of at the end of the reporting period. It might require probability weighting of the various outcomes, or if this cannot be done at a reasonable cost, then the most likely amount in a range of potential outcomes should be used.

This estimate must be revisited at least annually, to adjust the ARO for inflation or deflation and to evaluate whether there has been a significant change in the estimated outlays associated with the ARO.

If you are minority owner in a tangible asset with an associated ARO, see paragraph 17 in GASB Statement 83 for further guidance.

3.4.19.40 **Amortization of the deferred outflow**

The deferred outflow will be amortized to expense in a systematic and rational manner over the entire estimated useful life of the tangible capital asset. If a deferred outflow is recognized after an asset has been placed into operation, the amortization would begin when the deferred outflow is recognized and occur over the remaining useful life of the tangible capital asset.

Compensated Absences

3 **Accounting**

3.4 **Liabilities**

3.4.23 **Compensated Absences**

3.4.23.10 Compensated Absences are defined as leave for which employees may receive cash payments when the leave is used for time off, other cash payments like unused leave paid upon termination of employment and non-cash settlements like conversion to defined benefit post-employment benefits.

Termination of employment refers to the end of an employee's active service no matter the reason. This category would include estimated leave paid at separation, retirement, or death.

3.4.23.20 There are two types of leave that are included in the liability calculation:

- Leave that has not been used
- Leave that has been used, but not paid
- *Note:* GASB Codification C60.119 only requires that a liability is recorded, governments may choose to record in Salaries and Wages Accrued or Compensated Absences.

3.4.23.30 Leave that has not been used should be included in the liability calculation if the following criteria is met:

- The leave is attributable to services already rendered (the employee earned the hours over the course of employment)
- The leave accumulates (carries over from one fiscal year to another)

- There is a greater than 50 percent likelihood that the leave will be used for time off or otherwise paid in cash or settled through noncash means.

3.4.23.35 To determine if leave is more likely than not to be paid governments should review their compensated absence policy and historical information on leave usage.

3.4.23.40 Additionally, governments should verify if they have specific criteria for paying unused leave balances for specific events at the end of employment (for example: the government only pays at retirement or there are additional benefits due to death in the line of duty, etc.). When this scenario has been identified then the government would only calculate the unused balance based on the likelihood of that payment.

3.4.23.50 Leave that is dependent upon occurrence of a sporadic event that affects a relatively small proportion of employees should not be estimated or recognized until that leave commences, including any scheduled leave that carries over the fiscal year-end. Some examples would be:

- Military leave
- Bereavement leave
- Jury duty
- Parental leave

3.4.23.60 Unlimited leave policies would not result in any compensated absence liability, other than for leave used but not yet paid.

3.4.23.70 Governments should calculate each leave type separately (sick, vacation, PTO, etc.) and may further separate leave types based on other factors such as employee type, length of employment, bargaining agreements, scaled payout agreements, etc. These groupings must be maintained throughout the calculation of the compensated absence liability and should be applied consistently over reporting years.

3.4.23.80 The calculated compensated absence liability should include any salary-related payments related to the leave balances included in the calculation. Salary related payments are additional costs incurred by the employer that are directly and incrementally associated with the payment. Directly associated is defined as amounts of the payment that depend on the amount of salary being paid. Incrementally associated with is defined as payments that the government will make in addition to the payment of the salary. Examples of salary related payments include:

- Payroll taxes
- Health savings accounts (HSAs), flexible spending accounts (FSAs), etc.
- Nonsponsored defined contribution retirement plans

3.4.23.90 Department of Retirement Systems plan contributions would not be included in salary related payments.

3.4.23.100 Components of the Calculation of the Compensated Absence Liability -

3.4.23.110 Leave that has been used, but not paid should be calculated at exact hours taken and the pay rate in which those hours will be settled plus any salary related payments.

3.4.23.120 Leave that has not been used should be calculated based on the government's compensated absence policy. Note: This calculation should not exceed the year-end accrued leave balances.

3.4.23.130 Common leave policies - *examples*

3.4.23.131 If the government's compensated absence policy is to payout 100% of leave balances.

1. Take the accrued leave balance and calculate the liability amount using the pay rate at fiscal year-end including salary related payments.

3.4.23.132 If the government's compensated absence policy is to not payout any leave balances at termination of employment.

1. Estimate the leave usage that will be used in a future period by the employee or group of employees.

2. Verify that the estimated usage is not over the accrued leave balance.

3. Using the hours calculated in Step 1, calculate the liability amount using the pay rate at fiscal year-end including salary related payments.

3.4.23.133 If the government's compensated absence policy includes payment due to termination of employment at current pay rate and less than 100% of the accrued hours.

1. Estimate the leave usage that will be used in a future period by the employee or group of employees.

2. Subtract the estimated calculated hours in Step 1 from the accrued leave balance.*Note: If the estimate usage is equal to or greater than the accrued leave balance then only use the accrued leave balance and skip to Step 4.*

3. Use the remaining balance in Step 2 to calculate the termination amount per policy. Include any reductions in hours in this calculation (for example, policy states that 25% of the leave balance is paid).

4. Using the hours calculated in Step 1 and Step 3, calculate the liability amount using the pay rate at fiscal year-end including salary related payments.

5. Add the amounts calculated in Step 4 together.

3.4.23.134 If the government's compensated absence policy includes payout of 100% of the hours at termination of employment, but at a different pay rate.

1. Estimate the leave usage that will be used in a future period by the employee or group of employees.

2. Subtract the estimated calculated hours in Step 1 from the accrued leave balance.*Note: If the estimate usage is equal to or greater than the accrued leave balance then only use the accrued leave balance and skip to Step 4.*

3. Use the remaining balance in Step 2 to calculate the termination hours per policy.

4. Using the hours calculated in Step 1 and Step 3 calculate the liability amount using the pay rate that the hours will be settled at, including salary related payments:

   a. Termination pay: policy states that the balance will be paid at 25% of the current pay rate for termination,
   b. Usage pay: the current pay rate for leave expected to be used in a future period.

5. Add the amounts calculated in Step 4 together.

3.4.23.135 If the government's compensated absence policy includes payment due to termination of employment paid at current pay rate with a cap of hours paid.

1. Estimate the leave usage that will be used in a future period by the employee or group of employees.

2. Subtract the estimated calculated hours in Step 1 from the accrued leave balance. *Note: If the estimate usage is equal to or greater than the accrued leave balance then only use the accrued leave balance and skip to Step 5.*

3. Use the remaining balance in Step 2 to calculate the termination amount per policy.

4. Review the termination amount and any amount over the cap should be adjusted to the cap.

5. Using the hours calculated in Step 1 and Step 3, with any adjustment from Step 4, calculate the liability amount using the pay rate at fiscal year-end including salary related payments.

6. Add the amounts calculated in Step 5 together.

3.4.23.140 These calculations must be done for each leave type. The amounts calculated should be added together and reported on the Schedule of Liabilities (Schedule 09) under liability code 259.12 and disclosed at Note X – Changes in Long-Term Liabilities.

Financial Guarantees and Conduit Debt

3 **Accounting**

3.4 **Liabilities**

3.4.12 **Financial Guarantees and Conduit Debt**

Financial guarantees

3.4.12.10 A non-exchange financial guarantee is a guarantee of an obligation of a legally separate entity or individual, including a blended or discretely presented component unit, which requires the guarantor to indemnify a third-party obligation holder under specified conditions.

Example: A city (the guarantor) guarantees to pay the debt of a public facilities district in the event the district is unable to make payment.

3.4.12.20 Merely extending a guarantee does not create a financial statement liability for the guarantor. However, when it becomes ***more likely than not*** (a likelihood of more than 50 percent) that the guarantor will be required to make payment, a liability should be recorded.

3.4.12.30 When is it *more likely than not*? This is an assessment based on professional judgment. The government extending the guarantee should consider qualitative factors such as:

- The government that issued the debt has entered into bankruptcy or financial reorganization.
- The government that issued the debt is in violation of related debt covenants such as failure to meet rate covenants, failure to meet coverage ratios, or default or delinquency in interest or principal payments.
- The government that issued the debt has indicators of financial difficulty, such as failure to make payments on a timely basis, drawing on a reserve fund to make debt service payments, initiation of a process to intercept receipts to make debt service payments, debt holder concessions, significant investment losses, loss of a major revenue source, significant increase in noncapital disbursements in relation to operations or current revenues, or commencement of financial supervision by another government, etc.

3.4.12.40 Note: a pledge of future revenues is not considered a non-exchange financial guarantee.

Guarantor accounting

3.4.12.50 When it becomes *more likely than not* that the guarantor will be required to make a payment, the guarantor should recognize a liability (CR) and expense (DR) in its full-accrual financial statements. The amount recognized should be the discounted present value of the best estimate of the future outflows expected to be incurred as a result of the guarantee. The expense should be classified as a grant or financial assistance to the other entity.

3.4.12.60 In modified-accrual financial statements, the guarantor should recognize the amount currently due and payable. The expense should be classified as a grant or financial assistance to the other entity. The guarantor should not record a receivable for any expected recoveries from the other entity because the likelihood of realization is so uncertain. Recoveries should only be recognized when realized.

Original issuer accounting

3.4.12.70 The government that issued the debt continues to recognize the obligation in its financial statements until it is legally released from the debt.

If the government that issued the debt is required to repay the guarantor for any payments it made on its behalf, the government should reclassify that portion of the original obligation as a payable to the guarantor.

If the government that issued the debt is legally released from the obligation or from any liability to repay the guarantor it should recognize revenue to the extent of the reduction of the liabilities.

Blended component units

3.4.12.80 In order to address the “doubling-up” of liabilities in the financial statements where this situation occurs between a primary government and a blended component unit, the government that issued the debt should recognize in its financial statements a receivable equal to the amount of the liability recognized by the guarantor. The receivable and payable are eliminated at the

government-wide level.

Note disclosures

3.4.12.90 For requirements see Note X, *Financial Guarantees*.

3.4.12.100 For a detailed discussion of the financial guarantees see GASB Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*.

Conduit debt

3.4.12.120 Conduit debt is a debt obligation that bears the government's name but for which the government issuer assumes no responsibility for payment. Instead the debt proceeds go to a third party who is obligated to make all payments related to the debt. The government issuer and third party cannot be within the same reporting entity. These instruments are issued to help support a third party governmental or nongovernmental entity that pledges to repay the debt.

3.4.12.130 All conduit debt obligations involve the issuer making a limited commitment. Some issuers extend additional commitments or voluntary commitments to support debt service in the event the third party is, or will be, unable to do so.

3.4.12.140 Since the government does not have any obligation for conduit debt, an issuer should not recognize a conduit debt obligation as a liability. However, an issuer should recognize a liability associated with an additional commitment or a voluntary commitment if it is *more likely than not* (a likelihood of more than 50 percent) the government will make debt service payment.

There may be instances in which an issuer's additional commitment for each individual conduit debt obligation does not meet the recognition criteria, but when all such commitments are considered in the aggregate, it becomes more likely than not that some additional commitment will be honored. In those situations, the issuer may need to consider the disclosure requirements in paragraph 107 of Statement 62, as amended, when no liability is recognized for a loss contingency.

3.4.12.150 In full-accrual statements, the issuer should recognize a liability (CR) and expense (DR) for the discounted present value of the best estimate of the future outflows expected to be incurred. In modified-accrual financial statements, the government issuer should recognize the amount currently due and payable.

3.4.12.160 If the government recognizes a liability in the financial statements, this also must be reported on the Schedule 09 (Schedule of Liabilities) using the Miscellaneous Liability code 263.99.

3.4.12.170 The issuer should not record a receivable for any expected recoveries from the third party obligor because the likelihood of realization is so uncertain. Recoveries should only be recognized when realized.

Arrangements associated with conduit debt

3.4.12.180 Government issuers may enter into arrangements (often called leases) associated with their conduit debt obligations. There is additional guidance below for arrangements that have all of the following characteristics:

- The conduit debt is to finance construction or acquisition of a capital asset
- The government issuer has title of the asset at the beginning of the arrangements
- The payments from the third party obligor are to cover the debt service payments
- The payment schedule of this arrangement coincides with the debt service payment schedule

3.4.12.190 If the issuer relinquishes the title to the capital asset at the end of the arrangement, the issuer should *not* recognize a liability for the conduit debt, the capital asset, or a receivable for the related payments.

3.4.12.200 If the issuer retains the title to the capital asset and the third party obligor has exclusive use of the **entire** capital asset during the arrangement, the issuer should*not* recognize a liability, the capital asset, or a receivable for the related payments at the beginning of the arrangement. At the end of the arrangement the issuer should recognize the capital asset (DR) at acquisition value and a capital contribution (CR) in the full-accrual financial statements.

3.4.12.210 If the issuer retains the title to the capital asset and the third party obligor has exclusive use of a **portion** of the capital asset during the arrangement, the issuer should*not* recognize a liability or a receivable for the related payments at the beginning of the arrangement.

In the full-accrual financial statements, the issuer should recognize the *entire* capital asset (DR) and deferred inflow of resources (CR). The deferred inflow should be reduced (DR) and capital contribution (CR) in a systematic and rational manner over the term of the arrangement.

Note disclosures

3.4.12.220 For requirements see Note X – *Long-Term Debt*.

3.4.12.230 For a detailed discussion of conduit debt see GASB Statement 91, *Conduit Debt Obligations*

Intergovernmental and Forgivable Loans

3 **Accounting**

3.4 **Liabilities**

3.4.7 **Intergovernmental and Forgivable Loans**

3.4.7.1 **Intergovernmental loans**

In general, any loans to other governments will be scrutinized for permanent diversion. However, loans to other governments may occur in lieu of a transfer or contribution when activity is related to a public or proprietary purpose of the government. For example, since provision of affordable housing is a public purpose of a city, a city could lend money to a housing authority in support of an affordable housing project within the city's boundaries. Alternatively, the city could lend money to the authority on favorable terms, or with a partial or full forgiveness clause.

RCW 39.59.040 allows for investment in publicly issued bonds or in certain registered warrants with monies available for investment. However, a direct loan or investment with the intent to donate will be scrutinized for a permanent diversion of funds.

Lender Accounting for Intergovernmental Loans

Loan issued:

Intergovernmental Loans Receivable	$100,000	
Cash		$100,000

Loan repaid:

Cash	$102,000	
Intergovernmental Loans Receivable		$100,000
Interest Revenue		$2,000

Recipient Accounting for Intergovernmental Loans

Loan issued:

Cash	$100,000	
Intergovernmental Loan Payable		$100,000

Loan repaid:

Intergovernmental Loans Payable	$100,000	
Interest Expense	$2,000	
Cash		$102,000

This should also be reported as a liability on the recipient's Schedule of Liabilities (Schedule 09).

3.4.7.2 **Intergovernmental loans as a fiscal agent**

Lending of funds between a primary government and the fiduciary funds is considered an intergovernmental loan.

If a government acts as a fiscal agent for another government or organization, then allowing a negative fund balance is effectively lending to that other organization. Additionally, registered interest-bearing warrants issued described in 3.8.6.30 Use of Payroll and Claims Funds are considered intergovernmental loans.

The governing body of the primary government may authorize a policy for handling negative fund balances administratively that provides for appropriate terms and interest in its role as fiscal agent.

However, if negative fund balances are significant or persist beyond 60 days in substance, then procedures described in 3.4.7.1 Intergovernmental Loans above should be followed.

3.4.7.3 **Forgivable loans**

A loan with a forgiveness clause is a contract that contains provisions for the loan to be forgiven if certain criteria is met. For example, a lender may provide a loan to a government to construct a building and allow for forgiveness of the loan if the building is used for low-income housing for 40 years. Most loans with forgiveness clauses do not require any payments for a specified time, but some can require regular payments or interest-only payments. Transactions should be reported as loans if a note payable or loan contract is outstanding, even if the lender does not require payments and the loan includes a forgiveness clause that the government expects to eventually meet. Assets reported from loans with forgiveness clauses must be reported with a corresponding liability (loan payable) while the note payable or a loan contract is outstanding. Terms of these transactions need to be presented in the notes to the financial statements. The disclosures should include the assets acquired with the resources, conditions to be met for the transaction to become a grant, what circumstances require repayment, and the amount to be repaid (e.g., interest, appreciated value, etc.). When a government has satisfied the criteria for the loan to be forgiven, grant revenue can be recognized and the liability removed.

A recoverable grant is a contract where the grantor can require repayment if the government fails to fulfill the requirements. Some recoverable grant contracts also require return of the appreciation in value of the asset as well as the original funding amount. Recoverable grants are non-exchange transactions and should be reported as revenue when the eligibility requirements are met. If the government has received a recoverable grant, the conditions for recoverability must be disclosed in the notes to the financial statements. The items requiring disclosure include: the asset the grantor has an interest in, the amount the grantor can require to be returned, and the conditions that trigger return of the grantor interest. There are occasions where a recoverable grant may have a promissory note included. In this case, the recoverable grant should be treated as a loan with a forgiveness clause.

Lender Accounting for Forgivable Loans

Loan issued:

Loans Receivable	$100,000	
Cash		$100,000

Loan forgiven:

Expense	$100,000	
Loans Receivable		$100,000

Recipient Accounting for Forgivable Loans

Loan issued:

Cash	$100,000	
Loans Payable		$100,000

Loan forgiven:

Loans Payable	$100,000	
Grant Proceeds		$100,000

3.4.7.4 **Revolving Loans**

Some federal agencies award local governments funding to be used for a revolving loan program (such as HUD). In a revolving loan program, the local government receives funding from the awarding agency. They use the award funding to give loans to individuals, organizations, or business for a specific purpose. Those individuals, organizations, and businesses repay the loans and the local government uses those receipts to create new loans.

Grants received from awarding agency:

Cash	$100,000	
33X.XX.00 Grant Revenue		$100,000

The exact grant code will depend on which agency awarded the funding and whether it was a direct or indirect award. This entry also results in restricted fund balance/net position because the grant revenue is restricted.

Loans are created:

Loans Receivable	$5,000	
Cash		$5,000

The full amount of the grant revenue continues to be reported as restricted fund balance/net position.

Receive payments on loans:

Cash	$1,000	

Loans Receivable	$900	
361.40.00 Interest Revenue	$100	

The receipt of this interest revenue increases the restricted fund balance/net position because in most cases, the federal awarding agency requires you to use the interest income for a specific purpose (such as continuing to support the revolving loan program).

Other expenditures:

5XX.XX.X0 Expenditure/Expense	$2,000	
Cash/Accounts Payable		$2,000

If the award agency approves for the funds to be used on a project or spent for something besides making loans, the local government would record an expenditure. There is no specific BARS code for the expense as it depends on the specific function of government that the activity is related to.

3.4.7.5 Working Advances from the Department of Social and Health Services (DSHS)

This guidance applies only to counties and Area Agencies on Aging (AAA).

The DSHS provides working advances to local governments in conjunction with aging, mental health, developmental disabilities and alcohol and drug rehabilitation programs. Working advances are provided in order to alleviate the cash flow problems associated with the time lag between the governments' expenditures and reimbursements from the DSHS.

Working advances should be treated as debt rather than revenue. These should be recorded as a long-term liability per Governmental Accounting Standard Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards (Cod.) Section (Sec.) 2200 "Annual Comprehensive Financial Report" portion on Basic Financial Statements—Fund Financial Statements.

In full accrual accounting, the receipt of a working advance should be recorded as follows:

Cash	$50,000	
Long-Term Payable – Working Advance		$50,000

In modified accrual accounting, the receipt of a working advance should be recorded as follows:

Cash	$50,000	
Other Financing Source – Intergovernmental Loan		$50,000

Issuance of Duplicate Instruments

3 **Accounting**

3.4 **Liabilities**

3.4.5 **Issuance of Duplicate Instruments[1]**

3.4.5.10 Before a duplicate instrument is issued, the issuing officer should require the person making application for its issue to file in his/her office a written affidavit specifically alleging on oath that he/she is the proper owner, payee, or legal representative of such owner or payee of the original instrument, giving the date of issue, the number, amount, and for what services or claim

or purpose the original instrument or series of instruments of which it is a part was issued, and that the same has been lost or destroyed, and has not been paid or received by him/her.

3.4.5.20 The following is a sample for use by all political subdivisions.

AFFIDAVIT

STATE OF WASHINGTON,)
ss,
County of _____)

I, _____, being first duly sworn upon oath, depose and say that I am the proper owner, payee, or legal representative of such owner or payee of (district), original (describe instrument) No. _____, dated ____, 20__in the amount of _____ Dollars ($_____) which said instrument was issued in payment for _____ and that the same has been lost or destroyed and has not been paid.

Signature _____

Witnessed by me this _____ day of _____.

_____
Witness **[2]**

Residing at _____

Footnotes

[1] Lost or destroyed evidence of indebtedness issued by local governments: RCWs39.72.010, 39.72.020

Lost or destroyed evidence of indebtedness issued by state or state agencies:
RCWs 43.08.064, 43.08.066, 43.08.068

[2] City/county/district may require the affidavit to be signed by a notary public.

Leases

3 **Accounting**

3.4 **Liabilities**

3.4.1 **Leases**

3.4.1.10 **Introduction**

The Governmental Accounting Standards Board (GASB) Codification Section L20 – Leases establishes standards of accounting and financial reporting for leases by lessees and lessors that address lease accounting and reporting.

The guidance in BARS sections 3.4.1.80 – 3.4.1.84 is specific to lessors and the guidance in section 3.4.1.90 – 3.4.1.96 is specific to lessees. The rest of this section applies to both lessors and lessees.

3.4.1.20 **Definition**

A lease is a contract that conveys control of the right to use another entity's nonfinancial asset (the underlying asset) as specified in the contract for a period of time in an exchange or exchange-like transaction.

3.4.1.30 **Exclusions**

The following items should not follow lease accounting and reporting guidance:

- Short-term leases – One that, at the beginning of the lease, has amaximum possible term

of 12 months or less, including any options to extend - e.g. rolling month-to-month leases
- Interfund leases – Leases between departments or funds within the same government
- Lease of intangible assets – This includes mineral rights, patents, software, copyrights, except for the sublease of an intangible right-to-use asset created by the original lease of a tangible underlying asset
- Leases of biological assets – such as timber, living plants, and living animals
- Leases of inventory
- Service concession arrangements
- Assets financed with outstanding conduit debt – unless both the asset and conduit debt are reported by the lessor
- Supply contracts – such as power purchase agreements that do not convey control of the right to use the underlying power generating facility
- Certain regulated leases – such as aviation leases between airports and air carriers

3.4.1.40 **Lease term**

The lease term includes:

- The period during which a lessee has a non-cancelable right to use an underlying asset
  - plus periods covered by a lessee's **or** lessor's option to extend the lease (if reasonably certain the option will be exercised)
  - and periods covered by the lessee's **or** lessor's option to terminate the lease (if reasonably certain the option will not be exercised)
- Lease term **excludes** periods for which both the lessee and lessor each have the option to terminate or both parties must agree to extend
- Lease term **excludes** the period, if any, after the date at which a purchase option is reasonably certain to be exercised (GASB Cod. Sec. L20)

Determining whether a lease option is reasonably certain of being exercised or not requires professional judgement and should take into consideration the specific facts and circumstances at your government. Examples of items to consider in this analysis:

- What is the past history of extending the lease or not?
- Is the item being leased essential to your government's operations or services provided to citizens?
- Do you have other options for where you can lease this asset from?
- Any other factors relevant to your specific circumstances.

3.4.1.45 **Short-term lease**

A short-term lease is one that has a maximum possible term of 12 months or less. The maximum possible term includes all options to extend regardless of whether those options will be exercised or not.

Example: A lease contract has an initial noncancelable term of 6 months with an option for the lessee to extend for another year. The lessee will most likely not exercise that option.

This is **not** a short-term lease because the maximum possible term is 18 months. The extension option is included even if it will not be exercised. The lease term for accounting purposes would only be 6 months.

Lessors should recognize revenue and lessees should recognize an expense when lease payments are due based on the payment provisions of the lease contract.

3.4.1.50 **Discount rate**

The lease payments should be discounted using the rate the lessor charges the lessee. This may be a rate stated in the contract (if it's a reasonable rate) or the implicit rate can be estimated. Governments are also allowed to impute the interest rate using guidance in GASB Codification Section I30 – Interest Costs – Imputation, but it is not required. However, the rate cannot be readily determined, then the lessee's incremental borrowing rate may be used.

The incremental borrowing rate is the interest rate that a borrower would have to pay to finance an asset of that same type, over a similar term, in the current economic environment, and of a similar amount. This is the borrowing rate at the margin for new debt, and not necessarily the rate of other previously negotiated debt which may have a dissimilar borrowing profile.

Governments should use professional judgment to determine their best estimate for the interest rate, maximizing the use of observable information to get a base rate (a starting point). For example, a prime rate would be a reasonable starting place for determining the incremental borrowing rate. Another example would be reviewing a local bank's website for their published

interest rates.

If the government determines that they could finance an asset at that base rate (the prime rate, or another reasonable starting point), then that base rate should be used. However, if there are economic factors that would make that rate unobtainable, then the base rate should be adjusted accordingly. It is up to governments to determine the most appropriate discount rate.

3.4.1.60 **Remeasurement**

Lessees and lessors are required to remeasure (recalculate) the lease liability or lease receivable in certain circumstances:

	Lessee	**Lessor**
Change in lease term	X	X
Change in likelihood of residual value guarantee	X	
Change in likelihood of purchase option	X	
Change in estimated amounts for payments already included	X	
Change in interest rate lessor charges	X	X
Contingency resolved for variable payments	X	X

If a lease liability or receivable is remeasured for any of the changes above, the index or rate used for variable payments and the discount rate should also be updated. However, the liability does not need to be remeasured solely for a change in the index or rate used for variable payments or a change in the incremental borrowing rate (if used as the discount rate).

3.4.21.61 **Variable and other non-lease payments**

Variable payments should be excluded from the lease calculations. Variable payments are those that depend on future performance of the lessee or usage of the underlying asset. For example, a car lease may also include a charge per mile. The payment amount would vary depending on how many miles were driven, so the per mile charge would be excluded from the lease liability. Another type of variable payment would be charging a percentage of the lessee's revenues.

However, if the variable payment is fixed in substance, it should be included in the calculations. For example, if a lessee is required to remit the greater of 10% of their sales or $5,000 each month, then the $5,000 payment is fixed in substance because the lessee will always be required to pay at least $5,000.

Some contracts include additional fees or taxes. Only the portion of the payment that is related to the right to use the asset should be included in the lease calculations. For example, if a lease contract also includes sales tax or maintenance fees those are non-lease payments and should be excluded from the lease calculations.

For lessees, BARS Code 591 and 592 should only be used for the lease payments that are related to the right to use the asset. The variable and non-lease payments should be coded to regular, functional BARS expense codes.

3.4.21.62 **Lease rate increases**

Some contracts include clauses to increase the rates over time. There are two types of rate increases, known rate increases and variable rate increases. An example of a variable rate increase is an increase based on the Consumer Price Index (CPI) where the amount of the increase will vary depending on the CPI. An example of a known rate increase is a flat 3% annual increase where the increase amount is known and can be calculated for each period.

If the contract includes a variable rate increase, that rate increase should be ignored for

calculating the lease balances, since the increase amount is unknown at the time of calculation.

For example, there is a 5-year lease that charges $500 per month for the first year and in each subsequent year the payment will be increased based on the CPI. The lease calculations would assume the payment to be $500 for all 5 years of the contract. Since we do not know what the CPI increase will be in the future, the CPI increase is ***not*** factored into the calculation.

For lessees, when making the monthly payment, only the original $500 used to calculate the liability should be coded to BARS 591.XX.70 and 592.XX.80. For example, if the lease payment increased to $550 in the second year, the payment would be split: $500 would be charged to BARS 591.XX.70 and BARS 592.XX.80 and the remaining $50 is considered a variable payment would be charged to a functional BARS expense code.

Lessees are required to disclose the total variable payments made on lease contracts and lessors are required to disclose the variable payments received, so governments should develop a process to track these variable payments.

Conversely, if a lease payment increases based on a flat rate, that should be factored into the lease calculations. For example, there is a 5-year lease that charges $6,000 for the first year and each subsequent year the annual payment will be increased by 3%. This increase is factored into the lease calculations because it is known and can be accurately calculated at the beginning of the lease. The lessee and lessor would assume the annual payments increase each year as shown in the table below:

Year	Annual payments
1	$ 6,000
2	$ 6,180
3	$ 6,365
4	$ 6,556
5	$ 6,753

The lessee and lessor would calculate the present value of the payments in the table above to determine the lease liability and lease receivable, respectively.

3.4.1.70 **Financed purchases/installment purchases (previously called capital leases)**

A contract that transfers ownership of the underlying asset to the lessee by the end of the contract and does not contain a termination option, should be reported as a financed purchase by the lessee and a sale of the asset by the lessor.

3.4.1.80 **Lessor accounting (Modified/Full Accrual)**

At the start of the lease term the lessor will recognize a lease receivable and deferred inflow of resources. The lessor will also continue to recognize the underlying asset as their own capital asset. Lessors also have required note disclosures. See template note at Note X – Leases (Lessors).

3.4.1.81 **Lease receivable**

The initial lease receivable is measured at the present value of lease payments expected to be received during the lease term, reduced by any provision for estimated uncollectible amounts. The receivable should include the following:

- Fixed payments
- Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as of the commencement of the lease term

- Variable payments that are fixed in substance
- Residual value guarantee payments that are fixed in substance
- Any lease incentives payable to the lessee.

As the lessee makes payments, the lessor will recognize a reduction in the lease receivable and interest revenue. The lease receivable must be amortized using the interest method (GASB Implementation Guide No. 2019-3, *Leases*, paragraph 4.49).

If the entire lease contract is paid upfront (a prepaid lease), then there is no lease receivable (since the entire contract has already been paid). For example, the lease contract is for 5 years at a price of $10,000 per year. The lessee pays $50,000 for all 5 years at the beginning of the contract, so this is a prepaid lease. The lessor reports no lease liability. Instead, the lessor reports unearned revenue at the beginning of the contract and will recognize the revenue over the lease term.

3.4.1.82 **Deferred inflow**

The initial deferred inflow is measured at the amount of the lease receivable plus lease payments received from the lessee at the start of the lease term that relate to a future period (for example receiving the last month's rent upfront).

The deferred inflow is amortized in a systematic and rationale manner over the lease term. GASB does not specify a required amortization method, so lessors may choose which method they use (for example the interest method or straight-line).

3.4.1.83 **Lessor BARS codes**

The lessor records lease revenue and interest revenue. The interest revenue from leases should be recorded to BARS Code 361.4P which is a non-operating revenue code. GASB Implementation Guide 2021-1, Question 4.13 clarified that all interest revenue earned from leases should be reported as non-operating revenue.

The lease revenue should be recorded to BARS Code 34P.PP (Charge for Services code) or 362. In a proprietary fund, use BARS Code 362 for non-operating lease revenue, and 34P.PP for operating lease revenue. In a governmental fund, use BARS Code 362 for leases that are not tied to a specific operation or function or for leases that are infrequent in nature. Lessors will also use these codes for short-term lease revenue.

Leases that are terminated will have a gain (loss) for the difference between the deferred inflows and lease receivable. This gain (loss) should be reported to BARS Code 395.90.00 Gain/Loss on Lessor Lease Termination. This code is for both modified and full accrual lessor transactions.

The "P" stands for prescribed numbers that are related to the function of the leasing activity. Review your chart of accounts to identify the applicable function and determine the full BARS Code.

3.4.1.84 **Lessor example journal entries**

A County leases equipment to a City in a 60 month lease. The payments are $1,000 per month (made at the beginning of the month) and the County uses an annual discount rate of 3%.

The County first calculates the present value of the lease to be $55,791 to record the initial lease journal entry:

Lease receivable	55,791	
Deferred inflow		55,791

The County records the first month's lease receipt. Since this payment is received at the very start of the lease, the present value is $1,000 and all of the payment goes towards principal and directly reduces the lease receivable.

Cash	1,000

Lease receivable	1,000	

The County also records the first month’s deferred inflow amortization. This example uses straight line amortization in this example ($55,791 initial deferred inflow divided by 60 total payments equals monthly amortization of $930). This will be the exact same journal entry each month since straight line amortization is used.

Deferred inflow	930	
Lease revenue (BARS 34P.PP or 362)		930

The County records the second month’s lease receipt. This time there is interest revenue, because one month of interest has accrued. The interest is calculated by multiplying the balance of the lease receivable from the prior month of $54,791 ($55,791 initial lease receivable minus the $1,000 payment in the first month) by the monthly interest rate of 0.25% (annual interest rate of 3% divided by 12 months). The remaining portion of the payment is the principal amount that reduces the lease receivable.

Cash	1,000	
Lease receivable		863
Interest revenue (BARS 361.4P)		137

The lease is terminated at the end of year 3. The receivable balance is $23,266 and the deferred inflow balance is $22,316. Both balances must be removed from lessor's financial statements. The difference between the two is reported as a gain (loss). In governmental fund financial statements, the gain (loss) should be classified as an other financing source (use).

Deferred inflow	22,316	
Gain/Loss on Lessor Lease Termination (BARS 395.90.00)		950
Lease receivable		23,266

3.4.1.90 **Lessee accounting**

For full accrual reporting (such as the government wide financial statements and proprietary fund statements) at the start of the lease term, the lessee will recognize a lease liability and lease asset.

The lessee will report lease liabilities on the Schedule of Liabilities (Schedule 09). In the year of implementation, any existing leases should report a beginning balance on the Schedule 09. The beginning balance reported should be the amount calculated for the implementation of GASBS No. 87. In subsequent years, the beginning balance should match the prior year ending balance.

Any new leases entered into during the year will be reported as an addition on the Schedule 09. The addition will be the liability calculated to add the lease to your financial statements.

Reductions are the amount the lease liability is reduced during the year, which is typically the principal portion of payments made.

If the lease is remeasured for any of the items in Section 3.4.1.60, the change in the lease liability

should be reported as either an addition or reduction on the Schedule 09.

See Schedule 09 reporting instructions.

Lessees also have required note disclosures. See template note atNote X – Leases (Lessees).

3.4.1.91 **Lease liability – full accrual**

The lease liability is measured at the present value of payments expected to be made during the lease term. This includes:

- Fixed payments
- Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as of the commencement of the lease term
- Variable payments that are fixed in substance
- Amounts that are reasonably certain of being required to be paid by the lessee under residual value guarantees
- The exercise price of a purchase option if it is reasonably certain that the lessee will exercise that option
- Payments for penalties for terminating the lease, if the lease term reflects the lessee exercising (1) an option to terminate the lease or (2) a fiscal funding or cancellation clause
- Any lease incentives receivable from the lessor
- Any other payments that are reasonably certain of being required based on an assessment of all relevant factors

As the lessee makes payments, they reduce the lease liability and recognize interest expense. The lease liability must be amortized using the interest method (GASB Statement No. 87, paragraph 24).

3.4.1.92 **Lease asset – full accrual**

The lease asset is measured at the initial lease liability plus lease payments made before the start of the lease term, plus any direct ancillary costs necessary to place the lease asset into service, minus any lease incentives received from the lessor before the start of the lease term.

If the entire lease contract is paid upfront (a prepaid lease), then lease asset is equal to the amount paid (no present value calculations) and there is no lease liability to report (since the entire contract has already been paid). For example, a lease contract is for 5 years at a price of $10,000 per year. The lessee pays $50,000 for all 5 years at the beginning of the contract, so this is a prepaid lease. The lessee would report a lease asset of $50,000 and no lease liability.

The lease asset should be amortized over the shorter of the lease term or the underlying asset's useful life. GASB does not specify a required amortization method, so lessors may choose which method they use (for example the interest method or straight-line).

3.4.1.93 **Lease reporting in governmental funds**

Governmental funds do not report a lease asset or lease liability. Instead the lessee would record a Capital Outlay Expenditure (debit) and an Other Financing Source for leases (credit). As the lessee makes payments, they would record a Debt Service Principal Expenditure (debit), Debt Service Interest Expenditure (debit), and reduce cash (credit).

3.4.1.94 **Lessee BARS codes**

In a full accrual fund, the only revenue and expense accounts used are interest expense, amortization expense, and gain (loss) on lease termination, if applicable.

592.PP.80	Recording interest expense payments
501.PP.00	Recording amortization expense on lease asset
373.00.00	Recording gain (loss) on lease termination

In a modified accrual there is no lease asset or lease liability, so the accounts used are different.

594.PP.60	Recording the capital outlay expenditure at the start of the lease
391.70.00	Recording the "other financing source" at the start of the lease
591.PP.70	Recording debt principal payments

592.PP.80 Recording interest expense payments

The “P” stands for prescribed numbers that are related to the function of the leasing activity. Review your chart of accounts to identify the applicable function and determine the full BARS Code.

Expenses for short-term leases should be coded to the regular, functional BARS expense/expenditure codes. For example, if a government has a short-term lease for a copier that is used by the water utility fund, the lease expense would be coded to BARS 534.00.40.

3.4.1.95 **Lessee example journal entries – full accrual**

A County leases equipment to a City in a 60 month lease. The payments are $1,000 per month (made at the beginning of the month) and the County uses an annual discount rate of 3%.

The City first calculates the present value of the lease to be $55,791 to record the initial lease journal entry:

Lease asset	55,791	
Lease liability		55,791

The City records the first month’s lease payment. Since this payment is received at the very start of the lease, the present value is $1,000 and all of the payment goes towards principal and directly reduces the lease liability.

Lease liability	1,000	
Cash		1,000

The City also records the first month’s lease asset amortization. This example uses straight line amortization in this example ($55,791 initial lease asset divided by 60 total payments equals monthly amortization of $930). This will be the exact same journal entry each month since straight line amortization is used.

Amortization expense (BARS 501.PP.00)	930	
Accumulated amortization – lease asset		930

The City records the second month’s lease payment. This time there is interest expense, because one month of interest has accrued. The interest is calculated by multiplying the balance of the lease liability from the prior month of $54,791 ($55,791 initial lease receivable minus the $1,000 payment in the first month) by the monthly interest rate of 0.25% (annual interest rate of 3% divided by 12 months). The remaining portion of the payment is the principal amount that reduces the lease liability.

Lease liability	863	
Interest expense (BARS 592.PP.80)	137	
Cash		1,000

The lease is terminated at the end of year 3. The liability balance is $23,266 and the lease asset balance is $55,791 with accumulated amortization of $33,475. These balances must be removed

from the lessee's financial statements. The difference between the net lease asset and lease liability is reported as a gain (loss) on disposal of capital assets since lease assets are a type of capital asset.

Lease asset	55,791	
Gains (Losses) on Capital Assets (BARS 373.00.00)	950	
Lease liability		23,266
Accumulated amortization on lease asset		33,475

3.4.1.96 **Lessee example journal entries – modified accrual**

A County leases equipment to a City in a 60 month lease. The payments are $1,000 per month (made at the beginning of the month) and the County uses an annual discount rate of 3%.

The City first calculates the present value of the lease to be $55,791 to record the initial lease journal entry. Since the modified accrual funds do not record a lease asset or lease liability different accounts are used. However, the amounts calculated for the full accrual journal entries are the exact same that are used for the modified accrual journal entries.

Capital outlay – lease asset (BARS 594.PP.60)	55,791	
Other financing source – lease (BARS 391.70.00)		55,791

The City records the first month’s lease payment. Since this payment is received at the very start of the lease, the present value is $1,000 and all of the payment goes towards principal. Since there is no lease liability to reduce, the payment is recorded as a debt service expenditure.

Debt service expenditure – principal (BARS 591.PP.70)	1,000	
Cash		1,000

There is no lease asset in the modified accrual fund, therefore there is nothing to amortize.

The City records the second month’s lease payment. This time there is interest expense, because one month of interest has accrued. The same amounts calculated for the full accrual journal entries are used.

Debt service expenditure – principal (BARS 591.PP.70)	863	
Debt service expenditure – interest (BARS 592.PP.80)	137	
Cash		1,000

The lease is terminated at the end of year 3. There is no impact to modified accrual statements because neither the lease asset nor the lease liability are reported in governmental fund financial statements.

3.4.1.100 **Other topics**

See GASB Codification Section L20 – Leases for guidance on additional lease topics such as:

- Lease incentives
- Contracts combinations
- Lease modifications and terminations
- Subleases
- Sale-leaseback transactions
- Intra-entity leases
- Leases between related parties.

Legal and Other Contingencies

3 **Accounting**

3.4 **Liabilities**

3.4.15 **Contingencies and Litigations**

3.4.15.10 **Contingency defined**

A contingency is defined as an existing condition, situation, or set of circumstances involving uncertainty as to possible gain (referred to as a gain contingency) or loss (referred to as a loss contingency) to a government that will ultimately be resolved when one or more future events occur or fail to occur.

GASB Statement 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* applies to loss contingencies related to the risks of financing related to torts (litigation), theft of assets, business interruption, errors and omissions, job related illness or injury, acts of God, and other risk assumed by a risk pool.

GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* applies to other loss contingencies such as 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.

Despite guidance in two separate statements, the accounting treatment is essentially the same. While gain contingencies are recognized when the gain is actually realized, loss contingencies are susceptible to accrual and disclosure requirement depending upon several factors.

3.4.15.20 **Use of estimates and uncertainty**

Not all uncertainties inherent in the accounting process give rise to contingencies as that term is used here. Estimates are required in financial statements for many ongoing and recurring activities of a government. The mere fact that an estimate is involved does not, in and of itself, constitute the type of uncertainty referred in this section.

3.4.15.30 **Likelihood of an unfavorable outcome**

The likelihood of the occurrence of a future event that would confirm the loss (e.g. an unfavorable ruling in litigation) can be determined to be probable, reasonably possible, and remote as follows:

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

The determination as to the probability of an unfavorable outcome factors into the accounting treatment. Governments should work with their legal counsel to assess probability for claims during preparation of the financial statements. Governments should monitor for any change that might affect the financial statements up until their issuance.

3.4.15.40 **Recognition in the accounting records**

Contingent losses, net of reasonably certain expected insurance recoveries, ***must*** be reported in the government wide and proprietary fund financial statements as liabilities (and a related loss or expense) when they are ***both*** "probable" ***and*** "estimable". Otherwise, they might require note disclosure. For other possibilities for recognition in the financial statements, see the chart in section 3.4.15.90.

In governmental funds, the liability is recorded when the amounts have become due and payable (i.e. the claim is settled or a judgement has been reached but the payment has not yet been

made).

Governments should also work with legal counsel or other knowledgeable parties involved in the claim to determine the estimate of the loss. The "**estimable**" criteria is also met if the expected loss is a range. When some amount within the range appears at the time to be a better estimate than any other amount within the range, that amount should be accrued. When no amount within the range is a better estimate than any other amount, the minimum amount in the range should be accrued. Governments should monitor for changes that affect the ability to prepare an estimate, or the amount or range of an estimate, and consider the effect on the financial statements up until their issuance.

The claims liability must also include the incurred but not reported (IBNR) claims liability, when applicable. This is related to the claims that might have been incurred as of or prior to the balance sheet date, but are not yet received. It might be helpful to engage an actuary to assist with this estimate, although it is not required to do so.

For further guidance on these liabilities, refer to the GASB Codification, C50*Claims and Judgements.*

3.4.15.50 **Insurance recoveries**

Expected insurance recoveries are those where the government can reasonably expect it has insurance coverage or participates in a risk pool that will pay for the claim on their behalf. In situations where the insurer admits or acknowledges coverage, the government should be in a supportable position to offset a contingent liability by the expected recovery. However, in the following instances, the government might not be in a supportable position to offset the liability and should evaluate the likelihood that it will be required to pay its own claims.

1. There should be no disputes, disagreements, or other uncertainty with regard to the coverage of the claim(s).
2. The pool or insurance company must also be financially solvent and in a financial position to be able to pay the claim(s).

However, there may be some liability to report even when the risk of loss has transferred such as in the following situations:

1. For deductibles or self-insured retention (any dollar amount to be paid by the insured before the policy will pay). If there is a deductible or an SIR, the government should accrue for its portion of unpaid claims, both reported and IBNR.
2. If it's probable that the local government may be reassessed fees by the risk pool due to the risk pool experiencing excessive losses, then a liability should be accrued.

3.4.15.60 **Unasserted claims**

An unasserted claim is one that the entity (or its legal counsel) is aware of, but has not been formally filed or otherwise asserted. A government must evaluate asserted claims and determine if there is a corresponding accounting treatment. This evaluation begins with the evaluation of the probability of the claim being actually asserted. For the corresponding accounting treatment, see the chart in section 3.4.15.90.

3.4.15.70 **Required note disclosures**

If no accrual is made because the contingency does not meet the probable and estimable criteria, a disclosure might still be required, see the chart in section 3.4.15.90. Such disclosures should indicate the nature of the contingency and meet any additional disclosure requirements described in the chart, where applicable.

A disclosure should also be made in the situation where a liability was accrued, but where it is at least reasonably possible that the loss exposure exceeds the amount accrued.

3.4.15.80 **Subsequent events**

After the date of an entity's financial statements (i.e. balance sheet date), but before those financial statements are issued, information may become available indicating that an asset was impaired or a liability was incurred *as of the date* of the financial statements or *after* the date of the financial statements. See the chart in section 3.4.15.90 for details on the accounting treatment for either of these potential situations.

3.4.15.90 **Accounting treatment for contingencies**

		ACCOUNTING TREATMENT		
		REMOTE (slight chance to occur)	**REASONABLY POSSIBLE**	**PROBABLE** (likely to occur)
Asserted claims or contingency existing at date of financial statements	Not estimable	Not usually unless a guarantee in exchange or exchange-like transaction, see C50, p.163	Disclose nature of the contingency and state no estimate can be made	Disclose nature of the contingency and state no estimate can be made. If information available indicates that the estimate amount of loss is within a range of amounts, at minimum, lowest amount in the range should be accrued to the financial statements
	Reasonably estimable	Not usually unless a guarantee in exchange or exchange-like transaction, see C50, p.163	Disclose nature of the contingency and should provide one of the following; 1) an estimate of possible loss; 2) range of loss	Record in the financial statements and disclose; 1) the nature of the accrual, 2) in some circumstances, the amount accrued for the financials not to be misleading 3) additional exposure to loss when accrued amount is within a range.
Unasserted claims or contingency existing at date of financial statements	Probable of assertion and possibility of unfavorable outcome	See accounting treatment of an asserted claim		
	Not probable of assertion	No treatment		
Claims arising after balance sheet date	Loss existed at date of balance sheet	No treatment	Adjust financial statements for asset impairment or liability incurred. Disclose nature of the contingency and 1) an estimate of possible loss; 2) range of loss; 3) state that such an estimate cannot be made	
	Loss did not exist at date of balance sheet	No treatment	If disclosure is deemed necessary, disclose nature of the contingency and should provide one of the following; 1) an estimate of possible loss; 2) range of loss; 3) state that such an estimate cannot be made	

LOCAL Program Financing

3. **Accounting**

3.4 **Liabilities**

3.4.11 **LOCAL Program Financing**

3.4.11.10 Local governments have an efficient financing option provided by the State Treasurer – the LOCAL program – that allows them to pool funding needs into large offerings of securities issued by the State Treasurer in order to take advantage of favorable market conditions.

3.4.11.20 Washington governments may use the LOCAL program to purchase equipment or real estate – everything from radios and computer systems to fire or police cars to building improvements or other construction.

3.4.11.30 **Accounting**

The State Treasurer issues debt on behalf of the local government. The State Treasurer holds LOCAL program proceeds and makes direct payments to vendors to and from the government's specially designated LGIP account. Although proceeds are received and payments made by the State Treasurer, the government must account for and report both the debt issuance and capital asset purchase made on its behalf.

3.4.11.40 The debt issuance transaction must be reported as soon as the debt is issued and the resources placed in the Local Governments Investment Pool (LGIP), or other bank account. The date reimbursement requests are submitted to the State Treasurer is not the date the liability has been incurred.

Debt proceeds should be reported in the fund that will be using the proceeds. As with other debt, a local government may use a debt service fund to account for the debt payments.

3.4.11.50 **Journal entries**

Modified Accrual:

Journal entry for debt issuance:

Cash	$XXX	
596.XX.70 Issuance Discount on Long-Term Debt (if applicable)	$XXX	
592.XX.80 Interest and Other Debt Service Costs (for issuance costs)	$XXX	
391.90.00 Other Debt Proceeds		$XXX
392.00.00 Premiums on Bonds Issued (if applicable)		$XXX

Journal entry for capital asset purchase:

594.XX.60 Capital Expenditures	$XXX	
Cash		$XXX

Journal entry for debt repayment:

591.XX.70 Debt Repayment (principal)	$XXX	
592.XX.80 Interest and Other Service Costs	$XXX	
Cash		$XXX

Full Accrual:

Journal entry for debt issuance:

Cash	$XXX	
Bond Issuance Costs	$XXX	
Original Issue Discount (if applicable)	$XXX	
Bonds Payable		$XXX
Bond Premium (if applicable)		$XXX

Journal entry for capital asset purchase:

Capital Asset	$XXX
Cash	$XXX

Journal entry for debt repayment:

Bond Payable	$XXX
Interest Expense	$XXX
Cash	$XXX

3.4.11.80 **Reporting**

LOCAL program proceeds must be reported as long-term debt in the financial statements and included in the Schedule 09, *Schedule of Liabilities* using Debt ID 263.96 *LOCAL program financing*. Only the face value of the debt should be reported on the Schedule 09. Do not include any premiums or discounts on the Schedule 09.

Debt incurred under this program may be considered either voted or non-voted and it should be included in the calculation of the local government's debt limitation (see 3.8.5 Compliance – Limitation of Indebtedness).

Other Postemployment Benefits (OPEB)

3 **Accounting**

3.4 **Liabilities**

3.4.17 **Other Postemployment Benefits (OPEB)**

3.4.17.20 **Key reporting information:**

- The accounting and financial reporting for OPEB aligns with that of pensions.
- An OPEB liability (rather than an OPEB obligation) is reported on the Statement of Net Position.
- Deferred outflows and inflows related to OPEB, in the same categories as those reported for pensions, are reported on the Statement of Net Position.

3.4.17.30 **Introduction**

OPEB refers to benefits, other than pensions, that are paid in the period after employment. OPEB includes:

- Postemployment healthcare benefits such as medical, dental, vision, hearing, etc., whether provided through a pension plan or separately; and
- Other benefits such as death benefits, life insurance, disability, long-term care, etc., when provided separately from a pension plan.

OPEB includes the direct payment of benefits (e.g., LEOFF 1 medical benefits) and also explicit and implicit rate subsidies (e.g., the state's PEBB plan).

The explicit rate is the rate participating employers pay as part of the monthly premiums that subsidizes the retiree monthly premiums. This subsidy reduces the monthly premiums paid by the retiree. The explicit rate is applied to each active employee of the government, therefore it doesn't matter how many retirees the government may have. The explicit rate is set for the pool as a whole and all participating employers share in the cost.

An implicit rate subsidy is also referred to as a "blended premium rate." It is caused by the inclusion of retirees in the same cost pool as active employees. As a result, retirees have the same premium rates as active employees and the rates for active employees implicitly subsidize the rates for retirees. This implicit subsidy is OPEB and must be included in the OPEB liability – even if retirees pay 100 percent of their premiums.

OPEB does not include termination benefits or termination payments for compensated absences.

3.4.17.40 **Defined benefit OPEB vs. defined contribution OPEB**

Defined benefit plans are those for which the benefits the employee will receive at or after separation from employment are defined by the benefit terms. OPEB may be stated as:

- A specified dollar amount
- An amount that is calculated based on one or more factors such as age, years of service, and compensation, or
- A type or level of coverage such as prescription drug coverage or a percentage of health insurance premiums.
- All plans that do not meet the criteria to be a defined contribution plan are treated as a defined benefit plan.

Defined contribution plans have terms that:

- Provide an individual account for each employee
- Define the contributions that an employer is required to make to an active employee's account for the periods in which the employee renders service
- Provide that the OPEB an employee will receive will depend only on the employee's account balance.

For ***defined contribution*** plans, there is no liability (other than amounts payable to the plan), deferred outflows, or deferred inflows to report. OPEB expense is the net amount of employer contributions made to the plan. If only employees contribute to a defined contribution plan (and not the employer), the employer is not a participant and no disclosures are required. However, if the employer continues the plan, there are required disclosures. See *Note X – Pension and/or OPEB Plans - Defined Contribution*.

3.4.17.50 **Qualifying vs. non-qualifying trust**

The accounting and financial reporting requirements for ***defined benefit*** OPEB plans is dependent on whether the plan is administered through a qualifying trust. A qualifying trust (or equivalent arrangement) is one that meets ***all three*** of the following criteria:

a) Contributions to the plan and earnings are ***irrevocable*** – *Refunds and withdrawals are consistent with this criterion*.

b) Plan assets are ***dedicated*** to providing OPEB to plan members in accordance with the benefit terms – *This is the criterion most often violated by the old, pre-LEOFF police and fire pension plans. Pension and OPEB assets cannot be commingled in the same trust fund as this indicates that plan assets are not dedicated solely to either pensions or OPEB. Pension and OPEB assets can be partitioned in the same fund, but this partition cannot be arbitrarily determined; it requires an actuarial determination.*

c) Plan assets are ***legally protected from creditors***.

Pay-as-you-go type plans (for example – the state's PEBB plan) are not a qualifying trust.

3.4.17.52 **Accounting for Tax revenues for OPEB and Fiduciary Trust Funds**

Some governments receive taxes to help fund OPEB costs. These taxes are levied by the government, not the OPEB plans. Since these are revenues of the government, they must be reported as a revenue in the governmental funds. To move these monies to the fiduciary trust fund, they would then report an expenditure in the governmental fund and then report an addition in the fiduciary trust fund.

For example, a government receipts $50,000 in an ad valorem property tax that will ultimately be used in their fiduciary trust fund to pay OPEB benefits. They would make the following journal entries:

Initial receipt of tax money:

General Fund – Cash	$50,000	
General Fund – Property Tax (BARS 311.10.00)		$50,000

Move tax money out of General Fund:

General Fund – Expenditure (BARS 517.20.20)	$50,000	
General Fund – Cash		$50,000

Move tax money into Fiduciary Trust Fund:

Fiduciary Trust Fund – Cash	$50,000	
Fiduciary Trust Fund – Additions (BARS 389.40)		$50,000

3.4.17.60 **Plan types**

The accounting and financial reporting requirements for ***defined benefit*** OPEB plans also vary depending upon plan type. ***Defined benefit*** plans are classified in one of the following categories:

- **Single-employer plan** – those in which OPEB benefits are provided to the employees of only one employer. The primary government and its component units are considered to be one employer. Each employer requires an individual actuarial valuation. This is the most common type of OPEB plan in the state. All pay-as-you-go plans (e.g., the state's PEBB plan) are considered single-employer plans.
- **Agent, multiple-employer plan** – OPEB plan assets are pooled for investment purposes, but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees. Each individual employer requires an individual actuarial valuation.
- **Cost-sharing, multiple-employer plan** – OPEB obligations to the employees of more than one employer are pooled and OPEB plan assets can be used to pay the benefits of the employees of any employer that provides OPEB through the plan.

Regardless of plan type, if the plan is not administered through a qualifying trust, each individual employer is considered to be a single employer participating in their own plan, and each individual employer must obtain their own actuarial valuation.

3.4.17.70 **Measurement of the OPEB liability, deferred outflows, deferred inflows, and OPEB expense**

The amounts to be reported in the financial statements for the OPEB liability, deferred outflows, deferred inflows, and OPEB expense are determined through an actuarial valuation. The valuation report generally also includes relevant information for the note disclosures such as actuarial assumptions used, sensitivity analysis of the discount rate and the health care cost trend rate (if applicable), and the amortization of the deferred outflows and deferred inflows.

Actuarial valuations should be performed at least biennially. The valuation date can be no more than 30 months and 1 day prior to the employer's reporting date. The Total OPEB Liability should be measured as of a date (the measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from year to year. When the valuation date is before the measurement date, update procedures must be used to roll forward the valuation to the measurement date for the employer's reporting. There is no requirement to roll forward from the measurement date to the employer reporting date; neither is it prohibited. Professional judgment should be used to determine the specific update procedures to be used (the roll forward is usually done by the actuary).

3.4.17.80 **Measurement date**

The OPEB amounts are reported in the employer's financial statements as of the measurement date. The earliest measurement date that can be used by an employer is one up to 12 months earlier than the reporting date. The following table shows the timing relationships between the valuation date, the measurement date, and the employer reporting date.

Earliest Available Valuation Date	Earliest Available Measurement Date Employer Can Use	Employer Reporting Date
12/31/2021	06/30/2023	06/30/2024
02/28/2022	08/31/2023	08/31/2024
06/30/2022	12/31/2023	12/31/2024

3.4.17.90 **Alternative measurement method**

Plans with fewer than 100 participants (actives + retirees) as of the beginning of the fiscal year, have the option to use the alternative measurement method (see Governmental Accounting Standard Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards* (Cod.) Section (Sec.) P52 "Postemployment Benefits Other Than Pensions – Reporting for Benefits Not Provided through Trusts That Meet Specified Criteria – Defined Benefit," Illustration 3) in lieu of a professional actuarial valuation. Under this method, only the OPEB liability is calculated. There are no deferred outflows and inflows other than the deferred outflow for payments subsequent to the measurement date.

PEBB member employers or LEOFF 1 employers with fewer than 100 participants (actives + retirees) as of the beginning of the fiscal year may use the on-line calculation tools provided by the Office of the State Actuary (OSA). These tools are the alternative measurement method. They are only available for use by PEBB and LEOFF 1 employers, and should only be used by those with fewer than 100 participants. For additional information on these tools, go to the OSA website.

Note: When using the OSA tools, active member data should be based on the number of employees ***eligible to participate***, even if some have currently waived participation in the plan.

Plans, including PEBB and LEOFF 1, with 100 or more participants (actives + retirees) as of the beginning of the fiscal year, must obtain a professional actuarial valuation.

To determine your member count, consider each plan subscriber to be one member. For example:

- An active employee = 1
- An active employee and dependents = 1
- A retiree and spouse = 1

3.4.17.100 **Financial statements**

Annually, at year-end, employers adjust the OPEB liability and the related deferred outflows and deferred inflows to actual as of the measurement date per the valuation. Also, adjust for payments subsequent to the measurement date. The net difference is an adjustment to OPEB expense.

DR/CR – *Adj. OPEB liability and relevant DO/DI to actual per measurement date*
DR/CR – *Net change to OPEB expense*

Plans administered through a qualifying trust report "net OPEB liability" because there is fiduciary net position (in the trust) to net against the total OPEB liability. The entire net OPEB liability is a non-current liability.

Plans not administered through a qualifying trust report "total OPEB liability" because there are no plan assets or fiduciary net position.

The "total OPEB liability" should be allocated between current and non-current liabilities in the financial statements. Since there is no trust fund to make the benefit payments, the employer is making the payments. The amounts expected to be due within one year are current liabilities.

For GAAP statements that include multiple opinion units, the OPEB liability, and deferred outflows and deferred inflows related to OPEB, should be allocated between governmental and business-type activities in the government-wide statement of net position. OPEB expense should be allocated to the appropriate activities in the government-wide statement of activities. For proprietary, OPEB amounts should be reported in the specific funds they are related to and expected to be paid from. OPEB amounts, other than actual payments, ***should not*** be reported in governmental-type funds.

3.4.17.110 **Fiduciary fund financial statements**

- **Qualifying trusts** – If the plan is administered through a qualifying trust, then the government is holding monies on behalf of someone else, which requires fiduciary reporting. The employer should report a statement of fiduciary net position (examples of reportable items: cash/investments set aside to pay benefits. Liabilities are only reported when the government is compelled to disburse the resources when no further action, approval or condition is required to be taken or met by the beneficiary to release the resources) and a statement of changes in fiduciary net position (examples of reportable items: contributions from the employer/government, contributions from employees, investments earnings, benefit payments made) for the plan. The net OPEB liability is a liability ***of the employer***, not ***the plan***. Since the OPEB liability is reported in the government-wide financial statements and proprietary fund statements, it ***should not*** be reported in the fiduciary statements.
  Also see plan reporting requirements at GASB Cod. Sec. Po50 "Postemployment Benefit Plans (Other Than Pension Plans) Administered through Trusts That Meet Specified Criteria – Defined Benefit" and Po51 "Postemployment Benefit Plans (Other Than Pension Plans) Administered through Trusts That Meet Specified Criteria – Defined Contribution."
- **No qualifying trust** – When there is no qualifying trust, the employer cannot report a trust. There should be no fiduciary fund statements presented for the plan. Any assets accumulated in a fund should be reported as assets of the employer. In these circumstances, any OPEB fiduciary funds should be treated as managerial funds and rolled into the appropriate fund (e.g., the general fund) for financial statement reporting.

3.4.17.120 **Note disclosures and Required Supplementary Information (RSI)**

Many of the significant note disclosures, such as the sensitivity analysis of the discount rate and the health care cost trend rate (if applicable) and the amortization of deferred outflows and inflows are provided by the actuary in the actuarial valuation report. There are different reporting requirements for plans administered through qualifying trusts versus those not administered through a qualifying trust.

See the BARS Manual for note and RSI instructions:

- Note X – OPEB Plans – No Qualifying Trust
- Note X – OPEB Plans – Qualifying Trust
- RSI – OPEB Plan RSI Instructions
- RSI – OPEB Plan Templates

3.4.17.130 **Non-governmental OPEB plans**

Some local governments may provide OPEB to their employees through a cost-sharing, multiple-employer defined benefit pension plan that:

(1) is not a state or local governmental plan,
(2) is used to provide defined benefit OPEB to both employees of state or local governmental employers, and
(3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide OPEB through the plan).

A union sponsored OPEB plan is an example of a plan meeting these criteria. Participating employers report no OPEB liability, deferred outflows, or deferred inflows. OPEB expense is equal to contributions to the plan.

Note disclosures for ***defined benefit*** are at Note X – Pension and/or OPEB Plans – Nongovernmental Plans. The only RSI required is a ten-year schedule of employer contributions.

For employers who contribute to non-governmental ***defined contribution*** plans, see *Note X – Pension and/or OPEB Plans – Defined Contribution*.

Pensions

3 **Accounting**

3.4 **Liabilities**

3.4.2 **Pensions**

Quick Links
3.4.2.30 Step 1 - Get your data

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3.4.2.63 Restricted net position
3.4.2.67 Allocation of pension amounts to funds and activities
3.4.2.90 Non-governmental pension plans
3.4.2.100 Local governmental pension plans – defined benefit vs. defined contribution plans

3.4.2.10 **Introduction**

The guidance in sections 3.4.2.10 through 3.4.2.80 focuses mostly on local governments participating in the State of Washington cost-sharing, multiple-employer pension plans. However, the concepts are also applicable to single employer plans.

Management's responsibilities

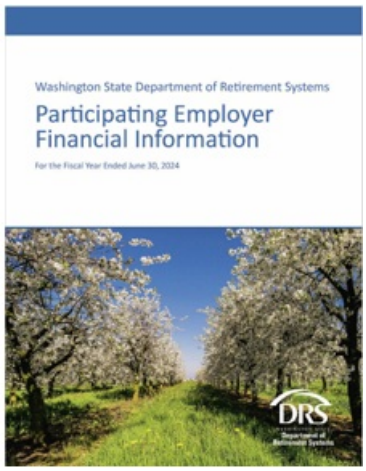
This guidance is intended to assist local governments in the application of pension standards. Local governments must apply their own professional judgment to determine if this guidance is appropriate for their facts and circumstances and must draw their own conclusions about the proper application of pension standards. Entity management is solely responsible for the content of the financial statements. Each local government is responsible for evaluating the information used to recognize and disclose pension amounts in its financial statements. Preparers must understand the underlying accounting and reporting concepts for pensions and retain adequate supporting documentation for all amounts reported.

Steps and procedures to calculate the proportionate share of collective pension amounts

3.4.2.30 **Step 1 – Get your data**

Much of the financial data necessary to report pension balances will be obtained from the State Department of Retirement Systems (DRS) at www.drs.wa.gov.

Download the *Participating Employer Financial Information* (PEFI) report from the Employers section of the website. This report is published annually, as of June 30, in the fall.



This report includes the ***Employer Allocation Schedules*** and the ***Schedules of Collective Pension Amounts*** for each pension plan.

Employer Allocation Schedules: Each separate plan presents a schedule of employer allocations. The schedules are sorted by allocation percentage, largest to smallest, and you will need to search each schedule for your local government's name. Note that the PERS 1 and TRS 1 schedules have separate sections for both the regular allocation and the Plan 1 UAAL allocation. You will need ***both*** allocation percentages. If you have more than one DRS ORG ID number, you will need to combine the allocation percentages.

What is the Plan 1 UAAL?
Under RCW 41.45.060, part of the contributions for PERS 2/3, SERS 2/3, PSERS 2, and TRS 2/3 are contributed to PERS 1 and TRS 1 to fund the plans' UAAL.

Employers have a responsibility to exercise due care in financial reporting and to verify and recalculate amounts specific to them. Use the DRS Employer Reporting Application (ERA) contribution reconciliation to verify the reasonableness of contributions used in the calculation of your proportionate share percentage. Note that the DRS calculates contributions based on the

process date (the day after the transmittal date), not your reporting date. This may cause timing differences between your accounting records and the DRS.

Schedule of Collective Pension Amounts: The PEFI also includes the schedules of collective pension amounts for each plan. Employers will use the collective pension amounts and apply their proportionate share from the employer allocation schedules to determine their own share of pension amounts (i.e., net pension liability, deferred inflows/outflows). The use of this schedule is further disclosed below.

3.4.2.35 **Measurement date**

For all plans:

Actuarial valuations should be performed at least biennially. The valuation date can be no more than 30 months and 1 day prior to the employer's reporting date. The pension liability should be measured as of a date (the measurement date) no earlier than the end of the employer's prior fiscal year, consistently applied from year to year. When the valuation date is before the measurement date, update procedures must be used to roll forward the valuation to the measurement date for the employer's reporting. There is no requirement to roll forward from the measurement date to the employer reporting date; neither is it prohibited. Professional judgment should be used to determine the specific update procedures to be used (the roll forward is usually done by the actuary).

Earliest Available Valuation Date	Earliest Available Measurement Date Employer Can Use	Employer Reporting Date
12/31/2021	6/30/2023	6/30/2024
2/28/2022	8/31/2023	8/31/2024
6/30/2022	12/31/2023	12/31/2024

For DRS plans:

On the statement of net position, local governments will report a net pension liability or asset, deferred outflows and deferred inflows for the State plans in amounts that are measured as of June 30, (the measurement date). There is no need to "roll forward" these numbers to the employer's reporting date. This is a concession made by the Governmental Accounting Standards Board (GASB) to accommodate timely financial reporting.

Local governments with a reporting date of June 30, 2024 can use either the June 30, 2024 schedules or the June 30, 2023 schedules for their year-end balances. Local governments with a reporting date of December 31, 2024 will use the June 30, 2024 schedules for their year-end balances.

3.4.2.40 **Step 2 – Calculate your numbers**

See calculation templates for PERS 1, PERS 2, PSERS 2, LEOFF 1, and LEOFF 2 on the *GAAP Pension Worksheet* (found on the BARS Reporting Templates page).

The Schedules of Collective Pension Amounts for each plan are published near the back of the DRS report.

For ***each plan*** in which you participate, multiply the amounts in these schedules by your unique allocation percentage to calculate your entity's share of each plan's pension liability, deferred outflows and deferred inflows. Note that the percentages reported in the employer allocation schedules are percentages, not simple decimal amounts.

3.4.2.41 **LEOFF – Special funding situation**

LEOFF plans 1 and 2 include a special funding situation in which the State has a legal obligation to make contributions directly to the plans. Although the State makes the contributions, individual employers are required by GAAP to recognize pension expense and an equal amount of revenue for their share of these contributions.

LEOFF 1 is fully funded and there have been no contributions since the year 2000.

LEOFF 2: The total amount contributed by the State appears in the PEFI at the end of the LEOFF 2 Employer Allocation Schedule. Note that allocation percentages have not been calculated for individual employers and each individual employer must calculate their own share of the State's total contributions.

Formula: From page 117 of the 2024 PEFI, State of Washington special funding allocation percentage (39.355233%) divided by total State of Washington employer allocations (60.644767%) = **64.894689%.**

Example as of June 30, 2024: $1,138,148 (employers LEOFF 2 contributions) x 64.894689% = $738,598.

Journal Entry	**DR**	**CR**
Pension Expense	$738,598	
Intergovernmental Revenue (BARS 3350301)		$738,598

Employers will also use this allocation percentage to calculate the State's proportionate share of the net pension asset associated with the individual employer for their note disclosures.

Example as of June 30, 2024: $33,162,907 (employer's LEOFF 2 asset) x 64.894689% = $21,520,965 (State's proportionate share of the net pension asset associated with the employer).

Contributions are no longer made to LEOFF 1 and so employers need only disclose in the notes the State's proportionate share of the net pension asset associated with the employer.

Formula: From pages 107 of the 2024 PEFI, State of Washington special funding allocation percentage (87.12% divided by total State of Washington employer allocations (12.88%) = **676.397516%.**

Example as of June 30, 2024: $5,049,107 (employer's LEOFF 1 asset) x 676.397516% = $34,152,035 (State's proportionate share of the net pension asset associated with the employer).

Note: These calculations do not apply to Ports nor institutions of higher education because their contribution rates already include the state contribution per RCW 41.26.450.

3.4.2.45 **Overview of journal entries**

Annual pension expense is not the cash contributions made to the plans. Contributions are a reduction of the pension liability. The pension accounting standards do not change statutory contribution rates or cash flow and we recommend that you do not change the way payments to the DRS are recorded in your accounting system. You may want to consider the use of a "contra" account in your accounting system to accumulate all of the debits and credits to pension expense that result from pension journal entries.

3.4.2.60 **Step 3 – Year-end balances: journal entries for ending balances of collective pension amounts**

See calculation templates for PERS 1, PERS 2, PSERS 2, LEOFF 1, and LEOFF 2 on the GAAP Pension Worksheet (found on the BARS Reporting Templates page).

You must perform these calculations for each plan in which you participate.

Note for local governments with a June 30 year end. These instructions assume that entities with a June 30 year end will use the June 30, 2023 PEFI and defer contributions from July 2023 through June 2024 (12 months). However, you have the option of using the June 30, 2024 PEFI with no deferral of contributions, if available in time to meet your SAO reporting requirements. Once a measurement date is selected (current vs. one year prior) local governments should not switch back and forth between the two dates over the years. This would be a change in accounting principle that would require a restatement of prior periods. When making your selection for the measurement date, keep in mind that there is no guarantee the current year's PEFI will be available by your annual report deadline.

3.4.2.62 **Deferred outflows/inflows**

The following collective deferred outflows and inflows of resources are determined at the plan level:

- Net difference between projected and actual investment earnings on pension plan investments – amortized over five years

- Differences between expected and actual experience – amortized over the average expected remaining service lives of plan participants (amortization period provided by the DRS)

- Changes in actuarial assumptions – amortized over the average expected remaining service lives of plan participants (amortization period provided by the DRS)

Local governments will use their allocation percentages to calculate their individual proportionate shares of these deferred outflows and inflows. They will be amortized over the recognition periods published by the DRS in the PEFI.

There are two types of deferred outflows and inflows that must be calculated by individual employers:

- Employer's contributions subsequent to the plan measurement date and up to the end of the employer's reporting period must be reported as a ***deferred outflow*** of resources. State of Washington plans have a June 30 measurement date. Employers with a December 31 year end will defer the last six months of contributions. Due to the timing of the plan's financial reports, employers with a June 30 year end will defer 12 months. These amounts are reversed in the following year when the new year-end amounts are deferred. For your calculations, use actual contributions to the plans. Contributions from PERS 2/3, SERS 2/3, and PSERS that go to PERS 1 should be reported as PERS 1 contributions.

- Changes in proportionate share and differences between actual employer contributions and proportionate share of contributions – amortized over the average expected remaining service lives of plan participants (amortization period provided by the DRS). The DRS uses actual contributions to determine proportionate share, and so differences between actual employer contributions and the proportionate share of contributions is expected to be rare. However, an employer's proportionate share of each plan's collective liability and deferred outflows/inflows is expected to change each year. The effect of that change should be calculated at the ***beginning*** of the period.

3.4.2.63 **Restricted net position**

All plans with a net pension asset should have a corresponding restricted net position. There are three methods for calculating the restricted net position related to each individual pension plan's net pension asset.

(1) SAO's preferred method
The restricted net position is equal to the net pension asset, minus the deferred inflows, plus the deferred outflows. Only include the deferred inflows and deferred outflows for the pension plans that have a net pension asset.

(2) GASB's preferred method (GFOA Award Program preferred method)
The restricted net position is equal to the net pension asset. Both deferred inflows and deferred outflows are excluded from the calculation.

(3) Final option
The restricted net position is equal to the net pension asset minus deferred inflows. Only include the deferred inflows for the pension plans that have a net pension asset. Deferred outflows are excluded from the calculation.

The method selected for the calculation of restricted net position should be consistent from year-to-year and should be disclosed in the Notes to the Financial Statements, Note 1 – Summary of Significant Accounting Policies.

3.4.2.65 **Change in proportionate share**

If there is a change in proportion of the collective net pension liability since the prior measurement date, the net effect of that change on the employer's proportionate shares of the collective net pension liability and collective deferred outflows of resources and deferred inflows of resources should be recognized in the employer's pension expense, beginning in the current reporting period, using a systematic rational method over a closed period (expected remaining service lives).

The DRS will maintain and publish the amortization schedules for the collective deferred outflows/inflows (see the June 30 Participating Employer Financial Report). ***Individual employers must maintain their own amortization schedules for the deferred outflows/inflows that result from the changes in proportionate share.*** Note that the PERS 1, TRS 1, and LEOFF 1 have a recognition period of one year, as of the ***beginning*** of the measurement period. As a result, all changes in proportion for these plans are expensed in the current year with no need to

amortize.

See the calculation of changes in proportionate share and amortization schedules on the*GAAP Pension Worksheet* (found on the BARS Reporting Templates page).

The provisions of GASB statements need not be applied to immaterial items. Governments may consider adopting an amortization threshold for their deferred outflows/inflows related to pensions. For example, amounts less than $500 could be expensed in the current year rather than amortized over many years.

3.4.2.67 **Allocation of pension amounts to funds and activities**

The pension accounting standards do not mention specific requirements for allocation of pension-related amounts to individual funds. However, basic governmental accounting principles (see GASB *Codification of Governmental Accounting and Financial Reporting Standards*(Cod.) Section (Sec.) 1500 "Reporting Liabilities") require that long-term liabilities that are directly related to and expected to be paid from proprietary-type funds be reported in those funds.

You should allocate the net pension liability, deferred outflows/inflows, and pension expense among governmental vs. business-type activities and individual proprietary-type funds. The SAO does not prescribe any particular method. However, entities should consider a method similar to that prescribed by GASB Cod. Sec. P20 "Pension Activities – Reporting for Benefits Provided through Trusts That Meet Specified Criteria" for cost-sharing plans – "based on the manner in which contributions are assessed." For example, allocating to funds and activities based on their proportionate share of actual employer contributions to the plan (employee contributions should not be included):

Contributions by Fund:		
Governmental Funds	765	60%
Utility Fund	385	30%
IS Fund	125	10%
	1,275	100%

Many local governments with a PERS 1 liability do not have PERS 1 employees. We recommend you use your PERS 2 contributions to make the allocation. Other methods may also be acceptable based on individual facts and circumstances. The allocation methodology used by the local government should be disclosed in the notes to the financial statements.

In the statement of activities, pension expense for governmental activities should be further allocated by function. Pension liability, deferred outflows/inflows, and pension expense should be reported in each applicable proprietary fund.

STATEMENT OF ACTIVITIES
FYE 20XX

	Expenses
GOVERNMENTAL ACTIVITIES	
General Government	$ 123,456
Public Safety	$ 12,345,678
Utilities	$ 1,234,567
Transportation	$ 12,345,678
Natural & Econ. Environment	$ 123,456
Social Services	$ 123,456
Culture & Recreation	$ 12,345
Total Governmental Activities	$ 26,308,636
BUSINESS-TYPE ACTIVITIES	
Utilities	$ 12,345,678
Other	$ 123,456
Total Business-Type Activities	$ 12,469,134
TOTAL GOVERNMENT	$ 38,777,770
Impacted by GASBS 68	

3.4.2.80 **Note disclosures and Required Supplementary Information**

Note disclosures for State Sponsored Plans are available at Note X – Pensions – State Sponsored Plans.

RSI instructions are available at BARS 4.7.3 Pension Plan Information.

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3.4.2.90 **Non-governmental pension plans**

The accounting and financial reporting standards for non-governmental defined benefit pension plans are established in the GASB Cod. Sec. P20, portion on Defined Benefit Pensions Provided through Pension Plans That Have the Characteristics in Paragraph 112.

Some local governments may provide pensions to their employees through a cost-sharing, multiple-employer defined benefit pension plan that:

(1) is not a state or local governmental plan,

(2) is used to provide defined benefit pensions to both employees of state or local governmental employers, and

(3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the plan).

A union sponsored pension plan is an example of a plan meeting these criteria. Participating employers report no pension liability, deferred outflows, or deferred inflows. Pension expense is equal to contributions to the plan.

Note disclosures for ***defined benefit*** plans are at Note X – Pension and/or OPEB Plans – Nongovernmental Plans. The only RSI required is a ten-year schedule of employer contributions.

For employers who contribute to non-governmental ***defined contribution*** plans, see Note X – *Pension and/or OPEB Plans - Defined Contribution*

3.4.2.100 **Local government pension plans – defined benefit vs defined contribution plans**

Defined benefit pensions are those for which the income or other benefits that the employee will receive at or after separation from employment are defined by the benefit terms. The pensions may be stated as:

- A specified dollar amount
- An amount that is calculated based on one or more factors such as age, years of service, and compensation
- All plans that do not meet the criteria to be a defined contribution plan are treated as a defined benefit plan

Examples of local government defined benefit plans include pre-LEOFF police and firefighters pension plans are established under the following RCWS:

- Chapter 41.16 RCW – Firefighters' Relief and Pensions – 1947 ACT
- Chapter 41.18 RCW – Firefighters' Relief and Pensions – 1955 ACT
- Chapter 41.20 RCW – Police Relief and Pensions in First Class Cities

Governments will need to obtain an actuarial valuation for these plans. Annually, at year-end, employers adjust the pension liability and the related deferred outflows and deferred inflows to actual as of the measurement date per the valuation. Also, adjust for payments subsequent to the measurement date. The net difference is an adjustment to pension expense.

DR/CR – Adj. pension liability and relevant DO/DI to actual per measurement date

DR/CR – Net change to pension expense

Defined contribution plans are those that:

(1) provide an individual account for each employee;

(2) define the contributions that an employer is required to make (or the credits that it is required to provide) to an active employee's account for periods in which that employee renders service;

(3) provide that the pensions an employee will receive will depend only on the contributions (or credits) to the employee's account, actual earnings on investments of those contributions (or credits), and the effects of forfeitures of contributions (or credits) made for other employees, as well as pension plan administrative costs, that are allocated to the employee's account.

For defined contribution plans, there is no liability (other than amounts payable to the plan), deferred outflows, or deferred inflows to report. Pension expense is the net amount of employer contributions made to the plan.

If a government contributes to a defined contribution plan, including pension plans administered by non-government entities (such as union sponsored plans), the governments must include the plan in their note disclosures, see Note X – Pension and/or OPEB Plans – Defined Contribution

If a government does not contribute to the pension plan (only employees make contributions) governments are not required to include the plan in their pension note disclosures.

3.4.2.110 **Qualifying vs. non-qualifying trusts**

Depending upon how individual local governments have established their OPEB plans (including pre-LEOFF I police and firefighter plans), they may or may not meet the criteria of a trust described below. Local governments that have these plans should carefully review all legislation establishing and modifying the plans and consult with their legal counsel regarding the status of the plans.

The three criteria to meet the accounting definition of a trust are:

a. **Contributions from employers to the pension plan and earnings on those contributions are irrevocable.** Irrevocability is understood to mean that an employer no longer has ownership or control of the assets, except for any reversionary right once all benefits have been paid. Assets may flow from an employer to the plan, but not from the plan to an employer unless and until all obligations to pay benefits in accordance with the plan terms have been satisfied by payment or by defeasance with no remaining risk regarding the amounts to be paid or the value of plan assets. Refunds of the non-vested portion of employer contributions that are forfeited by plan members are consistent with this criterion.

b. **Pension plan assets are dedicated to providing pensions to plan members in accordance with benefit terms.** The use of pension plan assets to pay plan administrative costs or to refund plan member contributions is consistent with this criterion. The commingling of pension and OPEB assets in the same trust is not consistent with this criterion.

c. **Pension plan assets are legally protected from the creditors of employers, the plan administrator and plan members.**

Pay-as-you-go funding is ***not*** a qualifying trust.

Plans administered through a qualifying trust report "**net** pension liability" because there is fiduciary net position (in the trust) to net against the total pension liability. The entire net pension liability is a non-current liability.

Plans not administered through a qualifying trust report "total pension liability" because there are no plan assets or fiduciary net position. The "total pension liability" should be allocated between current and non-current liabilities in the financial statements. Since there is no trust fund to make the benefit payments, the employer is making the payments. So the amounts expected to be due within one year are current liabilities.

For GAAP statements that include multiple opinion units, the pension liability, and deferred outflows and deferred inflows related to pension, should be allocated between governmental and business-type activities in the government-wide statement of net position. Pension expense should be allocated to the appropriate activities in the government-wide statement of activities. For proprietary, pension amounts should be reported in the specific funds they are related to and expected to be paid from. Pension amounts, other than actual payments, ***should not*** be reported in governmental-type funds.

3.4.2.111 **Fiduciary Fund Financial Statements**

- **Qualifying trusts** – If the plan is administered through a qualifying trust, then the government is holding monies on behalf of someone else, which requires fiduciary reporting. The employer should report a statement of fiduciary net position (examples of reportable items: cash/investments set aside to pay benefits. Liabilities are only reported when the government is compelled to disburse the resources when no further action, approval, or condition is required to be taken or met by the beneficiary to release the resources) and a statement of changes in fiduciary net position (examples of reportable items: contributions from the employer/government, contributions from employees, investment earnings, benefit payments made) for the plan. The net pension liability is a liability ***of the employer***, not ***the plan***. Since the pension liability is reported in the government-wide statements, and proprietary fund statements, it ***should not*** be reported in the fiduciary statements.
- **No qualifying trust** – When there is no qualifying trust, the employer cannot report a trust. There should be no fiduciary fund statements presented for the plan. Any assets accumulated in a fund should be reported as assets of the employer. In these circumstances, any OPEB fiduciary funds should be treated as managerial funds and rolled into the appropriate fund (e.g., the general fund) for financial statement reporting.

3.4.2.112 **Accounting for Pension Taxes and Fiduciary Trust Funds**

Some governments receive taxes to help fund pension costs, such as the Fire Insurance Premium Tax (BARS 336.06.91) or an ad valorem property tax for pensions. These taxes are levied by the government, not the pension plans. Since these are revenues of the government, they must be reported as a revenue in the governmental funds. To move these monies to the fiduciary trust fund, they would then report an expenditure in the governmental fund and then report an addition in the fiduciary trust fund.

For example, a government receipts $50,000 in Fire Insurance Premium Tax that will ultimately be used in their fiduciary trust fund to pay pension benefits. They would make the following journal entries:

Initial receipt of tax money:

General Fund – Cash	$50,000	
General Fund – Fire Insurance Premium Tax (BARS 336.06.91)		$50,000

Move tax money out of General Fund:

General Fund – Expenditure (BARS 517.20.20)	$50,000	

General Fund – Cash		$50,000

Move tax money into Fiduciary Trust Fund:

Fiduciary Trust Fund – Cash	$50,000	
Fiduciary Trust Fund – Additions (BARS 389.40)		$50,000

Pollution Remediation

3 **Accounting**

3.4 **Liabilities**

3.4.20 **Pollution Remediation**

3.4.20.10 **Background**

Pollution remediation liabilities exist as a result of an obligation to participate in the clean-up of existing pollution caused by hazardous wastes and substances. They include obligations to pay for activities for pre-cleanup (such as site assessment), clean-up (neutralization, containment, or removal), oversight or enforcement of laws, and post remediation monitoring. See GASB Statement 49 for more details.

3.4.20.20 **Obligating events**

Pollution remediation liabilities are triggered by an obligating event. An obligating event is when a government is compelled to take action to protect the public from pollution, has violated a pollution permit, license or law, has or will be named in a lawsuit, or the government voluntarily engages in a clean-up.

3.4.20.30 **Recognition benchmarks**

When a government has incurred an obligating event they need to recognize the related pollution remediation liabilities. Recognition will be made as components of the clean-up activity become estimable. If the entire clean-up amount is known it should be immediately recognized. If the clean-up activity is complex it should be recognized using benchmarks. Recognition benchmarks are related to the different stages of the remediation process. In most projects they include:

1. Receipt of an administrative order to take action.
2. Participation as a responsible party or potentially responsible party.
3. Completion of a corrective measures feasibility study.
4. Issuance of an authorization to proceed by EPA or DOE.
5. Remediation design, implementation, and post remediation monitoring.

3.4.20.40 **Measurement**

The pollution liabilities should be measured based on the outlays required to settle those obligations and should be calculated using current costs. The liability will be calculated using the expected cash flow technique. This method calculates the mean or an average using the sum of probability - weighted amounts in a range of possible estimated amounts.

Example: Pollution cleanup cost with three potential cost scenarios.

25% probability cost will be $150,000
60% probability cost will be $320,000
15% probability cost will be $450,000

Expected cash flow calculation:

(.25 x $150,000) + (.6 x $320,000) + (.15 x $450,000) = $297,000

The estimates of the pollution remediation liability need to be reviewed each year and when new benchmarks are met or additional information indicates there will be changes in the estimated outlays (i.e. change in remediation plan or change in technology, etc.).

Reporting

The estimated pollution related expense and liability must be reported in the appropriate fund and government wide statements in addition to the note disclosures. These estimates should include all the work that the government expects to perform. If an entity is expecting to recover some of the costs from other parties they should report it as follows:

- If the expected recovery is not realizable they should reduce the amount of the liability by that amount.
- If the expected recovery is realizable they should include the amount in the liability/ expense estimate and separately recognize a receivable (or cash asset if collected).

Capitalization of pollution remediation outlays is limited. Except as provided below pollution remediation outlays should be reported as an expense.

- To prepare property in anticipation of immediate sale.
- To prepare property for use when it was acquired with known remediation problems.
- To perform pollution remediation that restores a pollution-caused decline in service utility that was previously recognized as asset impairment (GASB Statement 42).
- To acquire property, plant and equipment that has a future alternative use.

If governments are reporting capitalized costs for previous pollution remediation projects that do not meet the exceptions stated above they will need to reclassify them as an expense and report it as change in accounting principle when GASB Statement 49 is implemented.

Public-Private and Public-Public Partnerships (PPP)

3 **Accounting**

3.4 **Liabilities**

3.4.22 **Public-Private and Public-Public Partnerships (PPP)**

3.4.22.10 **Public-Private and Public-Public Partnership (PPP) Introduction**

Below is a summary of the accounting guidance for PPP arrangements. Additional guidance can be found in GASB Codification Section P90 – Public-Private and Public-Public Partnerships.

Availability Payment Arrangements (APA) are a related type of arrangement in which a government compensates an operator based on the availability of an asset. See GASB Codification Section A90 – Availability Payment Arrangements for accounting and reporting guidance.

The guidance in BARS sections 3.4.22.60 – 3.4.22.67 is specific to transferors and the guidance in section 3.4.22.70 – 3.4.22.77 is specific to operators. The rest of this section applies to both transferors and operators.

3.4.22.20 **PPP Definition**

A PPP is an arrangement in which a government (the transferor) contracts with an operator to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.

Service Concession Arrangement (SCA) Definition

Some PPPs are service concession arrangements (SCAs). An SCA is a PPP arrangement between a transferor and an operator in which all of the following criteria are met:

1. The transferor conveys to the operator the right and related obligation to provide public services through the use and operation of an underlying PPP asset in exchange for significant consideration, such as an up-front payment, installment payments, a new facility, or improvements to an existing facility.
2. The operator collects and is compensated by fees from third parties.
3. The transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services.
4. The transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement.

3.4.22.30 **PPP Term**

The PPP term includes:

- The period during which the operator has a non-cancelable right to use the underlying PPP asset
  - plus periods covered by the operator's **or** transferor's option to extend the PPP (if reasonably certain the option will be exercised)
  - and periods covered by the operator's **or** transferor's option to terminate the PPP (if reasonably certain the option will not be exercised)
- PPP term **excludes** periods for which both the operator and transferor each have the option to terminate or both parties must agree to extend.

Determining whether an extension or termination option is reasonably certain of being exercised requires professional judgement and should take into consideration the specific facts and circumstances at your government. Examples of items to consider in this analysis:

- A significant economic incentive, such as contractual terms and conditions for the optional periods that are favorable compared with current market rates.
- A significant economic disincentive, such as costs to terminate the PPP and sign a new PPP arrangement (for example, negotiation costs, relocation costs, abandonment of significant underlying PPP asset improvements, costs associated with returning the underlying PPP assets in a contractually specified condition or to a contractually specified location, or a substantial cancellation penalty).
- The history of exercising options to extend or terminate.
- The extent to which the underlying PPP asset is essential to the provision of government services.

Note: There is no short-term exception for PPP contracts. Even if the maximum possible term is 12 months or less, it should still be accounted for as a PPP.

3.4.22.40 **Discount Rate**

The PPP payments should be discounted using the rate the transferor charges the operator. This may be a rate stated in the contract (if it's a reasonable rate) or the implicit rate can be estimated. Governments are also allowed to apply GASB Statement 62, paragraphs 173 – 187 for imputation of interest, but are not required to. If the implicit rate is not determinable, the operator's estimated incremental borrowing rate may be used.

The incremental borrowing is the interest that a borrower would have to pay to finance an asset of that same type, over a similar term, in the current economic environment, and of a similar amount. This is the borrowing rate at the margin for new debt, and not necessarily the rate of other previously negotiated debt which may have a dissimilar borrowing profile.

Governments should use professional judgment to determine their best estimate for the interest rate, maximizing the use of observable information to get a base rate (a starting point). For example, a prime rate would be a reasonable starting place for determining the incremental borrowing rate. Another example would be reviewing a local bank's website for their published interest rates.

If the government determines that they could finance an asset at that base rate (the prime rate, or another reasonable starting point), then that base rate should be used. However, if there are economic factors that would make that rate unobtainable, then the base rate should be adjusted accordingly. It is up to governments to determine the most appropriate discount rate.

3.4.22.50 **Remeasurement**

Operators and transferors are required to remeasure (recalculate) the liability for installment payments (operator) or receivable for installment payments (transferor) in the following circumstances:

Circumstance	Operator	Transferor
Change in the PPP term	X	X
Change in likelihood of residual value guarantee	X	

Circumstance	Operator	Transferor
Change in estimated amounts for payments already included in the PPP liability	X	
Change in the interest rate the transferor charges the operator (if used as the discount rate)	X	X
Contingency for variable payments is resolved	X	X

If the PPP liability is remeasured for any of the changes above, the index or rate used for variable payments and the discount rate should also be updated. However, the liability/receivable does not need to be remeasured solely for a change in the index or rate used for variable payments or a change in the incremental borrowing rate (if used as the discount rate).

For operators, the right-to-use PPP asset should generally be adjusted by the same amount as the PPP liability. If the change reduces the carrying value of the right-to-use PPP asset to zero, any remaining amount should be reported as a gain.

For operators, if applicable, the liability for the underlying PPP to be transferred (when a new asset is purchased/constructed and the arrangement is **NOT** an SCA), should be remeasured if there is a change in the PPP term or if there is a PPP modification or termination.

For transferors, the deferred inflow should generally be adjusted by the same amount as the receivable. If the change reduces the deferred inflow to zero, any remaining amount should be reported as an expense.

For transferors, if applicable, the receivable for the underlying PPP asset (when a new asset is purchased/constructed and the arrangement is **NOT** an SCA), should be remeasured when there is a PPP modification or termination.

3.4.21.51 **Variable and other non-PPP payments**

Variable payments should be excluded from the PPP calculations. Variable payments are those that depend on future performance of the operator or usage of the underlying asset. For example, the transferor charging a percentage of the operator's revenues.

However, if the variable payment is fixed in substance, it should be included in the calculations. For example, if an operator is required to remit the greater of 10% of their sales or $5,000 each month, then the $5,000 payment is fixed in substance because the operator will always be required to pay at least $5,000.

Some contracts include additional fees or taxes. Only the portion of the payment that is related to the right to use the asset should be included in the PPP calculations. For example, if a PPP contract also includes maintenance or management fees those are non-PPP payments and should be excluded from the PPP calculations.

For operators, BARS Code 591 and 592 should only be used for the PPP payments that are related to the right to use the asset. The variable and non-PPP payments should be coded to regular, functional BARS expense codes.

3.4.21.52 **PPP installment payment rate increases**

Some contracts include clauses to increase the rates over time. There are two types of rate increases, known rate increases and variable rate increases. An example of a variable rate increase is an increase based on the Consumer Price Index (CPI) where the amount of the increase will vary depending on the CPI. An example of a known rate increase is a flat 3% annual increase where the increase amount is known and can be calculated for each period.

If the contract includes a variable rate increase, that rate increase should be ignored for calculating the PPP balances, since the increase amount is unknown at the time of calculation.

For example, there is a 5-year PPP contract that charges $500 per month for the first year and in each subsequent year the payment will be increased based on the CPI. The PPP calculations would assume the payment to be $500 for all 5 years of the contract. Since we do not know what the CPI increase will be in the future, the CPI increase is ***not*** factored into the calculation.

For operators, when making the monthly payment, only the original $500 used to calculate the liability should be coded to BARS 591.XX.70 and 592.XX.80. For example, if the PPP payment increased to $550 in the second year, the payment would be split: $500 would be charged to BARS 591.XX.70 and BARS 592.XX.80 and the remaining $50 is considered a variable payment would be charged to a functional BARS expense code.

Operators are required to disclose the total variable payments made on contracts and transferors are required to disclose the variable payments received, so governments should develop a process to track these variable payments.

Conversely, if a PPP payment increases based on a flat rate, that should be factored into the PPP calculations. For example, there is a 5-year PPP contract that charges $6,000 for the first year and each subsequent year the annual payment will be increased by 3%. This increase is factored into the PPP calculations because it is known and can be accurately calculated at the beginning of the contract. The operator and transferor would assume the annual payments increase each year as shown in the table below:

Year	Annual payments
1	$ 6,000
2	$ 6,180
3	$ 6,365
4	$ 6,556
5	$ 6,753

The operator and transferor would calculate the present value of the payments in the table above to determine the PPP liability and PPP receivable, respectively.

3.4.22.60 **Transferor Accounting – Full Accrual**

There are three different scenarios that determine the appropriate accounting. The scenarios and their sample full accrual accounting journal entries (for government-wide and proprietary fund financial statements) are included below.

1. The underlying PPP asset is an existing asset of the transferor.

Debit: Capital asset for improvements made to existing assets

Debit: Receivable for installment payments

Credit: Deferred inflows

2. The underlying PPP asset is a new asset purchased or constructed by the operator and the PPP meets the definition of an SCA.

Debit: Capital asset for new underlying PPP asset

Debit: Receivable for installment payments

Credit: Deferred inflows

3. The underlying PPP asset is a new asset purchased or constructed by the operator and the PPP does **not** meet the definition of an SCA.

Debit: Receivable for new underlying PPP asset

Debit: Receivable for installment payments

Credit: Deferred inflows

This table also summarizes the transferor accounting.

Type of PPP	Financial Element	Measured at
All types	Deferred inflows	All items below (improvements, assets, receivables) + PPP payments received from the operator at or before the start of the PPP term
All types	Receivable for installment payments (if any)	Present value of PPP payments expected to be received during the PPP term, net of estimated uncollectible amounts
1. Underlying PPP asset is existing asset of transferor	Improvements made to existing asset	Acquisition Value when improvements are placed into service
2. Underlying PPP asset is purchased/constructed by operator & is an SCA	Asset for the new purchased/constructed underlying PPP asset	Acquisition Value when asset is placed into service
3. Underlying PPP asset is purchased/constructed by operator & is **NOT** an SCA	Receivable for new purchased/constructed underlying PPP asset	Operator's estimated carrying value as of expected date of transfer

3.4.22.61 **Improvements made to existing asset**

A transferor should measure improvements made by the operator to an underlying PPP asset at acquisition value when the improvements are placed into service. A transferor should apply all other accounting and financial reporting requirements relevant to the improvements to the underlying PPP asset, including depreciation and impairment.

3.4.22.62 **Asset for new purchased/constructed asset (if SCA)**

A transferor should initially measure the underlying PPP asset at acquisition value when the asset is placed into service. The transferor should apply all other accounting and financial reporting requirements, including depreciation and impairment, to the PPP asset. However, if the PPP arrangement requires the operator to return the underlying PPP asset in its original condition, the transferor should not depreciate the asset during the PPP term.

3.4.22.63 **Receivable for new purchased/constructed asset (if not SCA)**

A transferor should measure a receivable for the underlying PPP asset based on the operator's estimated carrying value of the underlying PPP asset as of the expected date of the transfer in ownership from the operator. The receivable for the underlying PPP asset should be remeasured if there is a PPP modification or a PPP termination.

3.4.22.64 **Receivable for installment payments (all PPPs)**

The transferor's initial PPP receivable is measured at the present value of installment payments expected to be received during the PPP term, reduced by any provision for estimated uncollectible amounts. The receivable should include the following:

- Fixed payments
- Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as of the commencement of the PPP term
- Variable payments that are fixed in substance
- Residual value guarantee payments that are fixed in substance
- Residual value guarantee payments that are **not** fixed in substance if (a) the payment is required and (b) the amount can be reasonably estimated.

As the operator makes payments, the transferor will recognize a reduction in the PPP receivable and interest revenue. The PPP receivable must be amortized using the interest method.

3.4.22.65 **Deferred inflows (all PPPs)**

The transferor's deferred inflows includes the following:

- All PPPs – The amount of initial measurement of the receivable for installment payments (if any)
- All PPPs – PPP payments received from the operator at or before the start of the PPP term
- Existing PPP asset – The amount of initial measurement for improvements to the underlying PPP asset
- New asset in SCA – The amount of the initial measurement for the underlying PPP asset
- New asset & not SCA - The amount of the initial measurement of the receivable for the underlying PPP asset

The deferred inflow is amortized in a systematic and rationale manner over the PPP term. GASB does not specify a required amortization method, so transferors may choose which method they use (for example the interest method or straight-line).

3.4.22.66 **Transferor Accounting – Modified Accrual**

Under modified accrual accounting (governmental fund financial statements), transferors should recognize a receivable for installment payments (if any), and a deferred inflow. The deferred inflow will be measured at the initial value of the receivable for installment payments, plus the amount of any payments received at or before the start of the PPP term.

The receivable must be amortized using the interest method. The deferred inflows can be amortized using any systematic and rationale manner (for example the interest method or straight-line).

3.4.22.67 **Transferor Accounting – BARS Codes**

The transferor records PPP revenue and interest revenue.The interest revenue from PPPs should be recorded to BARS Code 361.4P which is a non-operating revenue code.

The PPP revenue should be recorded to BARS Code 34P.PP (Charge for Services code) or 362. In a proprietary fund, use BARS Code 362 for non-operating PPP revenue, and 34P.PP for operating revenue. In a governmental fund, use BARS Code 362 for PPPs that are not tied to a specific operation or function or for PPPs that are infrequent in nature.

The "P" stands for prescribed numbers that are related to the function of the PPP activity. Review your chart of accounts to identify the applicable function and determine the full BARS Code.

There are also required note disclosures. See template note atNote X – PPP (Transferors).

3.4.22.70 **Operator Accounting – Schedule of Liabilities (Schedule 09) Reporting**

The operator will report PPP liabilities on the Schedule of Liabilities (Schedule 09). In the year of implementation, any existing PPP contracts should report a beginning balance on the Schedule 09. The beginning balance reported should be the amount calculated for the implementation of GASBS No. 94. In subsequent years, the beginning balance should match the prior year ending balance.

Any new PPP contracts entered during the year will be reported as an addition on the Schedule 09. The addition will be the liability calculated to add the PPP to your financial statements.

Reductions are the amount the PPP liability is reduced during the year, which is typically the principal portion of payments made.

If the PPP liability is remeasured for any of the items in Section 3.4.22.50, the change in the PPP liability should be reported as either an addition or reduction on the Schedule 09.

See Schedule 09 reporting instructions.

There are also required note disclosures. See template note atNote X – PPP (Operators).

3.4.22.71 **Operator Accounting – Full Accrual**

The three scenarios and their sample journal entries for operator accounting for full accrual (government-wide and proprietary fund statements) are included below:

1. The underlying PPP asset is an existing asset of the transferor.

Debit: Right-to-use PPP asset

Credit: Liability for installment payments

2. The underlying PPP asset is a new asset purchased or constructed by the operator and the PPP meets the definition of an SCA.

Debit: Right-to-use PPP asset

Credit: Liability for installment payments

3. The underlying PPP asset is a new asset purchased or constructed by the operator and the PPP does **not** meet the definition of an SCA.

Debit: Capital asset for new underlying PPP asset

Credit: Cash / accounts payable

Debit: Deferred outflows for underlying PPP asset to be transferred

Credit: Liability for underlying PPP asset to be transferred

This table also summarizes the operator accounting.

Type of PPP	Financial Element	Measured at
All types	Liability for installment payments (if any)	Present value of PPP payments expected to be received during the PPP term, net of estimated uncollectible amounts
1. Underlying PPP asset is existing asset of transferor 2. Underlying PPP asset is purchased/constructed by operator & is an SCA	Right-to-use PPP asset	Liability for installment payments + Payments made to transferor + initial direct costs + costs of improvements (if existing asset) + cost of purchased/constructed asset (if SCA)
3. Underlying PPP asset is purchased/constructed by operator & is **NOT** an SCA	Asset for the new purchased/constructed underlying PPP asset	Actual cost
3. Underlying PPP asset is purchased/constructed by operator & is **NOT** an SCA	Liability for the underlying PPP asset to be transferred to the transferor	Operator's estimated carrying value as of expected date of transfer
3. Underlying PPP asset is purchased/constructed by operator & is **NOT** an SCA	Deferred outflow of resources for the underlying PPP asset to be transferred to the transferor	Operator's estimated carrying value as of expected date of transfer

3.4.22.72 **Right-to-use PPP asset (Existing asset or new asset in SCA)**

An operator should initially measure the right-to-use asset when the underlying PPP asset is placed into service and include:

- The amount of the initial measurement of the liability for installment payments (if any)
- PPP payments paid to the transferor at or before the start of the PPP term
- Initial direct costs to place the right-to-use asset into service
- Existing asset – Cost of improvements to existing underlying PPP asset
- New asset in SCA – The cost of the purchased/constructed underlying PPP asset

A right-to-use asset should be amortized in a systematic and rational manner over the shorter of the PPP term or the useful life of the underlying PPP asset. GASB does not specify a required amortization method, so operators may choose which method they use (for example the interest method or straight-line).

3.4.22.73 **Asset for new purchased/constructed asset (if not SCA)**

An operator should recognize the underlying PPP asset until ownership of the underlying PPP asset is transferred to the transferor, if applicable. An operator should continue to apply other accounting and financial reporting requirements relevant to the underlying PPP asset, including depreciation and impairment.

3.4.22.74 **Liability & deferred outflow for new purchased/constructed asset to be transferred (if not SCA)**

If the operator is required to transfer the underlying PPP asset to the transferor during or at the end of the PPP term, the operator should measure the liability based on the estimated carrying value of the underlying PPP asset as of the expected date of the transfer in ownership to the transferor.

The operator should also recognize a deferred outflow in the same amount. This deferred outflow is amortized in a systematic and rationale manner over the PPP term. GASB does not specify a required amortization method, so transferors may choose which method they use (for example the interest method or straight-line).

3.4.22.75 **Liability for installment payments (all PPPs)**

The operator's initial PPP liability is measured at the present value of installment payments expected to be paid during the PPP term. The liability should include any of the following:

- Fixed payments
- Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as of the commencement of the PPP term
- Variable payments that are fixed in substance
- Amounts that are reasonably certain of being required to be paid under residual value guarantees
- Payments for penalties for terminating the PPP, if the PPP term reflects the operator exercising (1) an option to terminate the PPP or (2) a fiscal funding or cancellation clause
- Any other payments reasonably certain to be made to the transferor

As payments are made, the operator will recognize a reduction in the liability and interest expense. The PPP liability must be amortized using the interest method.

3.4.22.76 **PPP Accounting – Modified Accrual**

Governmental funds do not report an operator PPP asset or PPP liability. Instead, the operator would record a Capital Outlay Expenditure (debit) and an Other Financing Source for PPP (credit). As the operator makes payments, they would record a Debt Service Principal Expenditure (debit), Debt Service Interest Expenditure (debit), and reduce cash (credit).

3.4.22.77 **Operator Accounting – BARS Codes**

In a full accrual fund, the revenue and expense accounts used are interest expense and amortization expense. If the underlying PPP asset is a new asset purchased or constructed by the operator and the PPP does not meet the definition of an SCA (scenario 3) the deferred outflow will also be amortized to an expense over the PPP term.

592.PP.80	Recording interest expense payments
501.PP.00	Recording amortization expense on PPP asset
Functional BARS Code	Recording expense for amortizing the deferred outflow – use the BARS code for the function of government that the PPP is related to.

In a modified accrual fund, there is no PPP asset or PPP liability, so the accounts used are different.

594.PP.60	Recording the capital outlay expenditure at the start of the PPP term
391.70.00	Recording the “other financing source” at the start of the PPP term
591.PP.70	Recording debt principal payments
592.PP.80	Recording interest expense payments

The “P” stands for prescribed numbers that are related to the function of government that the PPP is supporting. Review your chart of accounts to identify the applicable function and determine the full BARS Code.

Refunding Debt

3 **Accounting**

3.4 **Liabilities**

3.4.4 **Refunding Debt**

3.4.4.10 Any government in the state of Washington may extinguish debt prior to the debt maturity date. The refunding is authorized by Chapter 39.53 RCW also known as the Refunding Bond Act.

3.4.4.20 An advance refunding occurs when previously issued debt is retired as it matures or at a call date at least in part by a new debt issue. Usually refunding is done to take advantage of lower interest rates or to modify debt service requirements. Often the proceeds from the sale of new debt with a lower interest rate are used to pay off old debt with a higher interest rate. Refunding is financially worthwhile when the present value of the savings from lower interest rates on the refunding debt plus any income from the investment of the refunding debt proceeds pending redemption of debt to be refunded are greater than the present value of the fees, sales discounts, redemption premiums and other costs of refunding.

3.4.4.30 There are two ways to structure the advance refunding of debt: the regular method and the crossover method.

The following definitions apply to the terms used here:

- Refunding debt (sometimes referred to as *new* debt) - debt issued to provide funds to replace the refunded debt at specified dates.
- Refunded debt (sometimes referred to as *old* debt) - debt for which payment at specified dates has been provided by the issuance of refunding debt.

Regular method of advance refunding

3.4.4.40 Under the regular method of advance refunding there can be either a ***legal*** or an ***in-substance defeasance***.

3.4.4.50 A **legal defeasance** occurs when debt is legally satisfied based on certain provisions in the debt instrument, even though the debt is not actually paid. A legal defeasance is rare in the government environment and generally occurs only when an amount sufficient to pay both principal and interest ***at the time of deposit*** is placed in an irrevocable trust with an independent escrow agent. A government is released from its legal status as the primary obligor on outstanding indebtedness after an escrow account is established (the government is only contingently liable).

3.4.4.60 In an **in-substance defeasance** debt is considered to be extinguished for financial reporting purposes even though a government has not met the legal requirements for a defeasance and so legally remains the primary obligor on the indebtedness. The proceeds from the sale of refunding (new) debt together with any other funds the entity may set aside for payment of refunded debt must be irrevocably placed with an escrow agent in a trust. The escrow agent invests the proceeds so that the cash realized from the maturing investments together with interest earned will meet the debt service requirements of the refunded (old) debt and redeem the balance of the old debt when it becomes callable or matures. Cash or other assets used for refunding must qualify as “essentially risk-free as to amount, timing and collection of principal and interest” and they must provide cash flows that are sufficient and timed to match the scheduled

interest and principal payments on the debt that is being extinguished. Also, the chance of the government being required to make any additional future payments must be remote.

3.4.4.70 Generally, the requirement for “essentially risk-free” securities may be accomplished through the purchase of U.S. government securities, securities guaranteed by the U.S. government, or U.S. government backed securities.

3.4.4.80 The government does not budget or report any refunded (old) debt. However, the government is responsible for verifying the amounts reported by the trustee. The amount of the old debt should be disclosed in a note to financial statements.

3.4.4.90 Since governmental funds operating statements reflect only the financial resource flows related to the refunding transaction, they do not report a gain or loss on an advance refunding resulting in defeasance.

3.4.4.91 Per GASB Statement 86, *Certain Debt Extinguishment Issues*, payments to the escrow agent made from the existing resources should be reported as debt service expenditures in financial statements using the current financial resources measurement focus.

3.4.4.100 The provisions of the Refunding Bond Act (Chapter39.53 RCW) satisfy the criteria for in-substance defeasance, except for the requirement to place cash and assets in an irrevocable escrow. If the irrevocable trust fund is not established, both the refunded (old) and the refunding (new) debt must be recorded and reported in the government’s financial statements.

3.4.4.110 **Journal entries governmental funds**

The refunded (old) debt is no longer reported on the government-wide statement of net position. The unmatured refunding (new) debt is reported on the government-wide statement of net position and the debt service on the new debt is recorded, budgeted and reported in the debt service fund.

Because governmental funds focus only on current financial resources, they do not report long-term debt principal in the funds. It is reported in the government-wide statement of net position.

111.00	Cash	
	3930000	Other Financing Sources – Proceeds of Refunding Long-Term Debt

To record proceeds from sale of refunding (new) debt.

599PP70	Other Financing Uses – Payment to Refunded Debt Escrow Agent	
593PP70	Advance Refunding Escrow [1]	
	111.00	Cash

To record transfer to the escrow agent.

[1] Payment made from a source other than refunding (new) debt.

592PP80	Debt Service Cost	
	111.00	Cash (or 213.10 Accounts Payable)

To record payment of refunding (new) debt issuance cost from the debt service fund current resources (not from proceeds generated from new debt).

3.4.4.120 **Journal entries proprietary funds**

25X.30	Unamortized Discount on Refunding (new) Debt [2]	
25X	Bonds Payable (old)	
231.10	Accrued Interest Payable (old)	
143.10	Unamortized Insurance Cost (new)	
198.20	Deferred Amount on Refunding [1]	
25X.20	Unamortized Premium on Refunded (old) Debt	
	25X.20	Unamortized Premium on Refunding (new) Debt [2]
	25X	Bonds Payable (new)
	151.00	Restricted Assets [3]
	25X.30	Unamortized Discount on Refunded (old) debt

To record issuance of refunding (new) bonds and extinguishment of refunded (old) debt.

592PP80	Interest Expense	
	198.20	Deferred Amount on Refunding

To record amortization of deferred amount on refunding.

Footnotes *(to above exhibit)*

[1] *Deferred Amount on Refunding* is the difference between:

Reacquisition price is the amount required to repay previously issued debt in a refunding transaction. In a current refunding, this includes principal of the old debt and any call premium. In an advance refunding, it is the amount placed in the escrow account that, together with interest earnings, is necessary to pay interest and principal on the old debt and any call premium. A premium or discount pertaining to the new debt is not considered part of the reacquisition price, but, instead, is a separate item related to and amortized over the life of the new debt.

Net carrying amount is the amount due at maturity, adjusted for any unamortized premium or discount related to the old debt, as well as any deferred outflows of resources or deferred inflows of resources associated with a derivative instrument that is an effective hedge of the old debt and remaining prepaid insurance related to extinguished debt (GASB Statement 86, Certain Debt Extinguishment Issues).

The difference between the reacquisition price and the net carrying amount of the old debt should be reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

[2] Use either account depending if the refunding (new) debt was issued at premium or discount.

[3] Use this entry if there are funds available in various restricted assets accounts for payment of refunded (old) debt.

Crossover method of advance refunding

3.4.4.130 In this type of refunding the proceeds from issuance of refunding (new) debt are placed in the escrow account. The escrow account does not immediately make payments on the refunded (old) debt principal and interest. Instead, it pays all or a portion of the refunding (new) debt's principal and interest until a crossover date when the refunded (old) debt can be called or it matures and the amount accumulated in escrow is sufficient to repay it. ***Until the crossover date, both the refunded (old) and refunding (new) debt would be reported in the financial statements.***

3.4.4.140 Until the crossover date, the debt service on the refunded (old) debt is recorded and budgeted in the debt service fund. Assets held in the trust by the escrow agent to pay debt service on the refunding (new) debt are also recorded in the debt service fund. Both the refunded (old) and refunding (new) debt are reported on the statement of net position, pending the crossover date.

The new debt is not to be included in the computation of indebtedness for the purpose of any constitutional or statutory debt limit.

3.4.4.150 **Journal entries governmental funds**

115.00	Deposits with Fiscal Agents/Trustees	
	3930000	Other Financing Source – Proceeds of Refunding Long-Term Debt
	111.00	Cash [1]

To record establishment of the escrow account.

[1] Transfer of resources other than proceeds of refunding debt (e.g., excess of cash available for the refunding transaction).

3.4.4.160 Journal entries proprietary funds

115.00	Cash with Fiscal Agent	
25X.30	Unamortized Discount on Refunding (new) Debt [1]	
592PP80	Issuance Cost (new)	
	25X.00	Bonds Payable (new)
	25X.20	Unamortized Premium on Refunding (new) Debt [1]
	110.00	Cash [2]

To record issuance of refunding (new) debt.

25X.00	Bond Payable (old)	
214.00	Accrued Interest Payable (old)	
25X.20	Unamortized Premium on Refunded (old) Debt	
198.20	Deferred Amount on Refunding [3]	
	25X.30	Unamortized Discount on Refunded (old) Debt
	115.00	Cash with Fiscal Agent

To remove the refunded (old) debt at the crossover date.

Footnotes *(to above exhibit)*

[1] Use either account depending if the refunding (new) debt was issued at premium or discount.

[2] Transfer of resources other than proceeds of the refunding debt (e.g., excess of cash available for the refunding transaction).

[3] See journal entry for the defeasance method for description of this account.

Risk Management Principles

3 **Accounting**

3.4 **Liabilities**

3.4.9 **Risk Management Principles**

3.4.9.10 This interpretation establishes the accounting and financial reporting requirements for risk management activities of local governments. It implements the Governmental Accounting Standards Board (GASB), Statement 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, as amended by GASB Statement 30, *Risk Financing Omnibus*, GASB Interpretation 4, *Accounting and Financial Reporting for Capitalization Contributions to Public Entity Risk Pools*, and Chapter 48.62 RCW. Unless otherwise noted, this section applies to all self insurance arrangements including property and liability (i.e., property and casualty), health and welfare (medical, dental, etc.), unemployment, and industrial insurance.

Accounting standards

3.4.9.20 The GASB Statement 10 and Interpretation 4 prescribe the accounting standards for risk financing and related insurance issues.

Risk transfer

3.4.9.30 A discussion related to transfer of risk is included inGASB Statement 10, paragraphs 7-9 and should be considered for each program.

Accounting for contributions to risk pool

3.4.9.40 A capitalization contribution to a public entity risk pool WITH transfer or pooling of risk should be reported as a deposit if it is **probable** that the contribution will be returned to the entity upon either the dissolution of or the approved withdrawal from the pool. An entity's determination that the return of the contribution is probable should be based on the provisions of the pooling agreement and an evaluation of the pool's financial capacity to return the contribution. In governmental funds, fund balance should be classified as nonspendable to indicate that the deposit is not appropriable for expenditures.

3.4.9.50 If it is **not probable** that a capitalization contribution will be returned, the contribution should be reported:

1. In ***governmental funds***, the entire amount of the capitalization contribution may be recognized as expenditure in the period of the contribution; reporting of prepaid insurance is not required. Otherwise the contribution should be reported initially as prepaid insurance (an asset), and expenditures should be allocated and recognized over the periods for which the pool is expected to provide coverage. If prepaid insurance is reported, fund balance should be classified as nonspendable to indicate that the amount is not appropriable for expenditures.

2. In ***proprietary funds***, the contribution should be reported initially as prepaid insurance (an asset), and expenses should be allocated and recognized over the periods for which the pool is expected to provide coverage.

In both cases, the periods expected to be covered should be consistent with the periods for which the contribution is factored into the pool's determination of premiums but should not exceed ten years if is not readily determinable.

3.4.9.60 A capitalization contribution to a public entity risk pool WITHOUT transfer or pooling of risk should be reported as a deposit or a reduction of claims liabilities.

Accounting related to claims

3.4.9.70 Local governments are required to report an estimated loss from a claim as an expenditure/expense and as a liability if both of these conditions are met:

1. Information available before the financial statements are issued indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements. It is implicit in this condition that it must be probable that one or more future events will also occur, confirming the fact of the loss.

2. The amount of the loss can be reasonably estimated.

3.4.9.80 If a government uses a single fund to account for its risk financing activities, that fund should be either the general (current expense) fund or an internal service fund. Both funds must use the method described above for calculating claims liabilities. However, the following procedures also apply:

3.4.9.90 1. If the general fund is used, accounting and reporting must be on the modified accrual basis of accounting.

The entity may use any method it chooses to allocate loss expenditures/expenses to the other funds of the entity. However, if the total amount charged to the other funds, (including the general fund itself) exceeds total expenditures and liabilities, the excess amounts should be reported as transfers. Transactions that constitute reimbursements of a fund for expenditures/expenses initially made from it that are properly applicable to another fund should be reported as expenditures/expenses in the reimbursing fund and as reductions of the expenditure/expense in the fund that is reimbursed.

3.4.9.100 2. If an internal service fund is used, accounting and reporting must be on the full accrual basis of accounting.

The internal service fund should recognize both current and long-term claims expenses and liabilities for its risk financing activities within the fund.

The internal service fund may use any basis it considers appropriate to charge other funds of the entity, as long as the following conditions are met:

a. The total charge by the internal service fund to the other funds for the period is calculated in accordance with GASB Statement 10, paragraphs 53 through 57; or,

b. The total charge by the internal service fund to the other funds is based on an actuarial method or historical cost information and adjusted over a reasonable period of time so that internal service

fund revenues and expenses are approximately equal.

c. In addition to (2) above, the total charge by the internal service fund to the other funds may also include a reasonable provision for expected future catastrophe losses.

Charges made in accordance with the foregoing provisions should be recognized as revenue by the internal service fund and as expenditures/expenses by the other funds of the entity. Deficits, if any, in the internal service fund resulting from the application of (2) and (3) above do not need to be charged back to the other funds in any one year, as long as adjustments are made over a reasonable period of time; however, a deficit fund balance of the internal service fund should be disclosed in the notes to financial statements.

If the charge by the internal service fund to the other funds is greater than the amount resulting from the application of (1) through (3) above, the excess should be reported in both the internal service fund and the other funds as a transfer.

If the charge by the internal service fund to the other funds fails to recover the full cost of claims over a reasonable period of time, any deficit fund balance in the internal service fund should be charged back to the other funds and reported as an expenditure/expense of those funds.

Loss recognition principle

3.4.9.110 Current generally accepted accounting principles continue to apply to all state and local governments. These principles require entities to recognize loss liabilities and related expenditures/expenses in conformity with the GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. These principles are as follows:

When a loss contingency exists, the likelihood that the future event or events will confirm the loss or impairment of an asset or the incurrence of a liability can range from probable to remote. These terms are defined as follow:

a. ***Probable –*** The future event or events are likely to occur.

b. ***Reasonably possible –*** The chance of the future event or events occurring is more than remote, but less than likely.

c. ***Remote –*** The chance of the future event or events occurring is slight.

3.4.9.120 If a claim is asserted and the probable loss is reasonably estimable, the expenditure/expense and liability should be recognized in the financial statements. Incidents often occur before the end of the accounting period where claims are not reported or asserted when the financial statements are prepared. If an incurred but not reported (IBNR) loss can be reasonably estimated, and it is probable that a claim will be asserted, the expenditure/expense and liability should be recognized.

3.4.9.130 Financial statement footnote disclosure should be made for any contingent liability for claims when there is at least a reasonable possibility that a loss may have been incurred. This disclosure would indicate the nature of the contingency and should give an estimate of the possible loss or range of loss, or state that such an estimate cannot be made.

Financial statement footnote disclosure is not required for a loss contingency involving an unreported claim or assessment if there has been no manifestation by a potential claimant of an awareness of a possible claim or assessment unless it is considered probable that a claim will be asserted and there is a reasonable possibility that the outcome will be unfavorable.

Financial statement disclosures

3.4.9.140 The financial statement disclosures may be made for the entity as a whole. However, there may be circumstances when aggregate disclosures are misleading. In those circumstances, additional or separate presentation should be made by fund or by fund type. In addition, there may be circumstances under which disclosures by fund or by fund type may provide more useful information than disclosures presented in the aggregate. Specific Illustrative Examples of disclosures are provided in Appendix D to GASB Statements 10 and 30.

3.4.9.150 If a pool included in the oversight entity's financial report issues its own separate report, the report should emphasize oversight entity disclosures about its participation in a pool and provide reference to the separate report of the pool.

3.4.9.160 Component units that participate in their oversight entity's risk management internal service fund should make the disclosures required above in their separately issued component

unit financial statements. The component unit should also disclose the fact that the unit participates in the fund, including a description of the nature of that participation, and state the rights and responsibilities of both the unit and the oversight entity.

Additional reporting

3.4.9.170 The following section describes additional reporting for entities engaged in self-insurance or self-funding as well as risk assumption. These reporting requirements are not applicable if the only risk financed or assumed is an annual deductible of a purchased insurance policy. Members of public entity risk pools are not required to report risks transferred to the pool but are required to report all other retained risk(s).

3.4.9.180 **Report to State Auditor's Office by local governments which individually assume risk or self-insure**

This section establishes reporting requirement for all local governmental entities which individually self-insure (with a formal risk financing plan) or assume risk (without a formal risk financing plan). ***Report must be submitted to the State Auditor's Office each year as part of the government's annual report.*** The information which must be included in this report is defined in BARS Manual 4.8.9, *Risk Management (Schedule 21)*.

3.4.9.190 **Report to State Auditor's Office by entities which provide insurance coverage or claims servicing to others**

This section establishes annual reporting requirements for all entities organized under Chapter 48.62 RCW which provides insurance coverage (with or without claims servicing) to pool members or others (aka joint programs). This requirement applies to both stand-alone public entity risk pools and programs which are part of a parent entity. ***Report must be submitted to the State Auditor's Office each year as part of the government's annual report.*** The information which must be included in this report is defined in BARS Manual 4.8.9, *Risk Management (Schedule 21)*.

3.4.9.200 Accounting standards provide the following definitions for those entities which provide claims servicing or insurance coverage to others:

a. If an entity provides insurance or risk management coverage separate from its own risk management activities to individuals or organizations outside the governmental reporting entity and there is material transfer or pooling of risk among the participants, that activity should be accounted for as a ***public entity risk pool***. The governmental reporting entity is the oversight unit, and all related component units, if any, must be combined in accordance with the GASB Codification Section 2100, *Defining the Financial Reporting Entity*.

b. If an entity provides risk transfer or pooling coverage combined with its own risk management activities to individuals or organizations outside its reporting entity, those activities should continue to be reported in the ***general fund or an internal service fund*** only as long as the entity is the predominant participant in the fund. If the entity is not the predominant participant in the fund, then the combined activities should be reported as a ***public entity risk pool using an enterprise fund***.

c. If an entity performs claims-servicing functions, not insurance functions, for individuals or organizations that are not a part of the governmental reporting entity, amounts collected or due from those individuals or organizations and paid or to be paid to settle claims should be reported as an asset or liability on an accrual basis, as appropriate. The operating statement should report claims-servicing revenue and administrative costs from these activities.

Solid Waste Utilities: Closure and Postclosure Cost

3 **Accounting**

3.4 **Liabilities**

3.4.8 **Solid Waste Utilities: Closure and Postclosure Cost**

This guidance applies only to cities and counties.

Background

3.4.8.10 The Department of Ecology (Ecology) mandates funding of solid waste landfill closure and postclosure costs in WAC 173-304-467, WAC 173-351-600, and WAC 173-350-400 subsection 8. The standards prescribe specific closure and postclosure care procedures and the

funding of them. While these standards apply to a landfill's closure and postclosure, they are associated with its operation and represent a material cost to be recognized during its operation.

3.4.8.20 In August 1993, the Governmental Accounting Standards Board (GASB) issued Statement 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*. This Statement establishes standards of accounting and financial reporting for municipal solid waste landfill closure and postclosure care costs that are required to be incurred by federal, state, and local laws or regulations.

Department of Ecology guidelines

3.4.8.30 WAC 173-304-467, WAC 173-351-600, and WAC 173-350-400 require each owner or operator to prepare written closure and postclosure cost estimates as part of the facility closure and postclosure plans. These plans are to be reviewed annually and adjusted for cost changes, including inflation.

3.4.8.40 Each owner or operator is also required to either establish a reserve account or provide another form of financial assurance that, over the life of the facility, funds will be adequate to cover the costs of closing the facility and performing postclosure activities in accordance with state and federal regulations (RCW 70.95.215). Ecology rules require that reserve accounts be set aside as restricted assets. These requirements apply to all landfill disposal facilities.

GAAP reporting

3.4.8.50 Landfills using proprietary fund accounting and reporting should recognize a portion of the closure and postclosure costs as an expense and liability in each period that they accept waste. The estimated cost assigned to each period should be based on the landfill use rather than the passage of time. GASB Statement 18 prescribes the following formula to determine the current period amount:

$$\frac{\text{Estimated total closure cost} \times \text{Cumulative capacity used}}{\text{Total estimated capacity}} - (\text{Amount previously recognized})$$

3.4.8.60 Landfills using governmental fund accounting and reporting should use the same method as proprietary funds for the measurement and recognition of the accrued liability for closure and postclosure costs (described above).

3.4.8.70 GASB Statement 18 also provides guidance on equipment which is a part of the closure costs, versus equipment that is used during normal operations. The estimated cost of equipment expected to be part of the closure costs should be included in the closure cost estimate and the liability as calculated for each period. Such equipment cost should not be capitalized. When these assets are acquired, they should be reported as a reduction of the liability.

3.4.8.80 GASB Statement 18 requires state and local governments to disclose the nature and source of landfill closure and postclosure care requirements, the nature of estimates, the reported liability at the balance sheet date, the estimated cost remaining to be recognized, the percentage of landfill capacity used to date, and the estimated remaining landfill life in years. Governments also are required to disclose how closure and postclosure care financial assurance requirements are being met.

3.4.8.90 Local governments should report their estimated land fill closure and postclosure liability on BARS Manual 4.8.3 Liabilities (Schedule 09).

Subscription Based Information Technology Arrangement (SBITA)

3 **Accounting**

3.4 **Liabilities**

3.4.21 **Subscription Based Information Technology Arrangement (SBITA)**

3.4.21.10 **Introduction and Definition**

The Governmental Accounting Standards Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards* (Cod.) Section (Sec.) S80 "Subscription-Based Information Technology Arrangements" establishes standards of accounting and financial reporting subscription-based information technology arrangements (SBITAs) by a government.

A Subscription Based Information Technology Arrangement (SBITA) is a contract that conveys control of the right to use another party's (a SBITA vendor's) IT software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

3.4.21.20 **Exclusions**

The following items should not follow SBITA accounting and reporting guidance:

- Short-term SBITAs – One that, at the beginning of the SBITA, has a maximum possible term of 12 months or less, including any options to extend – e.g. rolling month-to-month contracts
- Contracts that convey control of both IT software and tangible capital assets if the software component is insignificant – e.g., a smart copier
- Governments that provide the right to use their IT software and associated tangible capital assets to other entities through SBITAs
- Contracts that meet the definition of a public-private and public-public partnership (see BARS 3.4.22)
- Licensing arrangements that provide a perpetual license to governments to use a vendor's computer software

3.4.21.21 **Perpetual License versus Subscription**

Perpetual license arrangements are indefinite, whereas SBITAs are for a finite period of time. With a perpetual license, the software is directly downloaded onto the government's computer or servers. After the software is paid for, the government will never lose access to the software (it can be accessed perpetually).

A subscription contract requires a monthly or annual fee to continue to access the software. If the subscription fee is not paid, the government will lose access to the software. A subscription contract with indefinite renewal periods, is not the same as a perpetual license.

One way to determine whether it is a perpetual license or a subscription bases contract is to ask: "Can I still log in and access the IT software after the engagement term ends?" If the answer is "no," it is not a perpetual license, and the contract should be further evaluated to determine if it meets the definition of a SBITA.

3.4.21.30 **Subscription Term**

The subscription term includes:

- The period during which a government has a non-cancelable right to use the underlying IT assets
  - plus periods covered by the government's **or** SBITA vendor's option to extend the SBITA (if reasonably certain the option will be exercised)
  - and periods covered by the government's **or** SBITA vendor's option to terminate the SBITA (if reasonably certain the option will not be exercised)
- Subscription term **excludes** periods for which both the government and SBITA vendor each have the option to terminate or both parties must agree to extend.

Determining whether an extension or termination option is reasonably certain of being exercised requires professional judgement and should take into consideration the specific facts and circumstances at your government. Examples of items to consider in this analysis:

- A significant economic incentive, such as contractual terms and conditions for the optional periods that are favorable compared with current market rates
- A potential change in technological development that significantly affects the technology used by the underlying IT assets
- A potential significant change in the government's demand for the SBITA vendor's IT assets
- A significant economic disincentive, such as costs to terminate the SBITA and sign a new SBITA (for example, negotiation costs, costs of identifying another suitable underlying IT asset or another suitable SBITA vendor, implementation costs, or a substantial cancellation penalty)
- The history of exercising options to extend or terminate
- The extent to which the underlying IT assets in the SBITA are essential to the provision of government services

3.4.21.31 **Short-Term SBITA**

A short-term SBITA is one that has a maximum possible term of 12 months or less. The maximum possible term includes all options to extend regardless of whether those options will be exercised or not.

Example: A SBITA contract has an initial noncancelable term of 6 months with an option for the government to extend for another year. The government will most likely not exercise that option.

This is **not** a short-term SBITA because the maximum possible term is 18 months. The extension option is included in the maximum possible term even if it will not be exercised. The subscription term for accounting purposes would only be 6 months.

For a short-term SBITA, a government should recognize an expense/expenditure when subscription payments are due based on the payment provisions of the SBITA contract.

3.4.21.32 **Renewals**

Many SBITA contracts have automatic annual renewals. In most cases at each renewal date, the SBITA vendor and the government can cancel the contract. If both parties can cancel the contract, any periods covered by the renewal terms are considered cancellable periods. Cancelable periods are always excluded from the maximum possible subscription term.

For example, if a government has a one-year SBITA contract for their online teleconferencing and the contract automatically renews each year, and both the SBITA vendor and government can cancel at each renewal, then the maximum possible term is only 1 year because the renewal periods are cancelable periods and excluded from the maximum possible term. This would be considered a short-term SBITA.

3.4.21.40 **Discount Rate**

The subscription payments should be discounted using the rate the SBITA vendor charges the government. This may be a rate stated in the contract (if it's a reasonable rate) or the implicit rate can be estimated. Governments are also allowed to input the interest rate using guidance in Cod. Sec. I30 "Interest Costs – Imputation", but it is not required. If the implicit rate is not determinable, the government's estimated incremental borrowing rate may be used.

The incremental borrowing is the interest that a borrower would have to pay to finance an asset of that same type, over a similar term, in the current economic environment, and of a similar amount. This is the borrowing rate at the margin for new debt, and not necessarily the rate of other previously negotiated debt which may have a dissimilar borrowing profile.

Governments should use professional judgment to determine their best estimate for the interest rate, maximizing the use of observable information to get a base rate (a starting point). For example, a prime rate would be a reasonable starting place for determining the incremental borrowing rate. Another example would be reviewing a local bank's website for their published interest rates.

If the government determines that they could finance an asset at that base rate (the prime rate, or another reasonable starting point), then that base rate should be used. However, if there are economic factors that would make that rate unobtainable, then the base rate should be adjusted accordingly. It is up to governments to determine the most appropriate discount rate.

3.4.21.50 **Remeasurement**

The government is required to remeasure (recalculate) the subscription liability in the following circumstances:

- Change in subscription term
- Change in estimated amounts for payments already included in the subscription liability
- Change in the interest rate the SBITA vendor charges (if used as the discount rate)
- Contingency for variable payments is resolved.

If the subscription liability is remeasured for any of the changes above, the index or rate used for variable payments and the discount rate should also be updated. However, the liability does not need to be remeasured solely for a change in the index or rate used for variable payments or a change in the incremental borrowing rate (if used as the discount rate).

A subscription asset should generally be adjusted by the same amount as the subscription liability. If the change reduces the carrying value of the subscription asset to zero, any remaining amount should be reported as a gain.

3.4.21.51 **Variable and other non-SBITA payments**

Variable payments should be excluded from the subscription liability calculation. Variable payments are those that depend on future performance of the government, usage of the underlying asset, or number of users. For example, a contract may require an additional $50 per

user. The payment amount would vary depending on how many employees had user accounts, so that portion of the payment would be excluded from the subscription liability.

However, if the variable payment is fixed in substance, it should be included in the liability calculation. For example, if a payment is $50 per user, and the contract locks the government into paying for at least 10 user licenses, then the $500 payment is fixed in substance because the government will always be required to pay at least $500.

Some contracts include additional fees or taxes. Only the portion of the payment that is related to the right to use the asset should be included in the subscription liability calculation. For example, if a subscription contract also includes technical support and sales tax, those are non-SBITA payments and should be excluded from the subscription liability.

BARS Code 591 and 592 should only be used for the subscription payments that are related to the right to use the software. The variable and non-SBITA payments should be coded to regular, functional BARS expense codes.

3.4.21.52 **Subscription rate increases**

Some contracts include clauses to increase the rates over time. There are two types of rate increases, known rate increases and variable rate increases. An example of a variable rate increase is an increase based on the Consumer Price Index (CPI) where the amount of the increase will vary depending on the CPI. An example of a known rate increase is a flat 3% annual increase where the increase amount is known and can be calculated for each period.

If the contract includes a variable rate increase, that rate increase should be ignored for calculating the liability, since the increase amount is unknown at the time of calculation.

For example, there is a 5-year SBITA that charges $500 per month for the first year and in each subsequent year the payment will be increased based on the CPI. The subscription liability calculation would assume the payment to be $500 for all 5 years of the contract. Since we do not know what the CPI increase will be in the future, the CPI increase is ***not*** factored into our calculation.

When making the monthly payment, only the original $500 used to calculate the liability should be coded to BARS 591.XX.70 and 592.XX.80. For example, if the subscription payment increased to $550 in the second year, the payment would be split: $500 would be charged to BARS 591.XX.70 and BARS 592.XX.80 and the remaining $50 is considered a variable payment would be charged to a functional BARS expense code.

Governments are required to disclose the total variable payments made on SBITA contracts, so governments should develop a process to track these variable payments.

Conversely, if a subscription payment increases based on a flat rate, that should be factored into the liability. For example, there is a 5-year SBITA that charges $6,000 for the first year and each subsequent year the annual payment will be increased by 3%. This increase is factored into the total liability because it is known and can be accurately calculated at the beginning of the subscription. The government would assume the annual payments increase each year as shown in the table below:

Year	Annual payments
1	$ 6,000
2	$ 6,180
3	$ 6,365
4	$ 6,556
5	$ 6,753

The government would calculate the present value of the payments in the table above to determine the SBITA liability.

3.4.21.60 **Schedule of Liabilities (Schedule 09) Reporting**

The government will report subscription liabilities on the Schedule of Liabilities (Schedule 09). In the year of implementation, any existing subscriptions should report a beginning balance on the Schedule 09. The beginning balance reported should be the amount calculated for the implementation. In subsequent years, the beginning balance should match the prior year ending balance.

Any new SBITA contracts entered during the year will be reported as an addition on the Schedule 09. The addition will be the liability calculated to add the subscription to the financial statements.

Reductions are the amount the subscription liability is reduced during the year, which is typically the principal portion of payments made.

If the subscription liability is remeasured for any of the items in Section 3.4.21.60, the change in the subscription liability should be reported as either an addition or reduction on the Schedule 09.

See Schedule 09 reporting instructions.

There are also required note disclosures. See template note atNote X – SBITA.

3.4.21.70 **Subscription Liability – Full accrual**

For full accrual reporting (such as the government wide financial statements and proprietary fund statements) at the start of the subscription term, the government will recognize a subscription liability and subscription asset.

The subscription liability is measured at the present value of payments expected to be made during the subscription term. This includes:

- Fixed payments
- Variable payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate), initially measured using the index or rate as of the start of the subscription term
- Variable payments that are fixed in substance
- Payments for penalties for terminating the SBITA, if the subscription term reflects the government exercising (1) an option to terminate the SBITA or (2) a fiscal funding or cancellation clause
- Any subscription contract incentives receivable from the SBITA vendor
- Any other payments that are reasonably certain of being required based on an assessment of all relevant factors

As the government makes payments, they reduce the subscription liability and recognize interest expense. The subscription liability must be amortized using the interest method.

3.4.21.71 **Subscription Asset – Full accrual**

The subscription asset is measured at the initial subscription liability plus payments associated with the SBITA contract made at the start of the subscription term, plus any capitalizable initial implementation costs (see section 3.4.21.72).

Payments made to the SBITA vendor and payments for capitalizable initial implementation costs that are made before the start of the subscription term should be reported as a prepayment (an asset). This prepayment should be reduced by any incentives received from the same SBITA vendor. At the start of the subscription term, the prepayment should be reclassified as an addition to the subscription asset. This prepayment is a non-amortized capital asset until the SBITA is placed into service, similar to construction in progress.

If the entire SBITA contract is paid upfront (a prepaid SBITA), then SBITA asset is equal to the amount paid (no present value calculations) and there is no SBITA liability to report (since the entire contract has already been paid). For example, a government enters a software contract for 5 years at a price of $10,000 per year. The government pays $50,000 for all 5 years at the beginning of the contract, so this is a prepaid SBITA. The government would report a SBITA asset of $50,000 and no SBITA liability.

The subscription asset should be amortized over the shorter of the subscription term or the underlying IT asset's useful life. GASB does not specify a required amortization method, so governments may choose which method they use (for example the interest method or straight-line).

3.4.21.72 **Initial Implementation Costs**

Implementation is grouped into three phases:

- Preliminary project stage – Activities in this stage include the conceptual formulation and evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives for the SBITA. **These costs should be expensed.**
- Initial implementation stage – Activities in this stage include ancillary charges related to designing the chosen path, such as configuration, coding, testing, and installation. Other ancillary charges necessary to place the subscription asset into service also should be included in this stage. The initial implementation stage for the SBITA is completed when the subscription asset is placed into service (or when the first module is functional if there is more than one module being deployed). **These costs should be capitalized as a part of the subscription asset.**
- Operation and additional implementation stage – Activities in this stage include maintenance, troubleshooting, and other activities associated with ongoing access to the underlying IT assets. This also includes implementation of additional modules if more than one module is being deployed. **These costs should generally be expensed.**

If there are additional outlays that increase the functionality or the efficiency of the subscription asset, those should be capitalized.

Training costs should always be expensed.

3.4.21.80 **SBITA Reporting in Governmental Funds**

Governmental funds do not report a subscription asset or subscription liability. Instead, the government would record a Capital Outlay Expenditure (debit) and an Other Financing Source for SBITA (credit). As the government makes payments, they would record a Debt Service Principal Expenditure (debit), Debt Service Interest Expenditure (debit), and reduce cash (credit).

3.4.21.90 **SBITA BARS Codes**

In a full accrual fund, the only revenue and expense accounts used are interest expense and amortization expense.

592.PP.80	Recording interest expense payments
501.PP.00	Recording amortization expense on subscription asset

In a modified accrual there is no subscription asset or subscription liability, so the accounts used are different.

594.PP.60	Recording the capital outlay expenditure at the start of the subscription term
391.70.00	Recording the “other financing source” at the start of the subscription term
591.PP.70	Recording debt principal payments
592.PP.80	Recording interest expense payments

The “P” stands for prescribed numbers that are related to the function of government the SBITA is supporting. Review the chart of accounts for your government to identify the applicable function and determine the full BARS Code. For example, if a government has a water utility fund and has a SBITA for software that calculates the customer water bills, the principal payment would be coded to BARS 591.34.70.

Expenses for short-term SBITA contracts should be coded to the regular, functional BARS expense/expenditure codes. For example, if a government has a short-term SBITA for software used by the water utility fund, the subscription expense would be coded to BARS 534.00.40.

3.4.21.100 **Example Journal Entries – Full Accrual**

A government signs a 60-month SBITA contract for their accounting software. The payments are $1,000 per month (made at the beginning of the month) and the government uses an annual discount rate of 3%.

The government first calculates the present value of the subscription payments to be $55,791. The government had no capitalizable initial implementation costs, so the subscription asset is the same amount as the subscription liability:

Subscription asset	55,791	
Subscription liability		55,791

The government records the first month's subscription payment. Since this payment is made at the very start of the subscription term, the present value is $1,000 and all the payment goes towards principal and directly reduces the subscription liability.

Subscription liability	1,000	
Cash		1,000

The government also records the first month's subscription asset amortization. This example uses straight line amortization ($55,791 initial subscription asset divided by 60 total months equals monthly amortization of $930). This will be the exact same journal entry each month since straight line amortization is used.

Amortization expense (BARS 501.PP.00)	930	
Accumulated amortization – subscription asset		930

The government records the second month's subscription payment. This time there is interest expense, because one month of interest has accrued. The interest is calculated by multiplying the balance of the subscription liability from the prior month of $54,791 ($55,791 initial subscription liability minus the $1,000 payment in the first month) by the monthly interest rate of 0.25% (annual interest rate of 3% divided by 12 months). The remaining portion of the payment is the principal amount that reduces the subscription liability.

Subscription liability	863	
Interest expense (BARS 592.PP.80)	137	
Cash		1,000

3.4.21.101 **Example Journal Entries – Modified Accrual**

A government signs a 60-month SBITA contract for their accounting software. The payments are $1,000 per month (made at the beginning of the month) and the government uses an annual discount rate of 3%.

The government first calculates the present value of the subscription payments to be $55,791. Since the modified accrual funds do not record a subscription asset or subscription liability different accounts are used. However, the amounts calculated for the full accrual journal entries are the exact same that are used for the modified accrual journal entries.

Capital outlay – subscription asset (BARS 594.PP.60)	55,791	
Other financing source – SBITA (BARS 391.70.00)		55,791

The government records the first month's subscription payment. Since this payment is made at the very start of the subscription term, the present value is $1,000 and all the payment goes towards principal. Since there is no subscription liability to reduce, the payment is recorded as a debt service expenditure.

Debt service expenditure – principal (BARS 591.PP.70)	1,000	
Cash		1,000

There is no subscription asset in the modified accrual fund, therefore there is nothing to amortize.

The government records the second month's subscription payment. This time there is interest expense, because one month of interest has accrued. The same amounts calculated for the full accrual journal entries are used.

Debt service expenditure – principal (BARS 591.PP.70)	863	
Debt service expenditure – interest (BARS 592.PP.80)	137	
Cash		1,000

Deferred Outflows/Inflows of Resources Accounting and Reporting of Property Tax

3 **Accounting**

3.5 **Deferred Outflows/Inflows of Resources**

3.5.2 **Accounting and Reporting of Property Tax**

3.5.2.10 Property tax revenue should be recognized in the period for which levied, regardless of when they are due or collected. It should be reported on the date which the government has an enforceable legal claim to the resources or in the beginning of the period for which levied, if sooner. In Washington State the date for both situations is January 1.

3.5.2.20 **Government-wide financial statements**

According to above accounting guidance the entity should not recognize any tax in the 201X [1] financial statements for the 201Y [2] fiscal year, except if somebody prepays the 201Y tax; the prepaid tax should be recorded as cash offset by deferred inflow of resources (DR Cash/CR Deferred Inflow of Resources).

So, the 201X financial statements should report tax receivable for uncollected 201X tax (and the tax was already recognized as revenue) and deferred inflows of resources related to prepaid tax for 201Y. This transaction (DR Cash/CR Deferred Inflows of Resources) will be reversed in 201Y when the prepaid tax will become revenues. Since most likely the prepayments don't happen often, the amounts are immaterial and it will be quite common not to see any deferred inflows related to property tax on government-wide financial statements.

3.5.2.30 **Fund financial statements**

On December 31, 201X an entity should report accounts receivable for uncollected 201X tax. Revenues should be recorded for the outstanding amount expected be collected within the availability period (set by policy, typically 60 days). The amount expected to be collected after the availability period should be recorded as deferred inflows of resources (unavailable tax). The only other deferred inflows of resources related to property tax would be any tax prepaid for 201Y.

In the 201X the amount of deferred inflows would be also adjusted for the previous years' delinquent taxes.

Footnotes

[1] 201X indicates reporting year
[2] 201Y indicates subsequent year

Classification of Deferred Outflows/Inflows of Resources

3 **Accounting**

3.5 **Deferred Outflows/Inflows of Resources**

3.5.1 **Classification of Deferred Outflows/Inflows of Resources**

3.5.1.10 GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* requires local governments to distinguish *assets* from *deferred outflows of resources* and *liabilities* from *deferred inflows of resources*.

3.5.1.20 **Assets** are resources with present service capacity that the government presently controls.

- Prepayments such as rent, insurance, etc.

3.5.1.30 **Deferred outflow of resources** is a consumption of net assets by the government that is applicable to a future reporting period. Deferred outflows are always debits.

- Accumulated decrease in fair value of hedging derivatives.
- Grants paid in advance when all eligibility requirements except timing requirement have been met.
- Deferred loss on refunding.
- Deferred outflows related to pensions.
- Deferred outflows related to OPEB.
- Goodwill – when an acquiring government provides a consideration exceeding the net position acquired (GASB Statement 69, *Government Combinations and Disposal of Government Operations*).

3.5.1.40 **Liabilities** are present obligations to sacrifice resources that the government has little or no discretion to avoid.

- Unearned revenue: Assets recorded prior to the occurrence of either an exchange or certain nonexchange transaction in which the government cannot recognize a revenue. Amounts reported in both the governmental fund and the government wide statements must be the same amount. Examples include:
  - Derived tax revenues (e.g., sales tax, MVFT, hotel/motel tax, etc.) received in advance.
  - Charges for goods or services revenue received before the exchange has occurred.
  - Grants received in advance when any eligibility requirement, except timing (see below), has not been met.

3.5.1.50 **Deferred inflow of resources** is an acquisition of net assets by the government that is applicable to a future reporting period.

- Accumulated increase in fair value of hedging derivatives.
- Deferred service concession arrangement receipts.
- Grants received in advance when all eligibility requirements have been metexcept timing

requirement.
- Deferred gain on refunding.
- Sale of future revenues.
- Special assessments.
- Deferred inflows related to pensions.
- Deferred inflows related to OPEB.
- Deferred inflows related to leases (lessors only; GASB 87)
- Deferred inflows related to conduit debt arrangements (GASB 91)
- Unearned revenues: property taxes received before the legally enforceable claim has occurred (or any other imposed nonexchange transactions). Amounts reported in both the governmental fund and the government-wide statements must be the same amount.
- Modified accrual (governmental fund statements) only, unavailable revenue: assets recorded in governmental funds as a result of revenue generating transactions before the revenue is available under recognition criteria (e.g., courts receivables, property tax receivables, unpaid licenses and permits, other unpaid receivables, etc.). This category would not be reported on the government wide statements.

3.5.1.60 GASB expressly reserved for itself the determination of which items traditionally reported as assets or liabilities should be reclassified as deferred outflows or inflows of resources. The use of the term *deferred* should be limited to items reported as deferred outflows or inflows of resources.

3.5.1.70 Do not confuse the *deferred inflows* or *deferred outflows of resources* with *inflows of resources* or *outflows of resources*.

Inflows of resources (i.e., revenues) is an acquisition of net assets by the government that is applicable to the current reporting period. Example: loan origination fees (except for the portion related to points), etc.

Outflows of resources (i.e., expenses) is a consumption of net assets by the government that is applicable to the current reporting period. Example: debt issuance costs (other than prepaid insurance), etc.

3.5.1.80 When the amounts of deferred inflows and outflows are presented in the statement of net position or a governmental fund balance sheet in aggregation, GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* requires the governments to provide details of different types of deferred amounts in the notes to financial statements if significant components of the total deferred amounts are obscured by aggregation.

Revenues
Cash Receipting

3 **Accounting**

3.6 **Revenues**

3.6.1 **Cash Receipting**

3.6.1.10 Cash receipting is a very important function of all governments. Listed below are requirements for deposits and receipt forms.

3.6.1.20 **Deposits**

1. Every public officer and employee, whose duty it is to collect and receive payments should deposit receipts with the treasurer of the local government at least once every 24 hours. The treasurer of the local government may grant an exception where such daily transfers would not be administratively practical or feasible (RCW 43.09.240).

2. Deposits must be made intact, meaning all payments received must be deposited without substitution. This is evidenced by the composition of checks and cash listed on the deposit slip matched to related receipt records.

3. Checks must be restrictively endorsed *For Deposit Only* immediately upon receipt.

4. Separate bank accounts may be used to receipt funds and transfer to a master account in order to facilitate timely collection of cash in remote areas or as part of the government's banking structure. These accounts (which may be referred to as zero-balance, clearing, transmittal or depository accounts), should be swept at least monthly and be independently reconciled the same as all other bank accounts.

3.6.1.30 **Receipt forms (manual or automated)**

1. Receipts should be pre-numbered and imprinted with the name of the local government.

2. Receipts must include the following information:

- Identification of payor.
- Amount received.
- Mode of payment (cash, check, credit card, other).
- Purpose of payment.
- Identification of employee who prepares receipt.
- Date

3. Generic receipt forms should not be used (e.g., Rediform, etc.).

4. In instances where cash is received at decentralized locations (e.g., police department, parks department, etc.), the local government treasurer may combine those receipts onto one treasurer's receipt. The treasurer's receipt should indicate the total amount received from each location as well as the appropriate account codes.

5. If a receipt is voided, the original and any copies of that receipt must be retained.

3.6.1.40 **Internal Control**

See the BARS Manual 3.1.3, *Internal Control* for general guidance on internal controls. The following are minimum expected controls for cash receipting:

1. More than one employee should open the daily mail and prepare a list of cash and checks received (remittance list). If dual custody is not feasible, the government should consider compensating controls such as having mail opened in an area observable by other employees or stronger monitoring controls over revenues.

2. Deposits may be prepared by the person who received the payment. The government should implement a system of supervisory review of the remittance list and bank deposits to ensure deposits are made intact.

3. Checks received in the mail should be briefly reviewed for accuracy (e.g., proper payee, date, signature of payor, etc.). Checks with obvious inaccuracies should not be included in the deposit. In such a case, the entity should contact the payor and request that the payment be corrected or reissued.

4. The daily remittance list should be compared (reconciled) to daily deposit slips and to the cash receipts journal (or check register) on a regular basis. This should be performed by someone other than the employee who prepared the remittance list. Any shortage should be resolved.

5. A duplicate copy of the bank-validated deposit slip showing the composition of receipts should be retained by someone other than the employee making up the deposit.

6. The bank statement reconciliation should be performed by a person who does not have custody of or access to cash during any point in the receipting and depositing process. This reconciliation should include comparing deposits per bank to recorded receipting transactions in the general ledger.

7. Deposits should be physically safeguarded using bank bags with locks or other tamper-proof devices.

8. Receipts should be physically safeguarded during the operating day and secured in a safe or vault overnight. Access to the cashiering area should be appropriately restricted whenever possible.

9. Access to the safe or vault should be limited and combination should be changed periodically.

In addition, the safe and vault combination should be changed after employees terminate employment.

10. If the government utilizes cash registers, there should be one change fund and one cash

register (or drawer) per cashier. This enables assignment of responsibility for cash to a specific individual at all times.

11. Policies should contain instructions for identifying cash receipts and for dating cash receipts journal entries for that day's receipts.

3.6.1.50 **Receiving payment through third-party vendors**

Local governments should establish contractual agreements for all arrangements where a third party vendor is directed to accept payments on behalf of the local government. The contract should include details of the payment remittance process to support compliance with state law (RCW 43.09.240). Funds should be remitted through direct card settlement or EFT from the vendor to the local government's depository account.

The local government should adopt contracting policies that implement effective internal controls over funds collected through a third party vendor including safeguards to protect the funds from loss and contractual responsibilities for protecting credit card numbers and transactions.

3.6.1.60 **Accounting and reporting**

For accounting purposes, the method or process of receipt and deposit should not affect when funds are considered received by the government. For example, receipt by a third party on behalf of a government or deposit in a transmittal account should be recognized the same as receipt and deposit at the government's main location.

See the BARS Manual 3.6.11, *Suspense Funds* for additional guidance on use of suspense funds to temporarily hold unclassified transactions.

County Auditor's Operation and Maintenance Fund (Recording Fees)

3 **Accounting**

3.6 **Revenues**

3.6.2 **County Auditor's Operation and Maintenance Fund (Recording Fees)**

This guidance applies only to counties.

3.6.2.10 **RCW** 36.22.170 requires the county auditors to impose a surcharge of five dollars per instrument for each document recorded. This is in addition to any other charge authorized by law. One dollar of the surcharge should be deposited in the county's general (current expense) fund (account 3413600) and be used at the discretion of the county commissioner to promote historical preservation or historic programs, which may include preservation of historic documents. Fifty percent of remaining revenue generated by the surcharge should be deposited in a custodial fund (account 3893000) and remitted to the state treasurer. The state treasurer will distribute such funds every July to the counties in accordance with the formula described in RCW 36.22.190. Funds distributed by the state should be deposited to the Auditor's O&M Fund (account 3360411). These resources should be used for ongoing preservation of historical documents of all county offices and departments. The other fifty percent of the surcharge should be deposited to the Auditor's Operation and Maintenance Fund (account 3413600) for ongoing preservation of historical documents of all county offices and departments.

3.6.2.20 Historical documents include both old and contemporary documents. Many contemporary county documents have importance to history and are part of a chronological record of events in the development of a particular county and the state of Washington.

3.6.2.30 **RCW** 36.22.175(1) requires a surcharge of one dollar per instrument for each document recorded, this is in addition to any other charge authorized by law. Revenue generated through this surcharge should be transmitted monthly to the state treasurer (account 3893000) for deposit in the archives and records management account. These funds should be used solely for providing records scheduling, security microfilm inspection and storage, archival preservation, cataloging, and indexing for local government records and digital data and access to those records and data through the regional branch archives of the division of archives and records management.

3.6.2.40 **RCW** 36.22.175(3) requires a surcharge of one dollar per instrument for every document recorded after January 1, 2002, this is in addition to any other charges authorized by law. Revenue generated through this surcharge should be transmitted monthly to the state treasurer

(account 3893000) for deposit in the local government archives account to be used exclusively for the construction and improvement of a specialized regional facility.

3.6.2.45 **RCW** 36.22.175(4) requires a surcharge of one dollar per instrument for every document recorded. Revenue generated through this surcharge should be transmitted monthly to the state treasurer (account 3893000) for deposit in the local government archives account to be used exclusively for the competitive grant program and for the attorney general's consultation program and state archivist's training services..

3.6.2.50 **RCW** 36.22.178 requires a surcharge of thirteen dollars per instrument for each document recorded this in addition to any other charge authorized by law. The county may retain up to five percent of this surcharge for the collection, administration, and local distribution of those funds. Of the remaining amount forty percent should be remitted monthly to the state treasurer (account 3893000). All of the remaining funds generated by this surcharge should be retained by the county and deposited into a special revenue fund (account 3412600) that must be used by the county and its cities and towns for eligible housing activities that serve very low-income households with incomes at or below fifty percent of the area median income. See the above statute for permissible use of the resources generated by this surcharge.

3.6.2.60 **RCW** 36.22.179 requires a surcharge of sixty-two dollars for each document recorded. The county auditor should retain two percent for collection of the fee (account 3412100) and of the remainder sixty percent should be deposited into a special fund designated for the homeless housing program (account 3412700) and forty percent should be remitted to the state treasurer (account 3893000) for deposit in the home security fund.

3.6.2.70 **RCW** 36.22.181 requires a surcharge of one dollar at the time of the recording of each deed of trust. The auditor may retain up to five percent of the funds collected to administer the collection. The remaining funds should be transmitted monthly to the state treasurer (account 3893000) and deposited into the mortgage lending fraud prosecution account. This surcharge expires June 30, 2011.

3.6.2.75 **RCW** 36.22.240 requires a surcharge of two dollars and fifty cents for each document recorded. The surcharge [through June 30, 2024] should be deposited in the growth management planning and environmental review fund created in RCW 36.70A.490.

3.6.2.80 The transactions are summarized as follows:

Amount	Account Number	Account Description
$___.__	3412100	General (Current Expense) Fund or other designated fund–Auditor's Filings and Recordings–percentage of surcharges retained by the county for collection, administration and distribution of these funds
$1.00	3413600	General (Current Expense) Fund–Historical Document Preservation and Modernization Surcharge (RCW 36.22.170(1)(a))
$___.__	3412600	Special Revenue Fund–Affordable Housing (RCW 36.22.178)
$___.__	3412700	Special Revenue Fund–Local Homeless Housing Program (RCW 36.22.179, Chapter 43.185C RCW)
$2.00	3413600	Auditor's O&M Fund–Historical Document Preservation and Modernization Surcharge (RCW 36.22.170(1)(b))
$___.__	3360411	Auditor's O&M Fund–Auditor's Historical Document Preservation and Modernization Account. The state treasurer's distribution of the surcharge to the county. (RCW 36.22.170(2)(a))
$2.00	3893000	Monthly remittance to the state treasurer–Centennial Document Preservation and Modernization Account (RCW 36.22.170(2)(a))
$3.00	3893000	Monthly remittance to the state treasurer–Local Governments Archives Account (RCW 36.22.175(1), (3), (4))
$___.__	3893000	Monthly remittance to the state treasurer (RCW 36.22.178)–Affordable Housing (RCW 43.185C.190) and Landlord Mitigation Program (RCW 43.31.615)
$___.__	3893000	Remittance to the state treasurer (RCW 36.22.179)–Home Security Fund
$___.__	3893000	Monthly remittance to the state treasurer–Mortgage Lending Fraud Prosecution Account (RCW 36.22.181)
$2.50	3893000	Remittance to the state treasurer–Growth Management Planning and Environmental Fund (RCW 36.22.240)

3.6.2.90 When disbursements are made, the county auditor should prepare a voucher in the regular manner, supported by details, documenting the expenditures **[1]**. The auditor should place

his/her certification on the face of the voucher and then draw a warrant against the Auditor's Operation and Maintenance Fund, in the same manner as is done for any other county fund.

3.6.2.100 **The County Auditor's Operation and Maintenance Fund is subject to budget requirements and must be appropriated.**

Footnote

[1] See Original Supporting Documentation for information regarding original supporting documentation.

County Treasurer's Operation and Maintenance Fund

3 **Accounting**

3.6 **Revenues**

3.6.3 **County Treasurer's Operation and Maintenance Fund**

This guidance applies only to counties.

3.6.3.10 RCW 84.56.020(10) requires that fees and costs applicable to the foreclosure, distraint and sale of real and personal property for delinquent taxes must be deposited into the Treasurer's Operation and Maintenance Fund. These moneys should be used by the county treasurer to defray the cost of further foreclosure, distraint and sale for delinquent taxes without regard to budget limitations.

3.6.3.20 Allowable expenditures include postage, filing fees, employee time, legal notices, title searches, etc. The following standard procedure should be used for all expenditures made from the Operation and Maintenance Fund:

When disbursements are made, the county treasurer should prepare a voucher in the regular manner, supported by detail documenting the expenditures **[1]** . The treasurer should place his/her certification on the face of the voucher prior to presenting it to the county auditor, who should then draw a warrant against the Treasurer's Operation and Maintenance Fund, in the same manner as is done for any other county fund.

Footnotes

[1] See Original Supporting Documentation for information regarding original supporting documentation.

Criminal Justice Funding

3 **Accounting**

3.6 **Revenues**

3.6.4 **Criminal Justice Funding**

This guidance applies only to cities and counties.

3.6.4.10 Criminal justice funding comes to the cities and counties in a number of formulas and requirements specified in statute. The following is a summary of the distributions including BARS coding:

a. Cities and counties will receive quarterly distributions based on formulas specified in the statute (RCW 82.14.310 and RCW 82.14.320). For counties, the formula is based on population, crime rate and felony criminal cases filed for trial. For cities, the formula is based primarily on a high crime rate. These distributions are coded 3360610 and 3360620 accordingly.

b. A second distribution is applicable only to cities (RCW82.14.330) and it is based on the violent crime rate and population and is allocated quarterly. This distribution is coded 3360621.

c. The other distributions depend on programs and services provided by cities. The distribution to cities that contract with another government for the majority of the city's enforcement services is coded 3360625.

The remaining resources are distributed to cities which have or provide:

- Innovative law enforcement strategy;
- Programs to help at-risk children, or child abuse victims response programs;
- Programs to reduce the level of domestic violence or provide counseling for domestic violence victims.

The distribution should be coded 3360626.

3.6.4.20 The distributions described in paragraphs A and B are limited by the following wording in the statute:

Moneys distributed under this section shall be expended exclusively for criminal justice purpose and shall not be used to replace or supplant existing funding. Criminal justice purposes are defined as activities that substantially assist the criminal justice system, which may include circumstances where ancillary benefit to the civil justice system occurs, and includes domestic violence services such as those provided by domestic violence programs, community advocates, and legal advocates, as defined in RCW 70.123.020. Existing funding for purposes of this subsection is defined as calendar year 1989 actual operating expenditures for criminal justice purposes. Calendar year 1989 actual operating expenditures for criminal justice purposes exclude the following: Expenditures for extraordinary events not likely to reoccur, changes in contract provisions for criminal justice services, beyond the control of the local jurisdiction receiving the services, and major nonrecurring capital expenditures.

The following guidance is in response to the restrictions imposed by the above quotation from the law.

Criminal justice purposes

3.6.4.30 All of the moneys made available to local governments through this legislation are limited to funding of ***criminal justice purposes***. Criminal justice purposes can be defined as activities relating to the enforcement and administration of the criminal law. The term *criminal justice purposes* indicates a broad definition which would encompass all costs incurred in connection with the administration and enforcement of criminal laws, including those systems for dealing with persons suspected of, accused of, charged with, or convicted of crimes and domestic violence services.

3.6.4.40 Cities and counties need to be aware that this funding is primarily for criminal justice. However, the statute does allow for benefit to the civil justice system. The benefit to the civil justice system should be a secondary benefit as a result of expenditures primarily for the criminal justice system.

Supplanting of existing funds

3.6.4.50 Existing funding is defined as calendar year 1989 actual operating expenditures for criminal justice purposes excluding expenditures for:

1. Extraordinary events not likely to reoccur;

2. Changes in contract provisions for criminal justice services, beyond the control of the local jurisdiction receiving the services; and

3. Major nonrecurring capital expenditures.

3.6.4.60 The new state funding may be used for capital and other nonrecurring expenditures so long as the expenditure is for criminal justice purposes and is reasonable (e.g., the purchase of police cars). However, if a new roof is put on the county courthouse, only that portion that applies to criminal justice purposes would qualify (i.e., allocating the cost of the roof by square footage).

3.6.4.70 An entity would be supplanting by paying back interfund loans where the borrowed funds were used for criminal justice purposes. The repayment of these loans would be the equivalent of replacing existing criminal justice funding. The intent of the act is to ensure that the new funding results in increased financial resources devoted to criminal justice purposes.

3.6.4.80 As these moneys are expended, an entity must ensure that the criminal justice expenditures are at least equal to the base of *existing funds* plus selected revenues generated by the latest legislation. Once the base is established, the accounting system may be expanded by

the following methods to ensure compliance with the non-supplanting provisions of the law:

1. An accounting system may employ budgetary and accounting code controls for the use of these funds or

2. A new fund may be established should the entity feel it is necessary.

3.6.4.90 It is the entity's responsibility to provide evidence for an audit that it did not supplant existing funding. Therefore, it is important to document the base year (1989 expenditures less major capital or nonrecurring items), and the actual criminal justice expenditures and restricted fund balance for the current year.

Sale of confiscated and forfeited items

3.6.4.100 Cities and counties must identify proceeds from sale of confiscated and forfeited items in BARS code 369.3X.XX – Confiscated and Forfeited Property.

To record the state portion of proceeds in fiduciary funds, BARS code 389.3X.XX – Custodial Type Collections should be used.

If the forfeited or confiscated items have not been sold, and therefore a value has not been assigned, we would still expect the city or county to track the items that are available for sale.

Diversion of County Road Property Tax

3 **Accounting**

3.6 **Revenues**

3.6.5 **Diversion of County Road Property Tax**

This guidance applies only to counties.

3.6.5.10 RCW 36.33.220 authorizes the legislative authority of a county to divert any portion of the county road property taxes to provide services in the unincorporated area of the county. RCW 36.82.040 requires that so diverted taxes be placed in a separate and identifiable account within the county's general (current expense) fund.

3.6.5.20 To assist compliance with the provisions of these statutes, the following procedures are prescribed:

- The county road property taxes diverted to the general (current expense) fund should be presented in the budget of the general (current expense) fund as approved in the diversion resolution.
- Those counties which divert any portion of the county road taxes should develop accounting procedures that document that the diverted county road property taxes were used to provide services in the unincorporated area of the county.

Electronic Funds Transfer (EFT) – Receipts

3 **Accounting**

3.6 **Revenues**

3.6.6 **Electronic Funds Transfer (EFT) – Receipts**

3.6.6.10 **Electronic funds transfer** (EFT) refers to the deposit to bank account by means of wire, direct deposit, ACH or other electronic means. In accordance with RCW 39.58.750 we prescribe the following accounting procedures for such transactions:

3.6.6.20 Receiving money by EFT:

a. Prepare a treasurer's receipt upon receiving notice from the payer that the funds have been transferred to your bank account. Do not wait for the bank to notify you of receipt of the funds. However, you may want to contact your bank to confirm the expected funds have arrived.

Enter the following information on the receipt:

- Date of receipt.
- Name of person, company or agency transferring money into your account.
- Name and number of fund(s).

- BARS or other accounting system revenue account number.
- Notation that funds were received by the EFT.

Attach or otherwise retain payer's correspondence and any supporting documentation such as transaction lists. Document any changes made from the payer's correspondence if transactions are posted differently than reflected on the list (for example customer account number corrections).

b. A file must be maintained of those payers who have authorized to add moneys to your account electronically including the proceeds from third party vendors for credit card remittances.

Impact Fees

3 **Accounting**

3.6 **Revenues**

3.6.7 **Impact Fees**

3.6.7.10 Impact fees are charges assessed by local governments against new development projects that attempt to recover the cost incurred by government in providing the public facilities required to serve the new development. Impact fees are only used to fund facilities, such as roads, schools, and parks, that are directly associated with the new development. They may be used to pay the proportionate share of the cost of public facilities that benefit the new development; however, impact fees cannot be used to correct existing deficiencies in public facilities. In Washington, impact fees are authorized under the *Growth Management Act* (GMA) (RCW 82.02.050, RCW 82.02.100), as part of "voluntary agreements" under RCW 82.02.020, under the *Local Transportation Act* (RCW 39.92.040), and as mitigation for impacts under the *State Environmental Policy Act* (SEPA) (Chapter 43.21C RCW). GMA impact fees are only authorized for public streets and roads; publicly owned parks, open space, and recreation facilities; school facilities; and fire protection facilities.

3.6.7.20 The impact fees transactions are subject to the GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

Revenue recognition

3.6.7.30 Revenues (*BARS code 345.8X for governmental funds; proprietary funds may also use 379.00, if applicable*) should be recognized when the local government has an enforceable legal claim to the fee. Normally the enforceable claim occurs when the local government receives the fee payment. However, recognition will be delayed if the government has a refund policy requiring return of the fee to the developer, if they do not perform the project. When a developer has a right to a refund per policy because the project is not performed, the revenue should be classified as a deferred inflow until the project commences.

3.6.7.40 Revenue recognition should not be delayed because of the statutory requirement to return unspent funds after a time period. The statutory provision requiring unused impact fees to be returned to developers is a future transaction. The return of the impact fees transaction should not be booked until the statutory time period has been met. When the statutory time limit is up, the unspent impact fees should be recorded as liabilities.

3.6.7.50 Impact fees should not be accounted for in a custodial fund.

3.6.7.60 Local governments are required to use these contributions for specific purposes (purpose restrictions); therefore, the government should report the resulting net position as *restricted* until they are used.

Asset recognition

3.6.7.70 The local government should recognize accounts receivable when the enforceable claim occurs, which should be in the same period in which revenues are recognized.

Liquor Tax and Profits – Two Percent Substance Abuse Treatment Programs

3 **Accounting**

3.6 **Revenues**

3.6.8 **Liquor Tax and Profits – Two Percent Substance Abuse Treatment Programs**

This guidance applies only to cities and counties.

3.6.8.10 RCW 71.24.555 provides that to be eligible for receiving a share of liquor taxes and profits, each city, town, or county must devote no less than two percent of its share of liquor taxes and profits to support programs for treatment of substance abuse and other drug addictions. Programs must be approved by the behavioral health organization and the secretary of the Department of Health.

3.6.8.20 A city or county that does not have its own facilities or programs for the treatment and rehabilitation of substance abusers, may share the use of another city or county facility or program as long as it contributes no less than two percent of its share of liquor taxes and profits to support these facilities or programs (RCW 71.24.555).

3.6.8.30 All liquor taxes and liquor board profits received from the state should be accounted for in the city's or county's general (current expense) or special revenue fund. This money should be coded 3360694 for liquor excise taxes and 3360695 for liquor control board profits.

3.6.8.40 Distribution of the money should be handled in a manner legally authorized by the statute. Expenditures related to substance abuse treatments should be coded to account 566 whether the expenditures are in support of the city's or county's own facilities/programs or contributions to others.

3.6.8.50 The two percent portion and any additional amounts expended for the substance abuse treatment should be budgeted in accordance with the provisions of Chapter 35.32A RCW, Chapter 35.33 RCW and Chapter 36.40 RCW.

Prosecuting Attorneys' Salaries

3 **Accounting**

3.6 **Revenues**

3.6.12 **Prosecuting Attorneys' Salaries**

This guidance applies only to counties.

3.6.12.10 RCW 36.17.020 provides that: *The State of Washington shall contribute an amount equal to one-half of the salary of a superior court judge towards the salary of the elected prosecuting attorney*. This money should be coded to account 3340011.

3.6.12.20 The annual salary of the superior court judges is established by the Washington Citizens' Commission on Salaries for Elected Officials (RCW 2.08.092).

Revenue Accruals in Governmental Funds

3 **Accounting**

3.6 **Revenues**

3.6.9 **Revenue Accruals in Governmental Funds**

3.6.9.10 Generally accepted accounting principles require that governmental funds recognize revenues in the accounting period in which they become susceptible to accrual – that is, when they become both **measurable** and **available** to finance the expenditures of the fiscal period.

3.6.9.20 ***Measurable*** refers to the ability to quantify in monetary terms the amount of revenues.

3.6.9.30 Financial resources are ***available*** to the extent they are collectible within the current period or soon enough thereafter to be used to pay liability of the current period. Governments can choose the length of the availability period. However, the availability period for the property tax revenue recognition is limited to no more than 60 days **[1]**. It is recommended that governments attempt to use a single availability period.

3.6.9.40 Amounts that are available, but do not meet the criteria for revenue recognition, should be reported as deferred inflows.

3.6.9.50 Remember that the accrual requirements do not apply to immaterial amounts. Also, the criteria for asset and revenue recognition are not always the same.

3.6.9.60 If a recipient government is not able to obtain timely information to estimate accrual amounts necessary to record a nonexchange transaction, it may use any method (including, but not limited to cash received) that provides a reasonable estimate.

3.6.9.70 The general standards for recognizing revenues related to nonexchange transactions are established in the GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions* and the Statement 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*.

3.6.9.80 The provisions of the Statement 33 for the full-accrual basis revenue recognition in governmental funds apply only to their government-wide presentation.

Revenue Type	Description/Class	BARS Code	Revenue Recognition
EXCHANGE and EXCHANGE-LIKE Transactions	It occurs when both parties exchange equal or similar, though not quite equal values.	320, 340, 348, 361, 362	When measurable and available.
NONEXCHANGE Transactions	It occurs when a government gives (or receives) something of value to (or from) another party without directly receiving (or giving) equal value in exchange. There are four classes of nonexchange transactions:		
	Derived tax revenue (e.g., sales tax, motor fuel tax, hotel/motel tax, and similar taxes on earnings or consumption)	313, 314, 316	Period when underlying exchange has occurred and resources are available. (Advanced receipts should be reported as unearned revenues.)
	Imposed nonexchange transactions (e.g., property taxes, special assessments, most fines and forfeitures, etc.)	311, 312, 350, 368	Period when resources are required to be used or first period that use is permitted. For property taxes, the period for which they are levied. Resources should also meet the availability criteria.
	Government-mandated nonexchange transactions (e.g., federal/state mandates on local governments) Voluntary nonexchange transactions (e.g., certain grants, entitlements, most donations, etc.)	331, 332, 333, 334, 335, 336, 337, 367	Period when all eligibility [2] requirements have been met and resources are available. (Advance receipts or payments for use in the following period should be recorded as deferred inflows.)

Footnotes

[1] NCGA Interpretation 3
Return to Reference 1

[2] The GASB Statement 33 specifies four kinds of eligibility requirements: (1) the recipient has

the characteristics specified by the provider, (2) time requirements have been met, (3) the recipient has incurred allowable costs under the provider's program, which specifies that resources will be provided only on a reimbursement or "expenditure-driven" basis; and (4) for voluntary nonexchange transactions only, the recipient has complied with any contingencies stipulated by the provider.
Return to Reference 2

Suspense Funds

3 **Accounting**

3.6 **Revenues**

3.6.11 **Suspense Funds**

3.6.11.10 **Purpose**

The purpose of a suspense fund is to temporarily hold unclassified transactions while a decision is being made as to their classification. This allows for immediate recording of transactions in the general ledger and accounting control over unclassified transactions.

While it is possible for suspense funds to be used for a variety of transaction types, local governments would be expected use suspense funds exclusively for receipts. This presumption is reflected in the following guidance.

3.6.11.20 **Accounting**

When receipts are temporarily recorded to the suspense fund, the entry should be to increase cash and 3899000, *Holding and Clearing Account Transactions*. When the correct classification is determined, the original entry should be reversed and the correct entry made. An expenditure or transfer should never be recorded to move suspended funds.

Subsequent discovery of the correct allocation of funds should be corrected back to the date of original receipt, if possible.

3.6.11.30 **Controls**

See the BARS Manual *3.1.3, Internal Control* for general guidance on internal controls. The following are minimum expected controls for suspense funds:

- Suspense fund cash should be included in the reconciliation of bank accounts to general ledger.
- Documentation for each suspended transaction should be retained in a tickler file.
- Suspended receipts should be resolved in a timely manner.
- At all times, the amount of cash and revenue recorded in a suspense fund should match the documentation of unresolved suspended receipts in the tickler file. At all times, all transactions recorded to the fund (original and reversing) should be traceable to documentation of suspended receipts and correcting entries. The suspense fund should be periodically reconciled to this file by an independent person to ensure validity of transactions and the current balance, if any.

3.6.11.40 **Reporting**

Due to the nature of a suspense fund, it would not meet the definition of a custodial fund. Therefore, suspense funds should not be reported in the financial statements.

For financial reporting purposes, it is expected that all suspended receipts at fiscal year-end would be resolved – and corrections reflected in the accounting records - by the time the annual report is submitted. If not all suspended receipts as of fiscal year end have been resolved as of the date of the financial report, the unresolved receipts should be rolled up into the general fund for purposes of financial reporting.

Utility Tax

3 **Accounting**

3.6 **Revenues**

3.6.13 **Utility Tax**

This guidance applies only to cities.

3.6.13.10 Tax authorized by RCW 35.22.195, RCW 35.23.440(8), RCW 35.27.370(9) and RCW 35A.82.020 are often referred to as "utility tax". However, the tax is just a standard business and occupation (B&O) tax levied by the general fund on the city's utilities. The tax is not substantially different from the B&O tax charged by the general fund to other businesses in the city.

This is a tax on the utility, not a tax on the customers. If the utility wants to recoup the tax (and there is no such obligation), it can do so by adjusting the customers' rate for services. Also, there is no requirement to single out this rate component on the utility bill.

An increase in customers' bills does not change the nature of the tax – it remains a B&O tax on utilities and not on customers.

3.6.13.20 For the tax limits refer to RCW35.21.870. The utility tax does not have any statutory purpose or use restrictions, but governments may choose to impose restrictions on the revenues as part of the enabling ordinance.

3.6.13.30 **Accounting and reporting**

The B&O tax should be accounted for as a revenue in the general fund (3164000) and expenditure in the utility fund (53P0040).

If the utility passes the tax on to its customers, the additional charges should be recognized as revenue (343P000) **not** in the general fund but directly in the utility fund. The utility's payment of its B&O tax to the general fund is a separate transaction that should be reflected as an expenditure of the utility fund (53P0040) and revenue of the general fund (3164000). Since the tax is a revenue source in the general fund and expenditure in the utility fund, it is inappropriate to account for this transaction as transfer-in or transfer-out.

Working Advances from the Department of Social and Health Services (DSHS)

3 **Accounting**

3.6 **Revenues**

3.6.10 **Working Advances from the Department of Social and Health Services (DSHS)**

This guidance applies only to counties and Area Agencies on Aging (AAA).

This guidance has been moved to the liabilities section of the BARS Manual at 3.4.7 Intergovernmental and Forgivable Loans.

Awards
Certain Grants and Other Financial Assistance

3 **Accounting**

3.7 **Awards**

3.7.2 **Certain Grants and Other Financial Assistance**

3.7.2.10 The Governmental Accounting Standards Board (GASB) Statement 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, defines pass-through grants as those grants and other financial assistance received by a governmental entity (recipient government) to transfer to or spend on behalf of a secondary recipient. All pass-through awards received by a governmental entity should be reported in its financial statements. To determine the proper accounting for pass-through grants and other financial assistance, the recipient government has to evaluate its administrative and direct financial involvement.

3.7.2.20 Administrative involvement may include:

(a) Monitoring secondary recipients for compliance with program-specific requirements,

(b) Determining eligible secondary recipients or projects, even if using grantor-established criteria, or

(c) Having the ability to exercise discretion in how the funds are allocated.

3.7.2.30 Direct financial involvement may include:

(a) Recipient government financing some direct program costs because of a grantor-imposed matching requirement, and

(b) Recipient government liability for disallowed costs.

3.7.2.40 If a recipient government has administrative involvement or direct financial involvement in a pass-through grant or other financial assistance, its responsibility in relation to the resources is more than custodial.

3.7.2.50 The recipient government essentially exercises operational responsibility or discretion over whether the grant or other financial assistance will be awarded.

3.7.2.60 GASB Statement 84, *Fiduciary Activities* states that custodial funds are purely custodial. In those cases in which a recipient government serves only as a cash conduit, the grant or other financial assistance should be reported in a custodial fund. Pass-through grants with administrative or direct financial involvement should be recognized as revenue and expenditures or expenses in governmental, or proprietary funds of the recipient government.

3.7.2.70 The GASB Statement 24 does not require that a recipient government's payment of administrative costs (indirect financial involvement) be separately evaluated in determining the reporting of pass-through grants. If a recipient government serves only as a cash conduit, it may incur some incidental administrative costs. If a recipient government's administrative costs are more than incidental that would be the result of administrative involvement.

Federal Awards – Accounting

3 **Accounting**

3.7 **Awards**

3.7.1 **Federal Awards - Accounting**

3.7.1.10 **NOTE:** Revisions to the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) at 2 CFR 200 were issued on April 22, 2024. **Revisions to the administrative requirements and cost principles are effective for new federal awards executed by a federal agency on or after October 1, 2024.** Revisions will not be applicable to federal awards issued prior to October 1, 2024 unless the federal agency early implemented. Look to the terms and conditions of the award or consult the federal awarding agency for questions about the applicability of the revisions. **Revisions to the audit requirements, including the increased single audit threshold of $1 million, are applicable to audits of fiscal years beginning on or after October 1, 2024.** No early implementation is allowed for the revisions to the audit requirements. Click here for the Federal Register Notice and here for technical corrections made to the revisions.

The requirements described below apply to all local governments who expend federal award funds. Federal financial assistance can be provided to state and local governments in many forms including grants, cooperative agreements, non-cash contributions or donations of property (including donated surplus property), direct appropriations, food commodities, other financial assistance, loans, loan guarantees, interest subsidies, and insurance.

3.7.1.20 Excerpts from the Uniform Guidance, 2 CFR 200, are provided in this section. Please note that there are many additional federal laws and regulations that may apply to your federal financial assistance which can generally be found in the awarding documents and/or awarding agency guidance.

3.7.1.30 **Identification of COVID-19 related awards**

As described in 2 CFR section 200.510(b), non-federal entities must complete the Schedule of Expenditures of Federal Awards (SEFA) and include ALNs of federal awards and subawards. To maximize transparency and accountability of COVID-19 related award expenditures, non-federal entities must separately identify COVID-19 expenditures on the SEFA. This includes the new

COVID-19 only programs. Municipalities will need to have a system that enables them to separately identify how it spent its COVID-19 awards.

3.7.1.40 **The Uniform Guidance – Administrative Requirements**

Subpart C – Pre-Federal Award Requirements and Contents of Federal Awards and Subpart D – Post-Federal Award Requirements of the Uniform Guidance, 2 CFR 200, (§§.200-.217 and §§.300-.346, respectively) contain the Administrative Requirements for federal financial assistance to state and local governments. The financial management systems of recipients and subrecipients must meet the following standards of 2 CFR §200.302:

"…(b) The recipient's and subrecipient's financial management system must provide for the following (see also §§200.334 Record retention requirements, 200.335 Requests for transfer of records, 200.336 Methods for collection, transmission and storage of information, and 200.337 Access to records,):

(1) Identification of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the Assistance Listings title and number, Federal award identification number, year the Federal award was issued, and name of the Federal agency or pass-through entity.

(2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements in §§ 200.328 and 200.329. When a federal agency or pass-through entity requires reporting on an accrual basis from a recipient or subrecipient that maintains its records other than on an accrual basis, the recipient or subrecipient must not be required to establish an accrual accounting system. This recipient or subrecipient may develop accrual data for its reports based on an analysis of the documentation on hand.

(3) Maintaining records that sufficiently identify the amount, source, and expenditure of Federal funds for Federal awards. These records must contain information necessary to identify Federal awards, authorizations, financial obligations, unobligated balances, as well as assets, expenditures, income, and interest. All records must be supported by source documentation.

(4) Effective control over, and accountability for, all funds, property, and other assets. The recipient or subrecipient must safeguard all assets and ensure they are used solely for authorized purposes. See §200.303 Internal controls.

(5) Comparison of expenditures with budget amounts for each Federal award.

(6) Written procedures to implement the requirements of §200.305 Payment.

(7) Written procedures for determining the allowability of costs in accordance with Subpart E – Cost Principles and the terms and conditions of the Federal award."

3.7.1.50 **Uniform Guidance – Cost Principles**

Expenditures of federal awards and costs claimed for reimbursement or used for matching must be determined in accordance with Subpart E – Cost Principles of the Uniform Guidance: 2 CFR 200 (§§.400-.476).

3.7.1.60 **Uniform Guidance – Audit Requirements**

Subpart F – Audit Requirements (§§.500-.521) set forth the uniform requirements for audits of federal financial assistance provided to state and local governments.

A non-Federal entity that expends $750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single or program-specific audit conducted for that year. With the revisions to the Uniform Guidance, the audit threshold will increase to $1 million for fiscal years beginning on or after October 1, 2024. For example, the new threshold will apply to calendar-year governments in fiscal reporting year 2025.

3.7.1.70 Uniform Guidance outlines specific auditee responsibilities in §200.508. In short, the auditee must:

(a) Arrange for the audit and ensure it is properly performed and submitted by the deadline.

(b) Prepare financial statements, including the Schedule of Expenditures of Federal Awards (SEFA/Schedule 16) in accordance with § 200.510.

(c) Promptly follow up and take corrective action on audit findings. This includes preparing a summary schedule of prior audit findings and a corrective action plan in accordance with §

200.511(b) and (c), respectively.

(d) Provide the auditor access to personnel, accounts, books, records, supporting documentation, and any other information needed for the auditor to perform the audit required.

3.7.1.80 Governments that expend less than $750,000 in a year in federal awards are exempt from federal audit requirements for that year, but records must be available for review or audit by appropriate officials of the federal agency, pass-through entity, and General Accounting Office (GAO).

3.7.1.90 The Single Audit Act provides that an audit made in accordance with the Uniform Guidance should be in lieu of any financial or financial compliance audit required under individual federal assistance programs. To the extent that a single audit provides federal agencies with information and assurances they need to carry out their overall responsibilities, they should rely upon and use such information. However, a federal agency should make additional audits which are necessary to carry out its responsibilities under federal law and regulation. Any additional federal audit effort should be planned and carried out in such a way as to avoid duplication.

3.7.1.100 To satisfy the requirements of the Single Audit Act and generally accepted accounting principles, the following accounting for awards is prescribed.

1. Use of separate award funds

Awards may be accounted for in the same funds as other operations of a municipality or in one or more separate “award funds,” depending upon award terms. The Governmental Accounting Standards Board (GASB) recommends that governments establish and maintain the minimum number of funds consistent with legal specifications and operational requirements. Award transactions coded within the same fund as other operations may be distinguished by using the BARS local option codes.

2. Fund types

Awards must be accounted for in the type of fund appropriate for the activities being financed. If an award is to be used for general governmental purposes, it should be accounted for in the general (current expense) or a special revenue fund. If an award is received for the payment of principal and/or interest on general long-term debt, it should be accounted for in a debt service fund. If an award is received to support operations of, or acquire capital assets for, a proprietary fund, the award should be accounted for in a proprietary fund. Other capital grants should be accounted for in capital projects funds. See separate discussion in Certain Grants and Other Financial Assistance.

3. Project coding

At the inception of an award (award notification), one or more project codes should be assigned locally to identify the particular award. This coding must be incorporated into the basic coding structure the municipality uses to identify all its transactions. Any available field or fields may be used, so long as the results do not interfere with the prescribed seven-digit BARS code.

The use of multiple codes may be necessary when there is more than one source of funds for a particular award. For example, when some expenditures must be charged to particular revenue sources or are not allowed under some agencies' terms, separate budgets for such sources must be established. In addition, it may be desirable or necessary to account for the local share of costs (*match*) or program income in separate projects. The value of separate projects is that they immediately segregate budgets, revenues, expenditures, cash accounts, receivables, and payables for each award and for the related non-award resources used to accomplish the project or operate the program.

4. Local funding of award projects

Within this project or set of projects, the municipality should account not only for award resources and expenditures but also for the municipality’s own contributions to the project or program and for related program income. This is necessary to ensure uniform accounting for the entire project or program, not merely that portion supported by award money.

5. Award (project) budgets

As soon as the terms of the award are known, the award budget entries are to be made. If the exact terms of an award agreement are not known when expenditures begin to be incurred, approximate budgets must be entered. These entries are ***not*** the municipality’s own appropriation entries, which are still required.

To distinguish the award budget from the municipality's own appropriated budget, municipalities may use the separate budgetary control accounts and the separate nominal control accounts. This results in tracking two budgets for the same expenditures because the award fiscal period often will not coincide with the municipality's fiscal period. In these cases, continuing appropriations will be necessary.

These accounts are used to keep track of the resources/uses for the award projects from inception of the award through the current date. Comparison of these accounts to the control accounts will yield budget analysis on a project basis as opposed to current year transactions.

If a separate award fund is used, the municipality's own legislated appropriation should be limited to the fund total, and the detail budget should be the terms contained in the award and related agreements. If the award is accounted for within a fund that accounts for other operations of the municipality, either the award terms or the municipal appropriation may be used for the detail budget. Using the municipal appropriation for the detail budget has the disadvantage that, although award revenues and expenditures will be identified as they are incurred, they will not be compared to the detailed award budget and therefore the municipality may have to absorb some award related costs that turn out not to dovetail with the award budget restrictions.

6. Award schedules

A set of award schedules is prepared as shown in theExpenditures of Federal Awards (Schedule 16). These schedules meet federal requirements for the Single Audit. After these schedules are complete, the life-to-date control accounts are closed to allow the preparation of a balance sheet. The life-to-date control accounts are reopened as the first journal entry of the succeeding fiscal year.

7. Noncash awards

The value of noncash awards (e.g., food stamps, food commodities, vaccines, supplies and equipment, etc.) should be accounted for and reported on the Schedule of Expenditures of Federal Awards (Schedule 16) as the fair market value of non-cash awards received during the year, as determined by the awarding agency. The notes to the schedule should disclose the nature of the amounts reported. See BARS guidance on COVID-19 vaccines and Donated Personal Protective Equipment (PPE).

Expenditures
Confidential Funds (Drug Buy Money, Investigative Funds)

3 **Accounting**

3.8 **Expenditures**

3.8.9 **Confidential Funds (Drug Buy Money, Investigative Funds)**

This guidance applies only to cities and counties.

3.8.9.10 Confidential funds are those funds allocated to the following three types of law enforcement undercover operations:

1. Confidential investigative expenses are for the purchase of services and would include travel or transportation of an undercover officer or an informant. The lease of an apartment, business front, luxury type automobiles, a boat, aircraft or similar effects to establish the appearance of affluence, credibility and a general atmosphere conducive to the undercover role would also be in this category. Meals, beverages, entertainment and similar expenses for undercover purposes, within reasonable limits, would also be included.

2. Confidential funds for the purchase of evidence would include the purchase of evidence and/or contraband such as drugs, firearms, stolen property, etc., required to determine the existence of a crime or to establish the identity of a participant in a crime.

3. Confidential funds for the purchase of specific information from informants.

3.8.9.20 Confidential expenditures are subject to appropriation by the municipality's governing body. The governing body must assure that the controls over disbursements are adequate to safeguard against misuse of such funds. When the funds are replenished, legislative approval should be based on a finding that the expenditures were necessary and reasonable for proper and efficient administration of the program under which they were used.

3.8.9.30 The funds authorized should be established in an imprest fund. BARS Manual3.8.8, Imprest, *Petty Cash and Other Revolving Funds*prescribes the minimum requirements for the establishment and operation of an imprest fund. In addition to all those requirements the following apply:

1. The supervisor of the unit to which the imprest fund is assigned must authorize all advances of moneys to agents or officers for the purchase of information. Such authorization must specify the information to be received, the amount of expenditures, and assumed name of informer.

2. The investigation unit must maintain confidential files of the true names, assumed names, and signature of all informers to whom payments have been made. To the extent practicable pictures and/or fingerprints of the informer payee should also be maintained.

3. The custodian should receive from the agency or officer authorized to make a confidential payment, a receipt for cash advanced to him/her for such purposes.

4. The agent or officer should receive from the informer a receipt of the following nature:

RECEIPT FROM INFORMER PAYEE

Receipt

For and in consideration of the sale and delivery to the (state/county/city) of _____ of information or evidence identified as follows:

_____

_____

_____

I hereby acknowledge receipt of $ _____ paid to me by (state/county/city) of _____.

Date: _____, 20____ Signature: _____

_____

Witness (if any)*

* The witness requirement is not mandatory in all instances, depending on the nature of the meeting and exchange of funds. A requirement should be in effect that on 25 percent of the contacts, when payments are made, second agent appear as the witness to the transaction. In addition, on ten percent of the meetings the agent or officer in charge should be present to verify the payment to the informer.

5. The signed receipt from the informer payee with a memorandum detailing the information received must be forwarded to the agent or officer in charge. The agency or officer in charge must compare the signature on the receipt with the confidential file of assumed name signatures. He/she must also evaluate the information received in relation to the expense incurred, and add his/her evaluation remarks to the report of the agent or officer who made the expenditure. A certification of payment to the custodian should serve as support for the expenditure from the imprest fund. The certification should be witnessed by the agent or officer in charge on the basis of the report and informer payee's receipt.

6. Each agent or officer in charge must prepare a quarterly report showing status and reconciliation of the imprest fund and itemizing each payment, name used by informer payee, information received and use to which information was put. This report must be made part of the files and reviewed quarterly by the head of the municipality's law enforcement agency.

Electronic Funds Transfer (EFT) – Disbursement

3 **Accounting**

3.8 **Expenditures**

3.8.11 **Electronic Funds Transfer (EFT) – Disbursement**

3.8.11.10 **Electronic funds transfer** (EFT) refers to the disbursement from a bank account by means of wire, direct deposit, ACH or other electronic means. In accordance with RCW 39.58.750 we prescribe the following accounting procedures for such transactions.

3.8.11.20 Disbursing money by the EFT:

a. Prepare a record which shows:

Chronological number of the EFT payment.

- Time and date of disbursement.
- Payee name, address and account number.
- Amount of disbursement.
- Purpose of disbursement.
- BARS or other accounting system expenditure/expense account number.
- Name and number of fund(s).
- Disbursing bank's unique transaction identification number, if available.
- Receiving bank or financial institution's identification number.

b. A file must be maintained of authorizations by payees who have thereby agreed to have moneys added to their accounts electronically.

c. The treasurer should notify the disbursing bank that access to files, records and documentation of all EFT transactions involving the treasurer should be provided to the State Auditor when required for the conduct of the statutory post audit.

3.8.11.30 Policies should be adopted to establish effective internal control to protect EFT transactions from internal and external threats. These policies should include:

- Implementation of bank offered security measures to prevent unauthorized individuals from initiating or modifying a transfer. Each user initiating or approving bank transactions must have a separate banking user id.
- Define the process for creating, securing, sending and authenticating direct deposit transmittal files to prevent unauthorized modification or submission.
- Policies and procedures should be in place to validate these authorization to protect resources being transferred electronically.

Employee Travel

3 **Accounting**

3.8 **Expenditures**

3.8.2 **Employee Travel**

3.8.2.10 For the purpose of the BARS, travel expense includes amounts paid for use of personal automobiles, other transportation, and actual expenses or reimbursement in lieu of actual expenses for meals, lodging, and related items.

3.8.2.20 The legislative body of each municipality must pass an ordinance or resolution to establish rules and regulations for the reimbursement of travel expense. There should be rules to cover all municipal officials and employees. The ordinance or resolution should discuss the municipal policy on tipping, charging expenses to the municipality, and it should prohibit reimbursement for personal expenses and entertainment.

3.8.2.30 If any municipal corporation wishes to issue credit cards for travel related expenditures,

the legislative body must pass an ordinance or resolution to establish rules and regulations that satisfy provisions of Chapter 42.24 RCW, including:

1. Submission of a fully itemized travel expense voucher by the employee or officer;

2. Settlement by the officer or employee within 30 days of the billing date; and,

3. The establishment of a lien against salary for any disallowed charges.

3.8.2.40 Claims for reimbursement of travel expenses must contain a signed certification that includes the following language, *I hereby certify under penalty of perjury that this is a true and correct claim for necessary expenses incurred by me and that no payment has been received by me on account thereof*.

3.8.2.50 In addition, if an officer or employee is filing a claim on behalf of others, he/she must prepare a detailed account that includes:

1. Names of the others who traveled, partook of meals, or otherwise incurred expenses.

2. Whether they were municipal employees and, if not, who they were and what connection they had with municipal business. This should not be construed to permit promotional hosting.

3. Who provided the lodging, meals or other services in question, dates and times.

4. A detailed breakdown of amounts.

5. Some statement sufficiently explicit to show what municipal business was being carried out when the expenses were incurred.

3.8.2.60 If a municipality chooses the option of using monthly reimbursements for use of personal automobiles for official business, the following procedures apply.

1. The monthly rate schedule established should be limited to officers and/or employees who actually use their personal automobiles for travel on a regular basis. It is the responsibility of the municipality to assure that each traveler is on official business.

2. The rate must be based on actual costs.

3. A periodic review must be performed to determine whether or not the rate continues to reflect actual costs.

4. A record is needed of the governing body's determination.

3.8.2.70 If the above procedures are not followed, the "monthly reimbursement for use of personal automobiles" may be treated as additional compensation. According to the Internal Revenue Service, municipalities could be assessed the withholding tax of the employees if the amounts advanced/reimbursed for travel were not for expenses incurred or reasonably expected to be incurred, unless these amounts are reported as taxable wages on the W-2.

3.8.2.80 If a municipality chooses to establish an *advance travel expense account* (imprest account), pursuant to RCW 42.24.120, the following procedures apply:

1. The imprest amount must be established and maintained in accordance with the procedures prescribed for petty cash (e.g., amount must be established by ordinance or resolution).

2. Upon receipt of the moneys, the custodian will open a checking account in a local bank in the name of the governmental unit entitled *Advance Travel Expense Account – John Doe, Custodian* Moneys received from the following sources will be deposited to the account:

From the treasurer or other disbursing officer, the total amount originally establishing the account or subsequently added; from officers and employees, refunds of any unexpended advances; and from the warrant-issuing officer, amounts that reimburse the custodian for travel expenses allowed in the settlement of employee advances.

3. The *advance travel expense account* must be used solely for travel advances, not direct payments to vendors. In other words, moneys may be advanced to an individual who is going on travel status for travel-related expenses that he/she will pay out of his/her own pocket. It must not be used for personal loans, registration fees, reimbursements to employees or officers for travel already incurred, etc.

4. A check register will be maintained in which will be recorded all transactions of the account, including deposits, disbursements and bank service charges. A reconciliation should be made with

the bank statement at the end of each month. When possible, the reconciliation should be made by someone other than the custodian. The balance remaining in the checking account as of a given date, together with any outstanding advances and travel expense claims on hand but not yet reimbursed, should always equal the amount established by the governing body for the account.

5. Employee advances for travel expenses should be made by the issuance of checks drawn on the special bank account, payable to the applicant. Approved requests should be retained in the files of the custodian to support such advances until final settlement is made and claim for reimbursement has been submitted. Requests for such advances should be reasonable estimates of the applicants' travel expense requirements and should contain as a minimum the following information:

- Date of request
- Name of applicant
- Destination
- Purpose of travel
- Anticipated departure and return dates
- Amount requested
- Signature of applicant
- Official approval of trip
- Check number, amount and date (to be provided by the custodian when the advance is made)

6. Settlement of advances should be made on or before the 15th day following the close of the travel period by filing with the custodian an expense voucher as required by RCW 42.24.090. The custodian should verify the amount shown on such form as having been advanced to the employee. In the event the traveler's actual expense is ***less*** than the amount of the advance received, his/her expense voucher should be accompanied by the unexpended portion of the advance. The expense voucher and original request for the advance will then be used to support the custodian's claim for a warrant replenishing the account for travel expenses reported. Expense vouchers containing expenses in excess of the amount advanced will be submitted in duplicate to the custodian at the time of final settlement. The original copy of the expense claim and the traveler's request for an advance will then be used to support the custodian's claim for a warrant replenishing the account. The other copy of the expense claim will be submitted to the warrant issuing officer for reimbursement of the excess to the traveler. Claims for reimbursement to the account should be submitted by the custodian periodically as needed and at the end of the fiscal year in order that all expenses incurred will be charged against the appropriations for the period then ending.

7. Any default in accounting for or repaying an advance should render the full amount which is unpaid immediately due and payable with interest at the rate of 10 percent per annum from the date of default until repaid. To protect against any losses on advances, the governing body should have a prior lien against and a right to withhold any and all funds payable or to become payable to such officer or employee to whom such advance has been given, up to the amount of the advance and an annual interest rate of 10 percent until repayment or justification is made (RCW 42.24.140). No advance of any kind may be made to any officer or employee at any time when he/she is delinquent in accounting for or repaying a prior advance.

Imprest, Petty Cash and Other Revolving Funds

3 **Accounting**

3.8 **Expenditures**

3.8.8 **Imprest, Petty Cash and Other Revolving Funds**

3.8.8.10 **Purpose**

Guidance in this section applies to petty cash, imprest accounts, working funds, advance travel, stamp funds, change funds, or any other revolving funds set aside for facilitating minor disbursements, making change, and similar uses. When revolving funds are disbursed, they are restored to the authorized balance by a warrant drawn and charged to the applicable fund.

3.8.8.11 **Budgeting**

Imprest, petty cash and other revolving funds are not budgeted because they represent working capital for expenditures that are properly budgeted in other funds.

3.8.8.15 **Accounting**

The authorized balance of imprest, petty cash and other revolving funds should be reported as cash in the general ledger in whichever fund expenditures are expected to be paid from. Expenditures should be recorded when such funds are replenished to their authorized balance.

3.8.8.20 **Controls**

See the BARS Manual 3.1.3, *Internal Control* for general guidance on internal controls. The following are minimum expected controls for revolving funds:

1. The governing body must authorize each revolving fund in the manner that local legislation is officially enacted, i.e., resolution or ordinance. This applies also to all subsequent increases or decreases in the imprest amount.
2. The governing body or its delegate must appoint one custodian of each petty cash account who should be independent of invoice processing, check signing, general accounting and cash receipts functions. As part of the appointment, the custodian should render a receipt for the imprest amount to the treasurer, clerk-treasurer or auditor from whom he/she receives it. When it is not practical to hire additional personnel or to reallocate these duties among existing personnel, the governing body must establish some mechanism of review that accomplishes the objectives of the segregation of duties. For example, periodic monitoring of cash receipts and/or independent performance of the reconciliation may be adequate compensating controls for when complete segregation of duties is not possible.
3. The authorized balance should not exceed one month's salary or the surety bond covering the custodian.
4. On at least monthly basis, the fund should be reconciled to the authorized balance and to the actual balance per bank statements or a count of cash on hand. If this reconciliation is done by the custodian, it should be checked or re-performed periodically by someone other than the custodian. It is recommended that independent checks not be scheduled with the custodian but be done on a surprise basis.
5. For funds on hand (such as petty cash or change funds), the custodian must ensure cash is kept in a secured place, such as a locked drawer or box.
6. For funds deposited into a bank account (such as imprest or revolving funds), disbursements can occur by ATM or Debit Card usage. The custodian must ensure the ATM or Debit Card is kept in a secured place, such as a locked drawer or box. The governing body must approve the establishment of the account and specifically state the purpose of the account and the allowable use of the ATM or Debit Card for the account's purpose. Additionally, the governing body must establish internal controls and policies regarding ATM or Debit Card usage as well as follow all internal control procedures in place for all accounts in this section and for expenditure of government funds.
7. Whenever disbursements are made, the fund must be replenished at least monthly by warrant or check. The replenishment should be subject to the same review and approval as processed invoices. The replenishment must be by voucher with the appropriate receipts attached. The receipts should show the date, recipient, purpose, and amount of each cash disbursement. These receipts must be signed by the person receiving the money, stamps, etc. The receipts should be perforated or canceled by some other appropriate means to prevent reuse. At the time of replenishment, the custodian should ensure that the balance remaining in petty cash, together with the amount of the replenishment voucher, equals the authorized balance.
8. No receipts may be deposited to the fund other than approved replenishments and increases to the authorized balance as described above.
9. Revolving funds are public funds and may never be used for personal cash advances, loans or expenditures.
10. Funds may also never be used to provide check-cashing services for employees or others (except in cities that have approved a policy to cash employee's checks in accordance with RCW 35.21.087 or RCW 35A.40.110; in which case a separate change cash fund should be created solely for this purpose with deposits of cashed items made daily). See the separate procedures applicable to advances for travel expenses.
11. Whenever a revolving fund is abolished or an individual's appointment as custodian is terminated, the fund must be replenished to the authorized amount, reviewed and certified as being turned over to the treasurer or new custodian.
12. See the BARS Manual 3.8.2, *Employee Travel* for additional guidance specific to advanced travel revolving funds.
13. See the BARS Manual 3.8.9, *Confidential Funds* (Drug Buy Money, Investigative Funds) for additional guidance specific to revolving funds established for confidential investigative purposes.
14. A list of all authorized revolving funds should be maintained. At a minimum, this list should include the type of account, purpose, authorized balance, custodian, and which fund the cash is reported in. This list acts as support for controls and for the government's bank reconciliation, which will include the authorized balance of all revolving funds as a reconciling item between bank and general ledger.

3.8.8.30 **Reporting**

The authorized balance should be reported as cash in the financial statements in whichever fund expenditures are normally paid from. All funds should be reconciled and replenished to the authorized balance as of fiscal year end to ensure expenditures are recorded.

Memberships in Civic and Service Organizations

3 **Accounting**

3.8 **Expenditures**

3.8.13 **Memberships in Civic and Service Organizations**

3.8.13.10 There has been a dramatic shift in business, social, and governmental cultures which has impacted the way the legal community views implied powers of municipal corporations. Included in this contemporary analysis is recognition that membership in a local civic or service organization may; indeed, benefit a municipal corporation.

3.8.13.20 The AGO and SAO has concluded that the intent of membership payments by a municipal corporation should be considered. However, payments of memberships to fraternal organizations, or community/social organizations such as golf and country clubs, should continue to be questioned. While municipal corporations have no obligation to pay for employee and officer memberships, should they choose to do so, a formal policy should be adopted to include:

1. The legislative body's intent that officers and employees be active participants in service and civic organizations.
2. Those services and civic organizations to which membership fees will be paid on behalf of officers and employees.
3. The limit on the number of individuals for whom membership payment will be made to any on organization, and a delineation of criteria for multiple memberships.
4. The benefit, which the municipal corporation will derive from the membership in an organization and the authorized activity to which such benefit, is related.
5. Those municipal corporation positions for which membership fees will be paid.
6. Ancillary costs of membership which the municipal corporation will or will not pay, or provide reimbursement (i.e. meal costs incurred during meeting, costs incurred traveling to and from meetings, costs incurred as a result of the employees membership such as, time required to attend meetings or for committee participation and time required to perform duties of appointed/volunteer/elected positions) or time and expenses incurred as a result of attendance at related meetings such as regional, state, or national conventions.
7. Approval authority for payment of expenses incurred as a result of membership in civic or service organizations, or for deviation from established policy.
8. Limitations on the dollar amount that will be paid to a single organization or on behalf of an individual.
9. A prohibition of employee or officers, whose civic or service organization dues are paid in whole or in part by the municipal corporation:

(a) Exerting influence on other employees or officers to provide financial contributions or other support to the civic or service organization.

(b) Using the civic or service organizations as a forum for lobbying in support of or opposition to political or legislative actions, or the promotion of endeavors in which the officer or employee may have a direct or indirect financial interest or may acquire a personal benefit or gain.

Mobile Devices

3 **Accounting**

3.8 **Expenditures**

3.8.3 **Mobile Devices**

3.8.3.10 Local governments are responsible for the usage of their cellular telephones. They should decide what type of phone service package (call minutes, texting, internet, etc.) to purchase and whether to allow personal use by employees. If personal use is allowed, a policy should be established identifying the parameters for the allowable use of the phone and its service features. In addition, the local government should be monitoring employee compliance with the policy and whether there are non-public related costs incurred that would require reimbursement from employees.

Paths and Trails

3 **Accounting**

3.8 **Expenditures**

3.8.10 **Paths and Trails**

This guidance applies only to cities and counties.

3.8.10.10 Under Chapter 47.30 RCW, certain cities, towns, and counties may use a portion of their motor vehicle fuel tax funds to establish and maintain paths and trails for pedestrians, equestrians or bicyclists as a part of streets, roads and highways.

3.8.10.20 The amount a city or county expends annually must be at least .42 percent of the total amount of funds received from the motor vehicle fund according to the provisions of RCW 46.68.090. In lieu of expending the funds each year, however, a city or county may set aside such funds into a financial reserve account or a separate fund to be held for this specific purpose provided it is expended within ten years.

3.8.10.30 Chapter 47.30 RCW is limited to those cities in which the .42 percent exceeds $500 per year and to those counties in which the .42 percent exceeds $3,000 per year. In effect, this means that the annual income from motor vehicle fuel tax must exceed approximately $120,000 for a city or approximately $715,000 for a county before it is mandatory to fund paths and trails. Cities and counties with less annual income from motor vehicle fuel tax may fund paths and trails, but are not required to do so.

3.8.10.40 Also, per the Attorney General Memorandum dated June 7, 1982, until a city or county has set up a comprehensive plan for arterial streets and roads as required by RCW 47.26.170, they are not required to allocate any portion of the motor vehicle funds to a paths and trails fund. If the local government wishes to receive urban arterial trust moneys, they must have a comprehensive plan which includes provisions for paths and trails. Once a plan is set up, the requirements of RCW 47.30.050 apply.

3.8.10.50 Revenues from the motor vehicle fuel tax should be deposited in the respective city street, arterial street, or county road fund and be credited to the appropriate 336 account. All expenditures for paths and trails should be made from the city street, arterial street or county road fund. Account 59562P0 should be charged for construction, 54162P0 for preservation (GAAP entities using modified approach to infrastructure only), and 54262P0 for maintenance.

3.8.10.60 In the event the expenditures accumulated in these accounts at the end of each year do not equal the percentage of motor vehicle fuel tax revenue that is reserved for this exclusive use, the unexpended balance should be set aside (either in the fund or in a separate fund).

3.8.10.70 Cities or counties exercising the option to reserve unspent motor vehicle fuel tax should classify the unspent amount as restricted within the fund balance. Cities or counties exercising the special fund option should create a paths and trails reserve fund.

Purchase Cards

3 **Accounting**

3.8 **Expenditures**

3.8.4 **Purchase Cards**

3.8.4.10 Credit, fuel, prepaid or other forms of purchase cards are commonly used for purchases when appropriate to improve cash management, reduce administrative costs and increase efficiency.

3.8.4.20 In accordance with RCW 43.09.2855, local governments using credit cards must adopt policies and procedures to control credit card payments, including distribution of cards, credit limits, authorization of purchases and support and payment of bills. If cards are used for travel purchases, policies must conform to requirements of RCW 42.24.115.

3.8.4.30 Credit card payments must be supported by documentation for every purchase and be audited and certified in accordance with RCW 42.24.080 or RCW 42.24.180.

3.8.4.40 Officials and employees are prohibited by law from:

- Using publicly-used credit cards for personal purchases, even if the purchase is reimbursed prior to the date that the bill becomes due.
- Using credit cards for cash advances, regardless of the purpose.

Redeemed Warrants/Cancelled Checks

3 **Accounting**

3.8 **Expenditures**

3.8.7 **Redeemed Warrants/Cancelled Checks**

3.8.7.10 Due to many local governments no longer receiving redeemed warrants and canceled checks from their financial institutions the following is guidance which pertains to such effected entities.

3.8.7.20 The State Auditor's Office recommends local governments receive and retain all redeemed warrants and canceled checks from public accounts as part of their public records. This may be either the original (actual) document or *read-only* (certified electronic format). Those entities using the county as their fiscal agent may continue allowing the county to maintain these documents.

3.8.7.30 The reasons for this recommendation are twofold:

1. Receiving and reviewing these documents is an integral part of the entities internal control system. Many disbursement frauds may be detected by having an independent party scan the front and back of all redeemed warrants and canceled checks.
2. Our office is responsible for auditing the receipt, safekeeping and disbursements of public funds. To fulfill this responsibility, we must have access to all original source documents, including redeemed warrants and canceled checks.

3.8.7.40 The SAO recognizes a small cost may be associated with receiving these documents from your financial institutions. However, this cost will be substantially less than costs associated with the SAO requesting these documents during an audit.

Unemployment and Deferred Compensation

3 **Accounting**

3.8 **Expenditures**

3.8.1 **Unemployment and Deferred Compensation**

Quick Links

Accounting for state unemployment compensation

3.8.1.20 Option 1 - Taxable (RCW 50.44.035)

3.8.1.30 Option 2 - In-lieu contribution (Reimbursable) (RCW 50.44.060)

Deferred compensation plans

3.8.1.50 Background

3.8.1.70 General requirements

3.8.1.90 Administrative requirements

3.8.1.100 Reporting

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1) Accounting for state unemployment compensation

3.8.1.10 All local governments have a choice between either the tax basis or in-lieu contribution basis for making payments to the Department of Employment Security (ESD) (RCW 50.44.030). The accounting procedures for the two options are detailed below:

3.8.1.20 ***Option 1 - Taxable (RCW 50.44.035, RCW 50.24, RCW 50.29)***

With this option the entity is assigned a rate and pays quarterly based on wages paid to employees. Rates are reassessed annually by the Employment Security Department. Contact the Department of Employment Security to determine the appropriate tax rate(s) for your particular

unit of government. Apply the rate to all functional expenditure/expense accounts that have direct salary or wage charges, using the employer fringe or personnel benefits object applicable to your local government, each time a payroll is prepared. Do not apply the rate to salaries and wages of the following: (1) elected officials; (2) Job Training Partnership Act (JTPA) employees to the extent their earnings are within the maximum gross pay allowable under the JTPA programs; or, (3) policy-making employees that do not work more than eight hours per week.

Remit unemployment taxes quarterly to the Department of Employment Security.

3.8.1.30 ***Option 2 - In-lieu contribution (Reimbursable)***(RCW 50.44.060)

Entities must be approved for this status by the Employment Security Department. Entities report quarterly wages to the Employment Security Department, but only pay when an unemployment claim is filed. Under this option, the ESD will pay unemployment claims and then bill the local governments for reimbursement.

Method A

The local government may individually manage resources for unemployment claims. This can be accounted for in the general fund or the local government can create an internal service fund for unemployment – Unemployment Compensation Fund. The purpose of this fund is to create a reserve for future unemployment claims by receiving periodic cash contributions from operating funds. The amount of these cash contributions depends on the estimate of future unemployment claims. The estimates should be reviewed and adjusted periodically, based on experience. Typically, estimates are based on a three to five year history of actual claims, but each entity should determine the method that works best for them. There may be different rates for departments and funds within the same government. The periodic cash contributions from operating funds will be charged to the functional expenditure/expense accounts in the operating funds in the same manner as premium payments paid to the ESD. Payments to the ESD must be made from the Unemployment Compensation Fund. Interest earnings on investment of the contributions may be used for the benefit of the Unemployment Compensation Fund (thereby reducing charges to the operating funds) or the general (current expense) fund per RCW 35.39.034. An ordinance or resolution must govern this choice.

Method B

The local government may participate with other local governments in an unemployment pool or cooperative as provided for in RCW 39.34.030. If you participate in such a cooperative, the contributions from your funds should be charged as expenditures/expenses functionally according to the applicable chart of accounts. In this case, the pool or cooperative will pay the billed amounts to the ESD.

Rates charged to the participants should be adjusted periodically based on the experience of each participant.

Method C

The local government may choose to assume the risk and not set aside resources for future claims. Under this method, the claims are reported as expendituresin the fund that the employee is normally paid from.

3.8.1.40 Since claims made by the ESD must be paid by statute, it is not necessary to appropriate funds for their payment; however, we recommend that appropriations be made by local governments to ensure their ability to pay future claims.

2) Deferred compensation plans

3.8.1.50 **Background**

RCW 41.50.770 authorizes all local governments to establish deferred compensation plans for the benefit of their employees in conformity with the requirements of Section 457 or Section 401(a) of the Internal Revenue Code. RCW 28A.400.250 further authorizes school districts to establish plans in conformity with the requirements of Section 403(b) of the Internal Revenue Code.

3.8.1.60 Deferred compensation plans permit employees to accept less than the full amount of salary earned thus reducing their current federal income tax liability. The amount by which the salary is reduced is invested by the employer and upon retirement, disability, termination, unforeseen emergency, or death may be withdrawn by the employees or their beneficiaries.

3.8.1.70 **General requirements**

The plan must be established correctly and administered properly so that the Internal Revenue Service (IRS) does not rule that the plan is not in conformity with the requirements of the Internal Revenue Code.

3.8.1.80 Because of the many administrators and plans available, it is strongly recommended that any local government which intends to establish a deferred compensation plan seek legal counsel to determine conformance with the Internal Revenue Code, and obtain approval of the chosen plan by the district.

3.8.1.90 **Administrative requirements**

Caution should be exercised in implementing a plan, not only to protect the employer's legal liability, but also to prevent undue administrative complexities. Some major administrative requirements are as follows:

a. Make written agreements with plan administrator

All local government deferred compensation plans should provide for written agreements which clearly define the duties and responsibilities of the employer and the administrator.

b. Keep an employee file for each employee

A file to keep a deferred compensation record for each participating employee is necessary. Most carriers will provide the forms and basic accounting information for the employer, but the employer is responsible for maintenance of the files.

The participating employees must complete and sign joinder agreements stipulating the amount of their gross salaries or wages to be deferred. The local government should also maintain a written agreement which details any responsibilities of the employer for contributions, fees, charges, earnings, losses and withdrawals.

c. Withdrawals

The procedures for withdrawals should be clearly defined and the employer should be very careful in accepting any employee requests for amounts to be withdrawn from accumulated deferred compensation assets for unforeseeable emergencies, as any employee withdrawal granted which does not qualify under Internal Revenue Code could cause the entire deferred compensation plan for all employees to be considered in violation and invalid by the IRS.

Normally, all withdrawals as a result of retirement, disability, termination, unforeseen emergency or death, will be paid to the employer by the bank, credit union, or other institution (the agent) with which the employer (the principal) has the agreement.

In such cases, the employer will receipt for the payment referred to above, deduct the appropriate amount for federal income tax withholding and disburse the remaining amount to the employee, former employee or beneficiary as applicable. The employer will then remit the federal income tax withheld to the IRS or to the official depository as it presently is required to do. The employer will issue W-2 forms to the participants in the plan who have received payments of deferred income.

The W-2 will show the gross payment made to the participant or beneficiary and any deductions made.

However, the IRS has approved some plans whereby the administering company acts as agent for payments to the employees, issuance of W-2 forms and remittances to the IRS. Such IRS approved plans, which are still in conformance with the requirements of the Internal Revenue Code, will be permitted.

d. Maximum contribution

Local governments should refer to the Internal Revenue Service for allowable annual contribution limits.

e. Budget salaries and wages in year earned

All local governments required to budget revenues and expenditures by fund should be required to budget the gross salaries and wages including the deferred compensation amounts as expenditures of the year in which the salaries or wages are earned.

f. Establish plan as a pension (and other employee benefit) trust fund (if applicable)

All plans established in conformity with the Internal Revenue Code are expected to be held in a trust for the exclusive benefit of participants and their beneficiaries.

3.8.1.100 **Reporting**

Local governments do not own either the amounts deferred by employees or related income on those amounts. Accordingly, reporting will depend on whether the government is acting as the administrator for the plan. Administration involves managing the assets of the plan through a qualifying trust. In Washington State, this situation is expected to be rare for local governments. When your plan is administered by a third party administrator (example ICMA-RC), the government is not considered the plan administrator for financial statement reporting purposes. If the government contracts with a third party administrator, the government should make disclosures required for defined contribution pension plans and report contributions to the plan as payroll expense but would ***not*** report plan assets as a fiduciary fund. In the rare circumstance where a government acts as the administrator for the plan, governments should report their plans as pension (and/or other employee benefit) trust funds in their financial reports.

3.8.1.110 The local governments should keep detailed accounting records of the deferred compensation plan. However, if those records can be provided by the administrator of the plan, no duplication is necessary.

Use of Payroll and Claims Funds

3 **Accounting**

3.8 **Expenditures**

3.8.6 **Use of Payroll and Claims Funds**[1]

3.8.6.10 **Purpose**

For the purposes of the BARS, the term *clearing fund* includes both payroll and claims clearing funds.

Clearing funds are an internal accounting control that allow for separate tracking of outstanding warrants or other disbursements. Such funds provide an additional check as part of the bank reconciliation process and provide visibility to the amount of outstanding items for cash management purposes.

3.8.6.20 **Budgeting**

Payroll and claims clearing funds are not budgeted because they represent an additional internal accounting control for disbursements that are properly budgeted in other funds.

3.8.6.40 **Accounting**

Money transferred to the clearing fund should be coded in the clearing fund as nonrevenues (3890000) and disbursements should be coded as nonexpenditures (589PP00). For more details see BARS Account Export.

3.8.6.50 The clearing funds are not operating funds, so accounting entries should be limited to beginning cash and investments, nonrevenues for cash transferred from other funds when warrants (or other disbursements) are issued, nonexpenditures for redemptions and ending cash and investments.

3.8.6.60 Therefore, ***at all times***:

- Beginning cash and investments should be equal to the total outstanding and open period disbursements at the beginning of the period;
- Nonrevenues should be equal to disbursements issued during the period;
- Nonexpenditures should be equal to disbursements redeemed during the period; and
- Ending cash and investments should be equal to the total currently outstanding disbursements plus any amounts withheld from payrolls and temporarily unremitted (such as quarterly L&I payments). At year end, the ending balance will also include any disbursements issued during the open period.

3.8.6.65 Clearing funds cannot be provided with any working capital. Therefore, the money for redemptions must be transferred to the clearing fund from the appropriate operating fund on the same day that the warrants (or other disbursements) are issued. If the operating fund is insolvent, it must issue a registered interest-bearing warrant to the clearing fund instead of a transfer. This registered warrant should be deposited along with other cash receipts. When a clearing fund disbursement is canceled, the amount of the canceled warrant must be transferred back to the appropriate operating fund.

If a county issues a registered warrant for a junior taxing district, that is an intergovernmental loan and guidance in BARS section 3.4.7.1 Intergovernmental Loans should be followed.

3.8.6.70 The warrants issued against a clearing fund must be recorded in the appropriate warrant register in strict numerical and chronological order and the expenditures applicable to the claim vouchers supporting the warrant issue must be recorded in the distribution of expenditure ledgers for the various operating funds in the same order and bear the same dates.

3.8.6.80 **Controls**

The approved warrants should be recorded in the minutes of the governing body (see BARS Manual 3.8.5, *Voucher Certification and Approval*).

3.8.6.90 The distribution of expenditures from the vouchers to the budgetary control records must agree with the totals accumulated in the warrant registers. On a monthly basis, nonrevenues should be compared to warrants or checks issued, nonexpenditures compared to redemptions and the ending balance to outstanding warrants or checks. Any differences should be investigated and resolved. This process should be documented as part of the bank reconciliation.

3.8.6.100 **Reporting**

Statutes require use of clearing funds for counties, and use of clearing funds is a common practice for cities and other governments that issue their own warrants and checks. However, clearing funds should not be reported on the financial statements because they represent an internal accounting control for disbursements that are properly reported as expenditures in other funds.

Footnote

[1] RCW 35.21.085, RCW 36.33.060, RCW 36.33.065
Return to Reference 1

Voter Registration and Election Cost Allocation

3 **Accounting**

3.8 **Expenditures**

3.8.12 **Voter Registration and Election Cost Allocation**

This guidance applies only to counties.

3.8.12.10 This interpretation establishes uniform procedures for allocating voter registration and election costs incurred by counties. These procedures are mandatory for elections held after January 1, 2010.

RCW 29A.04.410 Every city, town, and district is liable for its proportionate share of the costs. Special election costs must be borne by the city, town, or district concerned.

RCW 29A.04.420 The state should assume a prorated share of election costs when state officers or measures are voted upon at a state primary or general election held in an odd-numbered year under RCW 29A.04.321.

RCW 29A.08.150 The expense of registration in all rural precincts must be paid by the county. The expense of registration in all precincts lying wholly within a city or town must be paid by the city or town. Registration expenses for this section include both active and inactive voters.

RCW 29A.32.270 The cost of a local voters' pamphlet shall be considered an election cost to those local jurisdictions included in the pamphlet and shall be prorated in the manner provided in RCW 29A.04.410.

Voter registration or election costs to be allocated

3.8.12.20 BARS account 51490P0 is prescribed for voter registration and voter precinct costs. Costs charged to this account must be specifically for voter registration purposes and will include proper object codes. Time records and other documentation must be maintained to support expenses allocated to voter registration costs.

3.8.12.30 BARS account 51440P0 is prescribed for election costs. Costs charged to this account must be specifically for election purposes and will include proper object codes. Time records and other documentation must be maintained to support expenses allocated to election costs.

3.8.12.40 For allocation requirements and forms please see the Secretary of State's website.

Voucher Certification and Approval

3 **Accounting**

3.8 **Expenditures**

3.8.5 **Voucher Certification and Approval**

3.8.5.10 Chapter 42.24 RCW requires the *auditing officer* of a municipality to audit all *claims* against the municipality prior to payment and certify that claims are just, true and unpaid.

The *auditing officer* is an individual elected or appointed pursuant to statute. The auditing officer is responsible for certifying claims of officers and employees of the municipality as well as preparing and submitting vouchers for payment. The auditing officer should be a different individual than the check signer.

Claims refers to all external payments that are made to satisfy obligations of the entity, regardless of how payments are processed (e.g., through warrants, checks, EFTs, etc.). Claims include refunds, reimbursements, bond payments, federal tax payments, payments to other governments, grants, transfers or payments made to component units or joint ventures, etc. Claims do not include internal activities such as interfund loans, interfund reimbursements, interfund payments (i.e., to internal service funds), indirect cost allocations or other internal accounting transactions, purchases of investments, transfers between funds/bank accounts owned by the entity, etc.

3.8.5.20 The auditing officer's certification may be made on each individual claim voucher. Alternately, the municipal legislative body may approve use of a blanket voucher certification.

A blank voucher must indicate the particular claims certified. Blanket certification does not relieve the auditing officer of his/her responsibility and liability for each individual claim.

3.8.5.30 Certifications must be signed and dated by the auditing officer. For all claims, except expense reimbursement claims certified by officers or employees (see 3.8.2 Employee Travel), the certification must include the following language:

I, the undersigned, do hereby certify under penalty of perjury that the materials have been furnished, the services rendered or the labor performed as described, or that any advance payment is due and payable pursuant to a contract or is available as an option for full or partial fulfillment of a contractual obligation, and that the claim is a just, due and unpaid obligation against the (city/county/district), and that I am authorized to authenticate and certify to said claim.

3.8.5.40 The auditing officer's certification for employee/officer expense reimbursement claims must include the following language:

I, the undersigned, do hereby certify under penalty of perjury that the claim is a just, due and unpaid obligation against the (city/county/district), and that I am authorized to certify to said claim.

3.8.5.50 The certification by the auditing officer does not relieve the governing body from the responsibility and liability for each voucher approved. The governing body is responsible for ensuring the system of auditing and certifying vouchers provides the greatest possible protection of public resources, the governing body, and the municipality.

3.8.5.60 To document governing body approval, the following should be entered in the minutes:

The following voucher/warrants/electronic payments are approved for payment:

[Funds]	**Total**
Voucher (Warrant) numbers: _____ through _____	$_____
Payroll warrant numbers:_____ through _____	$_____
Electronic Payments dates:_____ through _____	$_____

3.8.5.70 The municipality's legislative body may authorize the procedure for issuing warrants, checks, and/or electronic payments before the legislative body approves claims. The legislative

body may stipulate that certain kinds and/or amounts may not be paid before the body has reviewed the supporting documentation and approved the claims.

3.8.5.80 To authorize payments prior to legislative body review, the municipality must enact the policies and procedures meeting the following conditions required by RCW 42.24.180

1. The auditing officer and the officer designated to sign the checks, warrants, or initiate an electronic payment must have an official bond. The amount is determined by the legislative body and cannot be less than $50,000.

2. The legislative body must adopt contracting, hiring, purchasing, and disbursing policies that implement effective internal control. Electronic payments should be addressed by policies that implement effective internal control over initiating and approving transactions; see 3.8.11 Electronic Funds Transfer (EFT) – Disbursement

3. The legislative body must review and approve the claims paid at its next regularly scheduled public meeting (within one month of issuance for cities and towns).

4. If the legislative body disapproves claims, the auditing officer and the officer designated to sign the checks, warrants, or initiate the electronic payments must recognize these claims as receivables of the municipality. The municipality must pursue collection diligently until the amounts are either collected or the legislative body is satisfied and approves the claims.

3.8.5.90 The original copy of all vouchers should be filed in the office of the auditing officer of the municipality. The detailed accounts to which the expenditures are to be posted must be clearly designated. Supporting documentation must be retained and either attached to the vouchers or canceled by the auditing officer to prevent reuse. See 3.1.4 Original Supporting Documentation for requirements.

3.8.5.100 Municipalities that do not issue their own warrants (i.e., rely on another municipality as treasurer) should retain vouchers and other supporting documentation (e.g., invoices, listing of approved vouchers, etc.). The treasurer may request support with warrant/voucher submissions, but this does not relieve the municipality of the responsibility to retain these supporting documents.

Interfund Activities
Interfund Activities Overview

3 **Accounting**

3.9 **Interfund Activities**

3.9.8 **Interfund Activities Overview**

3.9.8.10 BARS requires that each fund be supported by its own separate set of self-balancing accounts. As such, funds will often interact with one another. **Interfund activity** is defined as financial interactions between the funds of a government (including legally separate blended component units).

3.9.8.15 Interfund activity should be reported within each fund as described below. Governments that roll up or consolidate a fund (or funds) with another fund of the government (for example, the consolidation of managerial funds or activity between departments within a single fund) should redefine the interfund activity between these funds as *intrafund* activity and eliminate it for reporting.

3.9.8.20 Interfund activity is split into two broad categories and four smaller subcategories. The categories and subcategories are as follows:

1. Reciprocal interfund activity – A situation or transaction involving the exchange of equal or almost equal value between funds. There are two types of reciprocal interfund activity:

a. Interfund Loans – Borrowings or advances from one fund to another fund with the expectation of repayment through collection of principal payments and interest as stipulated in a loan

document, resolution, and/or ordinance. Please note that if there is no reasonable expectation for repayment, the loan should instead be reported as an interfund transfer. For more information about loans and what constitutes as reasonable expectation of repayment see BARS Manual 3.9.1, *Interfund Activities/Loans*.

b. Interfund Services Provided and Used– As part of regular fund activity, one fund could sell goods or services to another fund in return for assets (such as cash or goods) of equal or almost equal value. Interfund services provided and used are accounted for and recognized as normal revenues and expenditures/expenses. Examples of interfund services include:

- Purchase of goods or service: water fund selling water to the parks department of the general fund, parks facility rental to the water department for public meeting, permitting department selling a permit to the sewer department (sewer fund).
- Property transfers: Property transferred between funds of the same local government. For details see BARS Manual 3.9.2, *Interfund Activities/Property Transfers*.
- Cities only: Utility tax levied by the general fund on its own utility. For details see BARS Manual 3.6.13, *Tax Revenues/Utility Tax*.

2. Nonreciprocal interfund activity – A situation that does not involve the equal or near equal exchange of value between funds. One fund gives (or receives) value without receiving (or giving) value in return.

a. Interfund Transfers – A flow of assets (such as cash or goods) from one fund to another without the return of equivalent assets, goods or services, or requirement for repayment. An example of an interfund transfers include:

- Regular operations subsidies such as the general fund provides an annual operating subsidy to a transit enterprise fund.
- Cities only: Utility surplus transfers as allowed by RCW. For details see BARS Manual3.9.3, *Interfund Activities/Utility Surplus Transfers.*

b. Interfund Reimbursements – A repayment from the fund responsible for a particular expenditure or expense to a fund that initially paid for them. Interfund reimbursements are reported as an expenditure/expense in the fund ultimately responsible and as a reduction of the expenditure/expense in the fund being reimbursed.

Reimbursement situations generally result out of convenience, because of errors, or due to from routine administrative transactions; however, these can also occur when a government is not able to determine proper fund allocation of an expenditure at the time it is incurred. Interfund reimbursements examples include:

- Reimbursements to correct errors or allocate payments for pooled activities (payments for a convenience) such as distribution of telephone bills among the departments and funds after one department has paid the bill. For details see BARS Manual 3.9.4, *Interfund Activities/Reimbursements*.
- Overhead cost allocation – Costs of central services or support functions shared across departments and provided on a cost reimbursement basis. For details see BARS Manual 3.9.5, *Interfund Activities/Overhead Cost Allocation* and (GAAP only) BARS Manual 3.9.6, *Interfund Activities/Internal Service Funds*.

3.9.8.30 Reporting of transactions in funds for interfund activity [***Note:*** for GAAP entities this activity should be recognized according to the fund's basis of accounting]:

Type of Interfund Activity	**Fund Providing/Receiving**	**Fund Benefitting/Paying**
Interfund loans (Cash)	5811 - Loan disbursed 3812 - Repayment receipts 3614 - Interest receipts	3811 - Loan received 5812 - Loan payment 592PPPX - Interest paid
Interfund loans (GAAP)	Interfund loan receivable 3614 - Interest receipts	Interfund loan payable Interest expense
Interfund services provided and used	Revenue	Expenditure/Expense
Interfund transfers	397 - Transfer-in	597 - Transfer-out
Interfund reimbursements	Reduction of expenditure or expense	Expenditure/Expense

Equipment Rental and Revolving (ER&R) Fund

3 **Accounting**

3.9 **Interfund Activities**

3.9.7 **Equipment Rental and Revolving (ER&R) Fund**

3.9.7.10 Equipment Rental and Revolving funds, also known as ER&R funds, are established to provide equipment rental services within a local government. They increase government efficiency by giving the government a way to allow expensive equipment and supplies to, in essence, be rented to the government's various departments. ER&R funds are internal service funds and should operate on a cost reimbursement basis (without generating a profit). Their rental equipment can include items such as computers, police and fire vehicles, heavy road equipment and specialized high voltage trucks.

All counties (RCW 36.33A.010) and cities with populations over 8,000 (RCW35.21.088) are legally required to have an ER&R fund for operating county road and city street departments. ER&R funds may be expanded to provide services to other departments including public works, utilities, fire and police.

ER&R funds are created by county commissions or city councils. Counties pass a resolution and cities pass an ordinance defining the origin of the resources, purpose, and specific duties of the fund. Start-up resources usually come from an interfund transfer of cash and/or equipment. The transfer may be as a loan or a permanent transfer. Further discussion of internal service funds and overhead cost allocations can be found in the Budgeting, Accounting and Reporting System (BARS) Manual at 3.9.6, *Internal Service Funds* and 3.9.5, *Overhead Cost Allocation*, respectively.

3.9.7.20 **Operation of the fund**

Management of the ER&R fund is responsible for ensuring that the fund's operation complies with what is set out in the resolution or ordinance.

Goals of the ER&R program may include: setting rates that sufficiently cover the costs of operation and provide for equipment replacement; charges to departments that are equitable, fair, and reasonable; proper tracking of assets and equipment; and proper investment of reasonable and necessary reserves.

The assets of ER&R funds should be tracked and inventoried as with other assets, but also for purposes of assisting management with having sufficient information to establish rates and plan for asset replacement. As such, information about historical cost, purchase date, primary user verses pooled asset, expected life, and anticipated replacement cost of the asset is important. Further discussion on records that should be maintained for revenue assets can be found in BARS Manual 3.9.6, *Internal Service Funds* at paragraphs .120 and .130.

ER&R funds should charge fees for all services, staff, facilities or equipment in a manner that is consistent and equitable to all participating funds or departments.

ER&R funds, as with other internal service funds, are collected for a specific purpose. The ER&R funds should be segregated, tracked and used for their intended purpose or returned to the originating funds in an equitable manner if they are no longer needed.

The fund balance of the ER&R fund should reflect a level that is anticipated to assure continued operation of the fund. Management policies should support the amount of cash reserves necessary for continued operation of the fund and timely replacement of vehicles or equipment; as determined during the rate setting process.

Guidance on accounting, management and controls over capital assets is available in the BARS Manual 3.3 (3.3.9, *Capital Asset Management System Requirements*).

3.9.7.30 **Rate setting**

ER&R rate structures should cover all costs associated with the operation of the fund. In counties, the rate structures are determined by the county engineer and must be reviewed annually by the legislative body (RCW 36.33A.040).

Rates can be developed for individual assets or similar groups of assets. They can also be billed as a single rate or separately. Composite rates (single rates that apply to dissimilar assets) should be avoided as they tend to lead to overcharges or undercharges.

All actual costs associated with the operation of the ER&R fund should be included when determining the rate structure for equipment. Allocation of the costs should be made on an

equitable basis, such as asset life. Costs should be allocated for salaries and benefits, general cost of operations, attorney fees, insurance, etc.

Rental rates are typically composed of four components:

1. Expenses due to maintenance and operation (employee wages, building rental, equipment repair, supplies, etc.).

2. Depreciation of equipment (for equipment replacement).

3. A surcharge for equipment replacement.

Replacement cost is that amount that is anticipated to replace the existing asset above the cost being recovered through depreciation. It is extremely important to have a system in place that separates charges for replacing equipment from the other components. Most federal grants allow only actual costs to be submitted for reimbursement. Surcharges for equipment replacement are an estimate and not allowable under the Uniform Guidance, 2 CFR 200, Subpart E – Cost Principles. Inclusion of surcharges for equipment replacement in federal reimbursement requests could lead to questioned costs.

4. Corrections for prior year charges.

Rates should be re-evaluated on a yearly basis, and adjusted when needed. This would include review of the inflation factor as well as operational costs. Governments should avoid locking in rates contractually with departments over long periods as they will need to be periodically adjusted to ensure adequate amounts are charged to recoup costs and plan for the replacement of equipment.

Deficiencies in revenues should be made up from rate increases, or transfers from the general fund or funds of the departments using the services. Excess revenue should be allocated back to departments that are over charged. Governments should ensure practices are equitable to prevent one fund benefitting another inappropriately (RCW 43.09.210).

3.9.7.40 **Charges to Federal Programs**

As noted above, governments should be cautious when charging ER&R costs to federal programs and be aware of the terms and conditions of the federal award and the following federal guidelines in the Uniform Guidance, including, but not limited to:

- 2 CFR §200.416 Cost allocation plans and indirect cost proposals
- 2 CFR §200.465 Rental costs of real property and equipment
- Appendix V to Part 200 State/Local Government-Wide Central Service Cost Allocation Plans
- Appendix VII to Part 200 – States and Local Government and Indian Tribe Indirect Cost Proposals

Internal Service Funds

3 **Accounting**

3.9 **Interfund Activities**

3.9.6 **Internal Service Funds**

3.9.6.10 The use of internal service funds, unless legally required, is not required by the generally accepted accounting principles (GAAP). However, GAAP permits internal service funds to be used for activities that provide goods and services to other funds or departments or other governments on the cost reimbursement basis. The use of an internal service fund is only appropriate if the sponsoring government is the predominant user of the services. Otherwise, an enterprise fund should be used.

3.9.6.20 For counties and cities (with population over 8,000), equipment rental funds are legally mandated for operating county road and city street departments by Chapter 36.33A RCW and RCW 35.21.088, respectively.

3.9.6.30 The internal service fund is increasingly being used by governments as an effective way to identify the costs of providing specific services. The internal service funds are proprietary funds, which are accounted for on a flow of economic resources measurement focus, which requires full accrual accounting. The basic financial statements required are a statement of net position (or balance sheet), statement of revenue, expenses, and changes in fund net position, and statement of cash flows.

3.9.6.40 Prior to establishing a new fund, a review of existing state laws and regulations should be conducted to ensure the legality of using this fund classification. Careful consideration must also be given to defining the specific activity to include in the fund, the specific cost objectives associated with providing the service, development of pricing rates and budgetary concerns.

Establishment

3.9.6.50 The internal service fund is usually accomplished by a contributions and/or transfers of cash or capital assets from the general (current expense) fund and other funds. When nonmonetary assets are contributed or transferred within the government the assets must be recorded at the book value. Transfers of assets within the government cannot result in an overall increase in equity within the government.

Transferring fund *(proprietary funds only*)*

Nonoperating Expense	xxx	
Capital Asset		xxx

*Government funds do not report capital assets – thus, no entry is required.

Receiving fund

Capital Asset	xxx	
Capital Contribution		xxx

3.9.6.60 If the contributed nonmonetary assets were originally acquired with restricted resources, the government must monitor their usage and disposal to assure that one fund does not benefit from another (RCW 43.09.210). If management's intentions are to repay the cash transferred to the internal service fund, the transfer should be recorded as an *Advance To/From Other Funds* in the appropriate funds.

Depreciation

3.9.6.70 Internal service funds are proprietary funds so depreciation of capital assets must be recorded.

Rates

3.9.6.80 Rates charged for use of internal service equipment facilities should normally include three components:

a. Current cost of maintenance and operation, without exception,
b. A reasonable charge for depreciation,
c. A surcharge for equipment replacement.

3.9.6.90 Rates can be developed for individual assets or similar groups of assets. Composite rates single rates developed to apply to dissimilar asset groups should be avoided. Rates developed in this manner tend to overcharge or undercharge depending on the type of asset used. Rates may be billed as a single rate or each rate component can be billed separately. Rates should be reviewed at regular intervals.

3.9.6.100 It is not necessary to record the individual components of the rate on the asset(s) profit and loss record, however, it is necessary to be able to identify and extract that portion of the rate, which applies to any replacement surcharge. This portion of the rate is an unallowable charge against most federal programs in accordance with the federal cost principles established in Circular A-87. It should also be noted that many state grants are actually federal indirect or pass-through money. In these cases Circular A-87 is also applicable.

3.9.6.110 When dedicated revenue assets are traded-in, the net operating gain or loss needs to be noted on the asset record of the new asset and included in the new operating rate structure. Net operating gain (or loss) is the excess of billings over costs (or the reverse). Pooled asset records do not need to show this separate source.

Management information

3.9.6.120 Management must maintain records which will identify all revenues and costs associated with an asset or asset group. *Revenue assets* are those facilities or items of equipment, which are directly rented to users or operated directly for a user. Examples include motor pool vehicles, computer mainframes and terminals, and telephone systems. *Dedicated*

revenue assets are those which have a single fund or department as their primary user, such as police cars or election equipment.

3.9.6.130 A separate record of costs and revenues should be maintained for each internal service fund revenue asset, but group asset records can be acceptable. This requirement does not apply to service equipment, such as repair shops or fuel pumps. The record for each revenue asset should include the following items:

1. Type of asset and a cross reference to the individual capital asset record; identification of primary user if it is dedicated, or whether it is a pool asset.
2. A periodic summary (at least annually) of all operating expenses, including any special operator costs.
3. Periodic depreciation expense and indirect expenses.
4. Periodic rental income, service charges, or user fees.
5. Periodic calculation of net income or loss.
6. Annual summary of 2-5 above.
7. Cumulative net income or loss.

This record should supplement the individual capital asset record.

Replacement and disposal of revenue assets

3.9.6.140 Accounting for a replacement or disposal depends on the transaction that takes place.

3.9.6.150 If a revenue asset is traded-in for a similar asset, the gain on the old asset should be accounted for by reducing the cost of the new asset. However, if the trade-in results in a loss on the old asset, the loss should be recognized in the current period. For disposal of revenue assets (other than a trade-in) outside of the government, gains and losses should be recognized in the current period. If an asset is transferred to/from another fund, the transaction should be recorded at book value with no gain or loss recognized.

3.9.6.160 The individual asset records should reflect the same information as the accounting records.

REVENUE ASSET INCOME HISTORY

Asset Name _____

ID No. _____

Year/ Month	Fuel		Oil		Repairs							Special Operator
	Qty	$	Qty	$	Parts	Labor	Misc.	Tires	Ins.	Ovhd.	Dep.	

Year/ Month	Units of Operations	Cost Per Unit	Year-to-Date Income/Loss	PRIOR YEARS		
				Units of Operation	Cost Per Unit	Total Cost

Interfund Loans

3 **Accounting**

3.9 **Interfund Activities**

3.9.1 **Interfund Loans**

3.9.1.10 This section does not attempt to determine which moneys of a local government may or may not be available for interfund lending, since the special character of some moneys involves commitments and restrictions which would require individual consideration. As a rule of thumb, however, it may be considered permissible to make interfund loans of those moneys which are clearly inactive or in excess of anticipated cash needs throughout the duration of the loan **and** legally available for investment. Interfund loans can only be done within the primary government (i.e., the governmental and proprietary funds). Loans between governmental or proprietary funds and the fiduciary funds are intergovernmental loans (not interfund loans) and procedures in BARS 3.4.7, Intergovernmental and Forgivable Loans should be followed.

In addition, the governing body may make a management decision (without a formal lending agreement, however documented in governing body meeting minutes) to loan from the General Fund an amount to other governmental or proprietary funds in lieu of a permanent transfer or contribution (for example, loans of unrestricted General Fund monies). Lending of General Fund monies would require the same repayment schedule as described below.

3.9.1.20 The minimum acceptable procedures for making and accounting for interfund loans are as follows:

1. The legislative body of a local government must, by ordinance or resolution, approve all interfund loans, indicating the lending and borrowing funds, and provide in the authorization a planned schedule of repayment of the loan principal as well as setting a reasonable rate of interest (based on the external rate available to the local government) to be paid to the lending fund. The planned schedule of repayment should specify the due date(s) of payment(s) needed to repay the principal and interest on the loan.

2. Interest should be charged in all cases, unless:

a. The borrowing fund has no other source of revenue other than the lending fund; or

b. The borrowing fund is normally funded by the lending fund; or

c. The borrowing fund is a governmental fund and the lending fund in is the General Fund.

3. The borrowing fund must anticipate sufficient revenues to be able over the period of the loan to make the specified principal and interest payments as required in the authorizing ordinance or resolution.

4. The loan status should be reviewed annually by the legislative body at any open public meeting.

5. The term of the loan may continue over a period of more than one year, but must be “temporary” in the sense that no permanent diversion of the lending fund results from the failure to repay by the borrowing fund. A loan that continues longer than three years will be scrutinized for a permanent diversion of moneys. (Note: these restrictions and limitations do not apply to those funds which are legally permitted to support one another through appropriations, transfers, advances, etc.)

6. Appropriate accounting records should be maintained to reflect the balances of loans in every fund affected by such transactions.

3.9.1.30 No debt instrument issued by one fund and held by another fund can be considered an investment. Such activity should be accounted for and reported as an interfund loan. Although the accounting treatment for such situations is not specified within a source of authoritative pronouncements, GAAP standards require transactions to be with an external party in order to classify them as other than interfund.

3.9.1.31 When a fund has a negative fund balance, it has effectively borrowed money from other funds. The governing body may authorize a policy for handling negative fund balances administratively that provides for appropriate terms and interest, including negative fund balances of fiduciary funds. However, if negative fund balances are significant or persist beyond 60 days in substance, then procedures described in 3.9.1.10 should be followed. For negative fund balances

of fiduciary funds that are significant or persist beyond 60 days in substance, then procedures described in BARS 3.4.7 Intergovernmental and Forgivable Loans should be followed.

3.9.1.32 When a fund is subject to taxes, fees or other charges from other funds, the resulting receivable is not considered a loan unless and until the fund is given extra time to pay. For example, when a fund has an overdue balance and is subjected to the same collection practices as other customers, or the fund is allowed to pay significantly later than other funds or customers, or unpaid balances are otherwise allowed to accrue. Granting extra time for specific funds to pay or reimburse other funds will be scrutinized to determine whether it represents an extension of credit from one fund to another, which should conform to requirements for interfund loans as described above.

3.9.1.40 For reporting interfund loan transactions, see BARS Manual3.9.8, *Interfund Activities Overview*, paragraph 3.9.8.30.

Overhead Cost Allocation

3 **Accounting**

3.9 **Interfund Activities**

3.9.5 **Overhead Cost Allocation**

Quick Links

3.9.5.10 Overhead costs
3.9.5.20 Laws and requirements applicable to cost allocations
3.9.5.40 Unrestricted Vs. restricted revenues
3.9.5.60 General government staff costs allocated to funds with restricted revenues
3.9.5.90 Overhead allocation plans

3.9.5.10 **Overhead costs** consist of the costs of central services or support functions shared across departments. They may include, but are not limited to accounting, human resources, payroll, information technology, and janitorial services. Overhead costs may include the salaries and wages, employee benefits, utilities, supplies, information technology, building maintenance and other costs that support operations of the central service or support function. Typically, services are initially paid through the general fund or an internal service fund and then charged to the departments and programs that directly benefited from them. The cost allocation process must be guided by an **overhead cost allocation plan** that describes how the organization will allocate costs reasonably and equitably across funds and departments and identifies the documentation required to support the charges.

Laws and requirements applicable to cost allocations

3.9.5.20 RCW 43.09.210 indicates that when one fund is charging another, the fund being charged must only pay for the actual costs of the services it receives. Governments are expected to document those services and the costs of providing them to demonstrate these charges are fair, equitable and valid and reflect services provided.

Unrestricted vs. restricted revenues

3.9.5.40 Unlike all other funds, the general fund revenues consist largely of unrestricted sales taxes, property taxes, and other general revenues that can be used to support any fund or undertaking of the government, including utilities or other funds with restricted revenues and their share of government-wide overhead costs.

In contrast, a utility fund's revenues consist of user fees that are restricted to paying for the costs of operating the utility, including necessary capital and debt service costs. These user fees cannot be used to support other funds or general government activities that benefit the public at large. Utility funds and other funds with restricted revenue sources should only reimburse the general fund or internal service fund for costs incurred to render services to the utility funds and other funds with restricted revenue sources.

3.9.5.50 Consistent with state law, general government costs that benefit the public at large should not be charged to the utilities or to other funds with restricted revenues that cannot be used for such expenditures. These costs include police, parks and recreation, community and economic development, worker apprenticeship programs, and other similar costs. These costs do not benefit the utilities and may not benefit other funds with restricted revenue sources. In most

instances, these costs must be charged to the general fund.

General government staff costs allocated to funds with restricted revenues

3.9.5.60 Under state law, government officials may charge a portion of the costs for their central overhead services to funds with restricted revenues, like utility funds or special revenue funds, only to the extent that each fund benefits from those services.

Local governments should carefully consider whether to charge the costs associated with elected officials to the utilities or other funds with legally restricted revenues.

Ask the following question: “Do elected officials benefit the public at large in the form of citizen representation, or do they benefit the funds they oversee or legislate (municipal code, budget, etc.)?” If governments choose to allocate executive and legislative costs to the utilities or other funds with restricted revenues sources, they should exercise caution and should maintain documentation to show that those charges are equitable and reflect the cost of actual services provided to the utilities and other funds with restricted revenues.

If local governments decide to allocate council/commission/oversight board costs across funds, the use of agenda items as the basis to allocate *these* costs across funds likely results in a fairer and more equitable allocation than one based solely on budgeted expenditures. Local governments are typically prohibited from allocating the costs of elected officials to federal awards by the cost principles requirements located in Subpart E of 2 CFR 200 – Uniform Guidance.

3.9.5.70 RCW 35A.33.122, RCW 35A.34.205 and RCW 35.33.123 indicate that a *city may only charge its utilities for the value of services provided by general government staff.*

RCW 35A.33.122 Administration, oversight, or supervision of utility - Reimbursement from utility budget authorized states:
Whenever any code city apportions a percentage of the city manager's, administrator's, or supervisor's time, or the time of other management or general government staff, for administration, oversight, or supervision of a utility operated by the city, or to provide services to the utility, the utility budget may identify such services and budget for reimbursement of the city's current expense fund for the value of such services.

Overhead allocation plans

3.9.5.90 Overhead cost allocation plans allow a government to forecast the amount of overhead it will charge each department each year. Overhead allocation plans that equitably share overhead costs facilitate compliance with the above statutes. Governments should maintain a written cost allocation plan that documents why and how it allocates overhead costs. A cost allocation plan should include relevant, up-to-date information about overhead costs and how to allocate it equitably. Different factors are necessary to equitably allocate the various overhead costs and are dependent on the government’s determination of equitable allocation.

Examples of allocation factors include items such as, but not limited to, the following: square footage (for electric, other external utilities, maintenance, and janitorial costs), number of transactions/checks or warrants issued (for accounting or payroll where appropriate, accounts payable, or purchasing), number of staff (full-time employee equivalent – FTE) (for accounting, payroll, or human resources departments where appropriate), number of computers, phones, and other information technology equipment (for information technology services), etc.

3.9.5.100 Overhead costs must be allocated fairly and equitably to those funds and departments that benefit from overhead services. Charges to the benefiting funds must not exceed the cost and level of service that each fund receives.

3.9.5.110 Although costs can be charged quarterly, monthly, or more frequently, they must *always* be charged after services are rendered. If the general fund charges overhead costs before services are rendered, it has borrowed money from other funds, and interfund loan rules must be followed, see BARS 3.9.1 Interfund Loans. Additionally, if local governments charge departments and funds based on estimated overhead costs, they should reconcile and adjust those estimates to actual costs at least once a year.

3.9.5.120 In addition to the written **plan**, supporting charges and how they were determined need to be documented and retained to demonstrate compliance with RCW 43.09.210. Governments cannot demonstrate compliance with this law unless they maintain documentation that shows: (1) the cost of each overhead cost center, (2) the level of service each provided to benefitting funds and departments and how it was determined, and (3) the amount charged to each fund and department.

Property Transfers

3 **Accounting**

3.9 **Interfund Activities**

3.9.2 **Property Transfers**

3.9.2.10 RCW 43.09.210 requires that, when property is transferred between funds of the same local government, it should be paid for at its full value by the fund which receives it. This requirement applies only if the capital assets were acquired with restricted resources. The following rules are intended to clarify the application of this statute and provide other guidance related to the property transfers:

1. When a local government wishes to acquire capital assets for an internal service fund, such as the Equipment Rental and Revolving Fund, the budgets of the contributing funds should specifically identify the item(s) of equipment to be purchased. Documentation of the equipment purchase must be adequate to show that the funds originally budgeted for a specific piece of equipment were actually used for the purchase of that item.

If the asset is purchased from the contributing fund resources, the transaction in the internal service fund should be accounted for as a capital contribution (DR Capital Asset/CR Capital Contributions).

When nonmonetary assets are contributed or transferred within the government, the assets must be recorded at book value. If governments transfer assets acquired with restricted resources, they must track their usage and disposal to assure that one fund is not benefitting from another.

The transfer of assets between the governmental fund and an internal service fund must be approved by the local government's legislative body.

2. The transfer of general capital assets (originally purchased with unrestricted resources) between two governmental funds of the same government should be accounted for merely as a change in location and/or custodian because the assets are not owned by the particular funds. Such transfers are not subject to budgetary control, but the assets should be declared surplus to the needs of the relinquishing fund and the transfer approved by the local government's legislative body. GASB Statement 48 enunciates the principle that the reported value of an asset can neither decrease or increase simply as the result of movement within the financial reporting entity. If the resources involved with the original purchase were restricted, the capital assets must be paid for by the receiving fund.

3. The transfer of assets between the governmental fund and an enterprise fund should be budgeted and accounted for as a sale and purchase of property. Proceeds of such sale should be deposited to the fund which originally paid for the item or to the general (current expense) fund at the discretion of the legislative body unless a particular statute requires another treatment. The capital asset should be reported in the recipient fund at the same net book value previously reported (i.e., historical cost less accumulated depreciation) in the government-wide statement of net position or proprietary funds.

Reimbursements

3 **Accounting**

3.9 **Interfund Activities**

3.9.4 **Reimbursements**

3.9.4.10 For financial reporting purposes, all revenue, expenditures/expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions should be recognized when the transaction takes place. This means transactions should be presented at gross amounts unless the transaction is a reimbursement or else netting is specifically allowed by GAAP. Examples of allowable netting other than reimbursements include reinsurance activities for public entity risk pools (Governmental Accounting Standard Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards* (Cod.) Section (Sec.) Po20 – Public Entity Risk Pools), pollution remediation obligation (GASB Cod. Sec. P40 – Pollution Remediation Obligations) and some insurance recoveries (GASB Cod. Sec. C50 – Claims and Judgments), etc.

Interfund reimbursements

3.9.4.20 Reimbursements are repayments from the fund responsible for particular expenditures/expenses to the fund that initially paid for them. They are adjustments to correct the assignment of the expenditures/expenses. Reimbursements reduce expenditures/expenses in the fund that is reimbursed and move the expenditures/expenses to the fund that ultimately pays for it. The offsetting transaction should be posted on an object level.

3.9.4.30 There is one major exception to this definition: frequently, internal service funds are created to account for cost allocation and purchasing. In those funds, cost allocations and payments for pooled purchases are treated as revenues rather than reimbursements.

3.9.4.40 Examples of reimbursements include: correction of errors, internal allocation of overhead and payments received for others' share of pooled activities (payments for a convenience) such as the distribution of utility and telephone bills among the departments and funds after one department has paid the bill or the allocation of insurance premiums and payrolls among various departments and funds.

3.9.4.50 Reimbursements do not include recoveries for damages, whether from insurance or from private sources, grants, contractual payments, impact payments, or shared costs of providing services from the federal, state or local governments. Also, do not include expenditures which constitute direct cost of the activity like interfund taxes, utility payments, licenses, interest, etc.

Reimbursements from external parties

3.9.4.60 Corrections of an error, receipt of a refund for an expenditure (example: returning a supply or cancelling a training class), or the receipt of a vendor discount/rebate awarded after the transaction is completed would qualify as reimbursement and as such, they should be treated in similar manner like interfund reimbursements. If a local government has an ongoing relationship with an external entity (e.g., phone company, etc.) the amounts of reimbursements most likely would be included in the upcoming bill, so no adjusting entry is required. If the reimbursement is related to the expenditure/expense from the previous fiscal year and is immaterial, the amount of reimbursement should be recorded as revenue. If it is material, the government should record the reimbursement as an error correction.

3.9.4.70 Examples of transactions that should not be accounted for as reimbursements include: state payments for public health services, expert witnesses, police salaries while attending criminal justice training; federal/state/local payments for the care and custody of prisoners and for election costs; local payments for data processing services, police/sheriff services, street maintenance, etc.; private payments for street repairs, culvert installations, weed control, demolition of dangerous property, subleases, etc.

3.9.4.80 For an overview of reporting interfund loan transactions, see BARS Manual3.9.8, *Interfund Activities Overview*, paragraph 3.9.8.30.

Utility Surplus Transfers

3 **Accounting**

3.9 **Interfund Activities**

3.9.3 **Utility Surplus Transfers**

This guidance applies only to cities.

3.9.3.10 **Surplus** – The amount by which operating revenues exceeds operating expenses. When determining the available surplus in a proprietary fund, the following must first be deducted from the proprietary fund balance: capital asset replacement cost, future capital expansions and improvements and any legally restricted resources.

3.9.3.20 The surplus can be transferred to the general (current expense) fund under the following circumstances:

- Second class cities may transfer the excess income to the general (current expense) fund (RCW 35.23.535).
- Cities under 20,000 (except first class) must transfer any surplus in utility funds to the general (current expense) fund unless the legislative body finds the money necessary for certain utility fund purpose (RCW 35.37.020).

Compliance
Bond Coverage for Public Officials and Employees

3 **Accounting**

3.10 **Compliance**

3.10.3 **Bond Coverage for Public Officials and Employees**

3.10.3.10 These recommendations are intended to make local governments aware of possible bond restrictions and limitations. Any modifications made in bond coverage should be thoroughly reviewed with your legal counsel.

3.10.3.20 **Cover all employees**

Bond coverage should be provided for all employees. Since individual position bonds often are limited in coverage, the entity should consider an employee blanket bond.

3.10.3.30 **Increase amounts of coverage**

Dollar limits of current bond coverage may be established by the statute; however, this minimum amount may not be enough. The bond coverage amounts should be reviewed to ensure that there is adequate coverage over loss. Costs associated with increased bond coverage are often minimal considering the protection that increased coverage provides.

A reasonable amount of bond coverage will vary with the size and financial activities of each local government. In determining the amount of coverage needed the insurance broker, legal counsel and other municipalities should be consulted when determining amount of coverage needed.

3.10.3.40 **Improve type of coverage**

Consideration should be given to the value of the less restrictive coverage of faithful performance bonds. Honesty bonds often require evidence of the employee's dishonesty before recovery can be made. Faithful performance bonds only require proof that a loss has been incurred.

3.10.3.50 **Eliminate restrictions on coverage**

Non-cumulative coverage – A common restriction in bond coverage is limiting any recovery to the face amount of the bond, regardless of the number of years the loss covered.

For example: Assume losses of $10,000, $20,000 and $20,000 were incurred in three consecutive years, respectively, and a $20,000 bond was in force for all three years. Non-cumulative coverage would limit the total bond recovery to $20,000, thereby resulting in an uninsured loss of $30,000.

The effect of the non-cumulative limitation should be considered when determining amounts of coverage.

Audit costs – Sometimes an extensive audit is required in order to prove and document a loss. Audit costs are often not recoverable due to limitations in bond coverage. Specifically including audit costs in the bond coverage should be considered when establishing coverage.

Filing on bond – Restrictions as to who can file for recovery on behalf of the bondholder should be reviewed. Such restrictions could prevent filing by the Attorney General's Office or other regulatory agency, resulting in additional legal costs to the local government.

3.10.3.60 **Bond coverage does not replace errors and omission coverage**

A bond is not insurance. Although the bonding company may pay on a loss, it can seek to recover the amount it paid from the bonded official. To protect officials from such liability, local governments should consider carrying errors and omission insurance.

County Fair Operations

3 **Accounting**

3.10 **Compliance**

3.10.1 **County Fair Operations**

This guidance applies only to counties.

33.10.1.10 **Management of fair operations**

RCW 36.37.040 states in part:

The board of county commissioners may employ persons to assist in the management of fairs or by resolution designate a nonprofit corporation as the exclusive agency to operate and manage such fairs.

3.10.1.20 **Deposit of funds received by a county fair operation**

All funds received by a county fair operation, such as allocated parimutuel funds, donations, and proceeds from the operation of the fair, must be properly deposited in the county treasury under the provisions of RCW 36.29.010 and RCW 36.29.020.

However, if the county has contracted with a nonprofit corporation as the exclusive agency to operate the county fair, funds would be received by the county in accordance with such contract and subject to audit under Chapter 43.09 RCW.

3.10.1.30 **Establishment of fund to operate fair**

At the option of the board of county commissioners, the county fair may be operated as a department within the general (current expense) fund or it may be operated as a separate County Fair Fund. If a fair fund is established and borrows from the general (current expense) fund, interfund loan procedures must be followed, except that no interest on the interfund loan needs to be charged.

Within the fund chosen for the operation of the fair, the board of county commissioners may authorize the county auditor to provide a revolving fund to be used by the fair officials for the conduct of the fair. The purpose of the revolving fund is to allow for immediate payment of premiums, casual labor and the many other items needed during the period the fair is being conducted without going through the formality of a warrant issue.

BARS Manual 3.8.8, *Imprest, Petty Cash and Other Revolving Funds* contains the minimum requirements for the establishment and operation of a revolving fund. All those requirements apply except that a paid receipt or properly executed invoice voucher will not be required for premiums or prizes disbursed. A list of premium or prize winners, supplemented by entry records and certified by the fair board, will suffice to evidence expenditures for this purpose.

Limitation of Indebtedness

3 **Accounting**

3.10 **Compliance**

3.10.5 **Limitation of Indebtedness**

3.10.5.10 The amount of debt a government may incur is limited by the State constitution (Article VIII, Section 6) and individual statutes. Debt limits are based on total taxable property value and vary by type of government. Each government should calculate its available debt capacity each time it is considering issuing additional debt.

3.10.5.20 The following information is needed to complete the calculation:

1. Total taxable property value
2. Total amount of general obligation debt; nonvoted and voted
3. Amount of assets available to pay debt

3.10.5.30 Use the appropriate government type spreadsheet in theCalculation of Limitation of Indebtedness to automatically perform the calculation. If the specific entity type is not available, use the general spreadsheet. With the proper adjustments, this spreadsheet can be used by any municipality to compute its debt limit. Calculate both the constitutional and statutory debt limits.

3.10.5.40 **What is the difference between the constitutional debt limit and the statutory debt limit?**

Although state law (RCW 39.36.060) allows cities and counties to exclude public loans from the statutory debt limit, these loans are **not** excluded from the constitutional limit (RCW39.69.030).

Example – Assume a city has taken out Public Works Trust Fund loans that are considered to be

general obligation debt and equal to 1 percent of its assessed valuation. These loans are excluded from the statutory debt limit calculation (1.5 percent), but not from the constitutional debt limit calculation (also 1.5 percent). Its statutory margin of indebtedness without a vote would still be 1.5 percent. However, it could only issue an additional 0.5 percent of non-voted debt because to issue any more would exceed the constitutional limit.

Note that many government loans (including some of the Public Works Trust Fund loans) are not considered a *debt* because utility revenues will pay the debt service.**[1]** Therefore, they are outside both the statutory and constitutional debt limit calculations.

3.10.5.50 **What is *debt* for the purpose of calculating my debt limit?**

Debt has been broadly interpreted to mean all borrowed money payable from taxes. This includes all **general obligation debt**, but not obligations payable from nontax revenue sources, such as revenue bonds. Also, obligations that can be discharged from funds currently available, such as warrants and accounts payable, are not considered *debt* for purposes of these statutes.

3.10.5.60 General obligation debt includes the following:

- ***General Obligation Bonds (Voted and Non-voted)***, including bond anticipation notes which are to be paid off with the proceeds of the bonds. Include interest only if it has matured and is due and payable.
- Deep discount debt (e.g., zero coupon bonds). Report the face amount of the bond less the unamortized portion of the discount.
- Registered warrants issued against the general (current expense) or other***tax supported funds***.
- Lines of Credit, to the extent they are drawn upon.
- Executory conditional sales or installment sales contracts pledging the full faith and credit of the taxing district. (RCW 39.30.010)
- Other obligations of the general or other***tax supported funds***, except for loan agreements with agencies of the state of Washington or the U.S.A. dated on or after April 3, 1987. (RCW 39.36.060 and RCW 39.69.020)
- Leases if they meet the criteria, principal only (RCW35.42.200)

Note: Counties should not include the debt of junior taxing districts.

3.10.5.70 The following obligations do not constitute debt for debt limitation purposes:

- Outstanding warrants or checks (except for registered warrants)
- Accounts payable and other obligations that will be paid from funds currently available
- Obligations payable from special funds and solely from unanticipated service revenue
- Accrued interest that has not matured
- Refunded or revenue debt
- Special assessment debt
- Interfund loans
- Pension and OPEB obligations
- Pollution remediation liabilities
- Compensated absences
- Contingent liabilities (unless the contingency has been triggered and a liability is recognized)
- Leases are generally excluded unless the lease meets the criteria in RCW 35.42.200

3.10.5.80 **What is the difference between non-voted and voted debt?**

Non-voted debt is issued without a vote of the taxpayers. The debt service on non-voted debt is paid out of general government revenues. Voted debt is authorized by the taxpayers at an election. The debt service on voted debt is paid from excess property tax levies under RCW 84.52.056.

3.10.5.90 **What is the government's total taxable property value?**

It is the assessed value of taxable property in the county, city or town, ascertained by the last assessment for state or county purposes. Incorporated cities should also include the timber value as defined in RCW 84.33.035.

For purpose of calculating the debt limit, local governments should use the last assessed valuation of taxable property. The ***last assessed valuation*** is the valuation placed on the last completed and balanced tax rolls of the county preceding the date of contracting the debt (RCW 39.36.010, RCW 39.36.015 and RCW 84.52.080).

3.10.5.100 **What assets are available to pay debt?**

Include all applicable cash and cash equivalents available for the payment of general obligations. This includes cash in debt service funds that are reserved for the payment of general obligation debt. Generally, cash outside of debt service funds is used to meet current obligations. Do not include cash or investments that are restricted for other than debt payment purposes. Do ***not*** include cash or investments that will be used to make interest payments during the initial months of the subsequent fiscal year prior to property tax collections. Also, do ***not*** include uncollected taxes from prior years except taxes specifically levied for debt redemption.

3.10.5.110 **What is the government's debt limit?**

See the table below for constitutional, general and entity specific limits. If the entity type is not listed, use the general (for all other taxing districts) limits. Also, review the RCW's for the specific entity type to identify any additional requirements.

Debt Limits	**Non - Voted**	**Voted**
Cities/Towns	1.50%	2.50%
additional for utilities		2.50%
additional for open space/facilities (RCW 39.36.020)		2.50%
leases - principal (RCW 35.42.200)	1.50%	
Counties	1.50%	2.50%
additional for counties that have assumed powers of metropolitan municipal corporation (RCW Chapter 36.56) (RCW 39.36.020)	0.75%	2.50%
Fire Districts (RCW 52.16.061, RCW 52.16.080)	0.375%	0.75%
Public Hospital Districts (RCW 39.36.020)	0.75%	2.50%
Library Districts (RCW 27.12.222)	0.10%	0.50%
Metropolitan Municipal Corporation (RCW 35.58.450)	0.75%	5.00%
Metropolitan Park Districts (RCW 35.61.100, RCW 35.61.110)	0.25%	2.50%
Ports - general	0.25%	0.75%
additional for airport capital improvements (RCW 53.36.030)	0.125%	0.375%
additional for foreign trade zone (RCW 53.08.030)		1.00%
additional for construction (RCW 39.28.030)	0.1875%	
Public Utility Districts - for property acquisition (RCW 54.24.018)	0.75%	
Transits (RCW 81.112.130)	1.50%	5.00%
Water/Sewer Districts (RCW 57.20.110, RCW 57.20.120)	0.50%	2.50%
Cemetery Districts (RCW 68.52.310)	$0.1125 per $1,000	
General - for all other taxing districts (RCW 39.36.2020)	0.375%	1.25%
Constitutional Debt Limit Article VIII, Section 6		
General	1.50%	5.00%

additional for utilities - Cities Towns only	5.00%

Footnotes

[1] *Debt* is defined as borrowed money payable from taxes (State ex rel. Witter v. Yelle, 65 Wn.2d 660, 339 P.2d 319 (1965); Troy v. Yelle, 36 Wn.2d 192, 217 P.2d 337 (1950). Because most of the Public Works Trust Fund loans are utility infrastructure loans in which user fees payable into special funds are pledged for repayment, these loans fall under the *special fund doctrine* and are considered revenue bond debt, rather than a *debt* of the municipality. (Municipality of Metropolitan Seattle v. Seattle, 57 Wn.2d 446, 357 P.2d 863 (1960)).

New Entity Creation or Dissolution Notification

3 **Accounting**

3.10 **Compliance**

3.10.6 **New Entity Creation or Dissolution Notification**

3.10.6.10 **This requirement is in addition to the reporting requirements for counties contained in state law (RCW 36.96.090).**

3.10.6.20 In recent years we have encountered public entities that were created by local governments through interlocal agreements or other arrangements (e.g., transportation benefit districts, community facility districts and any entities created by interlocal agreements). These entities were not audited timely or found themselves facing issues that may have been avoided if our Office had known about these entities. To avoid similar situations, we are requiring all local governments to continuously report to our Office information regarding the creation or dissolution of such entities.

3.10.6.30 This will allow our Office to provide timely advice and assistance in the initial stages of formation so entities understand state, local and federal requirements and foster public accountability and meet public expectations. Our Office will be able to assist the new entity in establishing the appropriate accounting and financial reporting model and determine if the entity requires a separate audit and, if it does, schedule it in a timely manner.

3.10.6.40 Similarly, the ongoing report regarding dissolution of entities would allow us to conduct timely final audits and provide us with opportunities to provide advice or referral regarding issues associated with dissolutions.

3.10.6.50 The *New Entity Creation or Dissolution Notification*form (available on the BARS Reporting Templates page) outlines the required details. The completed form should be submitted electronically to the local audit team. For questions regarding this process, please use the HelpDesk through our Online Services.

Promotional Hosting

3 **Accounting**

3.10 **Compliance**

3.10.7 **Promotional Hosting**

This guidance applies only to port districts and public facility districts.

3.10.7.10 Promotional hosting means furnishing customary meals, refreshments, lodging, transportation or any combination of those items in connection with:

- business meetings,
- social gatherings, and
- ceremonies honoring persons or events, relating to the authorized business promotional activities.

3.10.7.20 Hosting may also include reasonable, and customary entertainment and souvenirs of nominal value, all incidental to such events.

3.10.7.30 Promotional hosting ***must be explicitly related to promoting trade and industrial development***.

3.10.7.40 **Ports -** RCW 53.36.120 authorizes expenditures for industrial development, trade promotion, and promotional hosting and requires that such expenditures be ". . . pursuant to specific budget items as approved by the port commission . . ." RCW 53.36.130 limits funds for promotional hosting expenses to a formula based upon total gross operating revenues. RCW 53.36.140 requires the port commission to adopt written rules and regulations governing promotional hosting expenses, and RCW 53.36.150 directs the State Auditor to audit promotional hosting expenses and to promulgate appropriate rules and definitions as a part of its uniform system of accounts.

3.10.7.45 **Public Facility Districts (PFD) -** RCW 35.57.060 authorizes expenditures for preparing and distributing information to the general public and promoting, advertising, improving, developing, operating, and maintaining a regional center. "For promotional hosting the district board must: (a) identify the proposed expenditure in its annual budget; and (b) adopt written rules governing promotional hosting by employees, agents, and the board, including requirements for identifying and evaluating the public benefits to be derived and documenting the public benefit realized."

3.10.7.50 Promotional hosting expenses should include not only money spent directly by the government's officers and employees, but also money spent by contractors or consultants when a contract explicitly or by clear implication calls for contractors or consultants to engage in promotional hosting with the funds they received from the government.

3.10.7.60 Governments may host a variety of people: private individuals, union officials, foreign or U.S. government dignitaries, officials from local, Washington and other states, officials from out-of-state or in-state ports or PFDs. In all cases, to correctly categorize the incurred costs as promotional hosting expenses, the govenrment must reasonably believe that a particular individual or a group of people could sufficiently influence trade or industrial development. The indiscriminate hosting of people who have no conceivable influence in that area is a violation of the statute.

3.10.7.70 Governments should also exercise a caution regarding hosted officials and the legality of accepting gifts and gratitudes (e.g., the federal employees may be prohibited from doing that). Also representatives from state or local governments are often reimbursed for expenses incurred in connection with such events. However, if those costs are unreimbursable or when they are inseparable as practical matter from otherwise promotional activities, they can be treated correctly as appropriate promotional hosting expenditures. Above rule may also apply to the government's own officials or employees participating in the promotional event.

3.10.7.80 If a government official or employee is authorized by the government's governing body to make expenses for promotional hosting and if such hosting is done while in travel status, then that cost may be paid with moneys advanced from the *Advance Travel Expense Account.*

Public Works Records

3 **Accounting**

3.10 **Compliance**

3.10.4 **Public Works Records**

3.10.4.10 RCW 39.04.070 requires all local governments to keep records of cost of public works performed by municipalities' own employees. The records should be available to the public and state auditors. RCW 43.09.205 directs the State Auditor's Office to prescribe a form to gather the required cost information. For reporting requirements related to public works, see BARS Manual 4.8.6 Public Works – Cities and Counties (Schedule 17).

3.10.4.20 The first class cities with population of 150,000 or less, second class cities, and code cities are allowed to keep the records only of public works projects in excess of $5,000 and not let by contract. Note that the $5,000 refers to entire project and not just the current year portion. (RCW 35.23.352(4), RCW 35.22.620(4) and RCW 35A.40.210)

Sample form

Local governments may use different forms as long as required information is available.

Project Description/Identification Number	Total Budget for the Public Work Construction Project	Current Year Portion – Actual Amount	Current Year Portion Performed by Own Employees – Actual Amount

Reporting Losses of Public Funds or Assets or Other Illegal Activity

3 **Accounting**

3.10 **Compliance**

3.10.2 **Reporting Losses of Public Funds or Assets or Other Illegal Activity**

3.10.2.10 Revised Code of Washington (RCW 43.09.185) requires that all state agencies and local governments **immediately** notify the State Auditor's Office (SAO) in the event of a known or suspected loss of public funds or assets or other illegal activity.

3.10.2.20 Entities are encouraged to develop policies and procedures to implement this statute. This guidance should establish an individual responsible for informing managers and employees about these reporting requirements and ensuring the SAO is promptly informed of losses as required. These actions will also help to ensure that:

- Losses are minimized.
- Investigations and audits are not hampered.
- Improper settlements are not made with employees.
- Incorrect personnel actions are not taken.
- Employees are protected from false accusations.
- Bond claims are not jeopardized.

3.10.2.30 Entities should take the following actions when a loss of public funds or assets or other illegal activity is suspected or detected:

1. Report the loss to SAO or to the Audit Manager in your area, or his/her designee.

2. Protect the accounting records from loss or destruction. All original records related to the loss should be secured in a safe place, such as a vault, safe or other locked file cabinet, until the SAO has completed an audit.

3. Notify appropriate entity managers who are not involved in the loss. This may include the governing body, agency head or deputies, chief financial officer or internal auditor, depending upon the circumstances. Providing notification to your legal counsel may also be appropriate.

4. Do not enter into a restitution agreement with an employee prior to an audit to establish the amount of loss in the case.

5. Ensure that any personnel action is taken based on the employee not following entity policies and procedures, rather than for misappropriating public funds (civil versus criminal).

6. File a police report with the appropriate local or state law enforcement agency when advised to do so by the SAO.

3.10.2.40 Entities should **immediately** notify the appropriate local or state law enforcement agency of the following:

- Suspected losses involving the health or safety of employees or property.
- Losses resulting from breaking and entering or other vandalism of property.

3.10.2.50 Entities **are not required** to report the following to the SAO:

- Normal and reasonable *over and short* situations from cash receipting operations. Record these transactions in the accounting system as miscellaneous income and expense, respectively, and monitor this activity by cashier for any unusual trends.
- Reasonable inventory shortages identified during a physical count. Record inventory adjustments in the accounting system.
- Breaking and entering or other vandalism of property. This should be reported to the police.
- Loss of cellphones, tablets, laptops or similar type assets assigned to employees that were stolen by an external party. This should be reported to the police.
- Non-Sufficient Funds (NSF) checks accepted by the government. These should be report in the government's accounting records.
- Counterfeit currency accepted by the government. Governments should report these to the Secret Service.
- Eligibility-based funding provided to an external party based on incorrect or falsified eligibility information. (See additional considerations below). Examples include, but are not limited to:
    - Families misreport their income to become eligible for free-reduced lunch
    - Tenant or client falsifies their income or other eligibility criteria to receive housing assistance funding
    - Claimant submits a fraudulent unemployment claim for payment

These items should be documented and interested parties are notified depending on the source of funds.

- Cybersecurity incidents that did not have an impact on finances or financial records. See SAO's General Loss Reporting Policy for clarification of losses to report cybersecurity incidents.
- With the exception of cyber losses, losses or illegal activity resulting from actions made by parties external to your government – including vendors, contracted service providers, sub-

recipients.

If employee involvement cannot be ruled out in any of the listed exemptions, governments should then report the loss or illegal activity to SAO even if the loss or activity is on the exemption list. “Employee involvement” means the scheme involved or was carried out by an employee of the affected government.

3.10.2.60 Please do not attempt to correct the loss without reporting to the authorities identified above. In addition, RCW 43.09.260 requires written approval of the State Auditor and Attorney General before state agencies and local governments make any restitution agreement, compromise, or settlement of loss claims covered by RCW 43.09.185.

Special Topics
Transportation Benefit Districts (TBD)

3 **Accounting**

3.11 **Special Topics**

3.11.1 **Transportation Benefit Districts (TBD)**

This guidance applies only to cities, counties and transportation benefit districts.

3.11.1.10 Transportation Benefit Districts (TBDs) are separate legal entities that are created by cities or counties under Chapter 36.73 RCW for the purpose of financing their transportation improvements. The governing body of the creating city/county serves also as the governing body of the district and the district’s area of operation is limited to the boundaries of the creating city/county.

3.11.1.20 Any transportation improvement funded by the district must be owned by either the creating city or county or by the State or a participating port or transit district. Transportation improvement projects may also include the operation, preservation, and maintenance of facilities, so not all spending must result in an asset.

3.11.1.30 Generally, a TBDs only activity is to collect a non-voted car tab fee or a voter-approved sales tax and to remit the proceeds to the creating city/county. However, under Chapter 36.73 RCW, TBDs may also collect voter-approved property taxes, impact fees and tolls. Districts may also issue bonds, accept grants and donations, and create LIDs.

3.11.1.40 Per RCW 36.73.050, the ordinance that establishes the district must specify the functions and transportation improvements to be funded by the district. Some ordinances establishing TBDs identify projects with a definitive completion date and restrict allowable expenditures to specific costs; however, most ordinances provide for ongoing projects and any spending allowable for a street or road fund.

3.11.1.50 **Each TBD should have its own MCAG number, submit its own annual report, and is subject to a separate audit in accordance with Chapter 43.09 RCW.**

3.11.1.60 **Accounting**

Per RCW 36.73.020(3), districts must use the creating city or county as their fiscal agent. Accordingly, the TBD should be accounted for in the city/county’s general ledger and its transactions should be processed through the city/county’s regular bank accounts and systems. There is no requirement for the city/county to open a separate bank account for the TBD.

Typically, all TBD revenues are immediately disbursed to the creating city/county as contract expenditure. Under this typical model the TBDs would not have any direct expenditures or hold any cash or assets.

3.11.1.70 **Accounting for revenues and expenditures**

The TBD’s revenues should be accounted for as BARS code 3176000 for car tab fees and 3132100 for sales tax. If the TBD disburses these revenues to the city/county, it should record the payment as contract expenditure (54PPP40). The city/county would then record 3441000 for receipt of the contract revenues and record actual expenditures using appropriate expenditure

codes (54PPPP0, 595PPP0, etc.). If the TBD expends funds directly, it would record expenditures using appropriate expenditure codes for the transaction. The city/county should ensure that there is no double counting of the same expenditures in the city/county and TBD's accounting system. Furthermore, the city/county's capital assets value should be adjusted to reflect improvements accounted for directly in the TBD.

Financial reporting by creating city/county

TBDs should be reported in the financial statements of their creating city/county as follows:

3.11.1.80 **Cash basis cities/counties:** The TBD should be reported in the city/county's annual report as a fiduciary custodial fund. Also, the city/county as a treasurer should prepare a separate annual report for the TBD since the TBD is a separate legal entity. From the TBD's perspective, it reports as a general fund and the fund number should be 001.

3.11.1.90 **GAAP cities/counties**: For reporting purposes, TBDs are considered blended component units. This relationship should be disclosed in the notes to financial statements. Generally, the TBD is blended into the city/county fund that receives and spends the tax revenues (e.g., general fund, street fund, etc.). Blending into the city/county fund that receives and spends the TBD's revenues results in an **intra**-fund elimination to avoid double counting and reporting. The city/county should also report actual expenditures related to performed work (54PPPP0, 595PPP0, etc.). However, the city/county may choose to blend the TBD by reporting it as a separate special revenue fund of the city/county, in which case eliminations would only be made for the government-wide statements.

3.11.1.100 Also, the city/county as a treasurer should prepare a separate annual report for the TBD since the TBD is a separate legal entity. From the TBD's perspective, it reports as a general fund and the fund number should be 001.

3.11.1.110 **Compliance requirements**

General compliance requirements apply to TBD's, including the Open Public Meetings Act, public disclosure, expenditure audit and certification, conflict of interest, insurance/bonding requirements, limitation of indebtedness and authorized investments.

RCW 36.73.160(2) requires the district to issue an annual report describing the status of transportation improvements, expenditures, revenues and construction schedules. This requirement is separate from, and in addition to, the BARS annual reporting requirements of RCW 43.09.230.

3.11.1.120 Assumption of TBDs by Cities and Counties

Chapter 36.74 RCW authorizes cities and counties assumption of existing TBDs. When the TBD ceases to exist as a separate legal entity, the district is still require to prepare the final annual report (financial statements and appropriate schedules) for the last (entire or partial) year of its existence. The district will be also subject to close-out audit. The assumption of TBDs by cities and counties require reporting to the State Auditor's Office through the *New Entity Creation or Dissolution Notification form*, described in BARS Manual 3.10.6, *New Entity Creation or Dissolution Notification* and available on the BARS Reporting Templates page. This form should be submitted electronically to your local audit team.

GAAP governments should treat this transaction as a transfer of operations described in GASB Statement 69, *Governments Combinations and Disposals of Governments Operations*.

Reporting

Reporting Principles and Requirements
BARS Reporting Requirements

4 **Reporting**

4.1 **Reporting Principles and Requirements**

4.1.2 **BARS Reporting Requirements**

4.1.2.10 ***Pursuant to RCW*** 43.09.230***, Annual Reports are to be certified and filed with the State Auditor's Office within 150 days after the close of each fiscal year.***

4.1.2.20 The legal reporting requirements prescribed by the State Auditor's Office for local governments in Washington State are consistent with the national standards of financial reporting prescribed by the GASB. These requirements for GAAP local governments are as follows:

1. Basic Financial Statements, including notes to financial statements.
2. Required Supplementary Information (including MD&A)
3. Supplemental Schedules

4.1.2.30 For the basic financial statements, the local government needs to prepare worksheets to summarize the general ledger trial balances, the resources and the expenditures schedules at the required account level. Most of these worksheets do not need to be submitted as part of the annual report, but they must be available for audit. The matrixes in BARS Manual 4.1.4, *Summary of Reporting Requirements* identify the statutory reporting requirements for GAAP local governments.

4.1.2.35 Local governments are **required** to update the materially incorrect financial statements. The requirement applies to all errors found prior or during an audit.

4.1.2.40 If a local government elects to prepare the Annual Comprehensive Financial Report (ACFR), it will have to produce additional schedules and statements that are NOT described in this Manual. However, the statements and schedules required for BARS reporting can be placed directly in the ACFR, and nearly all of the additional financial requirements of the ACFR are readily met by formally preparing the data used to satisfy BARS requirements. No duplication of effort is necessary to produce the ACFR from BARS reports. For additional information on preparation of a ACFR see BARS Manual 4.9, *GFOA Financial Reporting Recognition Programs*

4.1.2.45 The *Department of Health (DOH) Accounting and Reporting Manual for Hospitals*, which contains uniform accounting, budgeting and reporting for licensed hospitals in the state of Washington, is available from the DOH Office of Hospital and Patient Data Systems at (360) 236-4210 or from the Department's website. The requirements in this Manual do not substitute the reporting requirements contained in the *Department of Health (DOH) Accounting and Reporting Manual for Hospitals.*

Filing instructions

4.1.2.50 Electronic reporting is encouraged when filing annual reports. Annual reports should be submitted via the filing system on the State Auditor's website at: www.sao.wa.gov. . For assistance with filing the government's annual report, please review the BARS & Annual Report Filing FAQ page for resources.

For questions and/or support, please use the HelpDesk through our Online Services.

If the local government cannot provide the annual report via the filing system, mail the annual report to:

Annual Report
State Auditor's Office
Local Government Support Team
PO Box 40031
Olympia, WA 98504-0031

The following table provides a list of all components of the annual report. This is a guide to help local governments ensure they submit all applicable components. Please see footnote references for additional guidance on a specific component.

	City/Town	County	Special Purpose District
Certification	**X**	**X**	**X**
Financial Statements (including MD&A/Notes/RSI)	**X**	**X**	**X**
Schedule 01, Revenues/Expenditures/Expenses[1]	**X**	**X**	**X**
Schedule 09, Liabilities	*If applicable*	*If applicable*	*If applicable*
Schedule 15, State Financial Assistance	*If applicable*	*If applicable*	*If applicable*
Schedule 16, Expenditures of Federal Awards	*If applicable*	*If applicable*	*If applicable*
Schedule 17, Public Works[2]	*See footnote 2*	*See footnote 2*	
Schedule 20, Sales and Use Tax for Public Facilities		*If applicable*	
Schedule 21, Risk Management	**X**	**X**	**X**
Schedule 22, Assessment Questionnaire[3]	*See footnote 3*		*See footnote 3*

X Required to be prepared and submitted to the SAO.

Checklist Footnotes

[1] Local governments with no financial activity, defined as having neither expenditures, other than small automatic bank fees (such as dormant account fees) and the state auditor's office audit billings, nor revenues other than interest income on any cash balances, have the option to submit summarized annual reports. These governments need to submit a Schedule 01 reporting fund balances at the beginning and end of the reporting year as well as any investment income received on those balances if applicable.

[2] See BARS Manual 4.8.6, *Public Works – Cities and Counties (Schedule 17)* for detailed instructions indicating which cities and counties are required to prepare this schedule.

[3] Only cities/towns and special purpose districts with annual revenue of less than $300,000 are required to prepare this schedule. However, conservation districts, fire districts, transportation benefit districts, local/regional trauma care councils and industrial development corporations are required to prepare the Schedule regardless of the amount of revenue. However, some government types are required to complete this schedule regardless of the amount of annual revenue. See BARS 4.8.14 Assessment Questionnaire (Schedule 22) for detailed instructions.

For a local government with no financial activity as defined above in footnote reference 1, it is required to submit a summarized version of the Schedule 22. These governments will be required to submit no activity supporting documents such as meeting minutes and county reports and/or bank statements verifying no activity. Note that by selecting this submission option, preparers of the annual report are certifying that their government meets the definition of no activity.

Certification

4 **Reporting**

4.1 **Reporting Principles and Requirements**

4.1.3 **Certification**

Instructions

Every annual report must be certified per RCW 43.09.230. If the local government uses the Online annual reporting system, the certification is built into the filing process.

Official name
Enter the official name of the government. If the government operates under a *DBA* this should also be listed. For example*: Thurston County Fire Protection District No. 5, doing business as*

Black Lake Fire Department.

MCAG No.
The MCAG is a unique identifying number assigned by the State Auditor's Office to each local government. This number can be found on SAO's website page, BARS Reporting Templates. If you are not sure of the government's assigned MCAG number, please use the SAO HelpDesk through our Online Services.

Fiscal year ended
Enter the date (day, month and year) of the end of the 12 month period covered by the annual report. For example, most local governments close their books and report on a calendar year and would report *December 31, 2018,* for their 2018 annual report.

Official address
Enter the legal business address of the government.

Official website
Enter the official website of the government. If the government does not have a website, then enter *none*.

Audit contact or preparer information
Enter the name and position of the person the State Auditor's Office should contact with any questions regarding the annual report. Enter the phone number or numbers where our Office can reach the contact person during regular business hours to discuss the annual report. Also, enter the email address where our Office can communicate with the contact person. If there is no email address for this person, then enter *none*.

Certification
Annual reports are required to be certified by RCW 43.09.230. The certification should be made by the person preparing the annual report. Certifications do not alter or add to the fundamental responsibilities of employees or officials. Rather, they acknowledge and attest to management's existing responsibilities for accurate reporting. We understand that representations made are not a guarantee, but rather constitute a good faith statement to the best of your knowledge and belief. Although the Office prescribes the language of the certification, the representations are yours. If you are not sure about the meaning of the certification or feel that you cannot certify the annual report in good faith, please contact the SAO HelpDesk.

ANNUAL REPORT CERTIFICATION

_____
(Official Name of Government)

_____
MCAG No.

Submitted pursuant to RCW 43.09.230 to the Washington State Auditor's Office

For the Fiscal Year Ended_____, 20__

GOVERNMENT INFORMATION:

Official Mailing Address
_____

Official Website Address
_____

Official E-mail Address
_____

Official Phone Number
_____

AUDIT CONTACT or PREPARER INFORMATION and CERTIFICATION:

Audit Contact or Preparer Name and Title
_____

Contact Phone Number

_____

Contact E-mail Address

_____

I certify _____ day of _____, 20__, that annual report information is complete, accurate and in conformity with the Budgeting, Accounting and Reporting Systems Manual, to the best of my knowledge and belief, having reviewed this information and taken all appropriate steps in order to provide such certification. I acknowledge and understand our responsibility for the design and implementation of controls to ensure accurate financial reporting, comply with applicable laws and safeguard public resources, including controls to prevent and detect fraud. Finally, I acknowledge and understand our responsibility for immediately submitting corrected annual report information if any errors or an omission in such information is subsequently identified.

Audit Contact or Preparer Signature:

_____

GAAP Reporting Requirements

4 **Reporting**

4.1 **Reporting Principles and Requirements**

4.1.1 **GAAP Reporting Requirements**

Quick Links

4.1.1.10 GAAP reporting requirements

Management Discussion and Analysis (MD&A)

Basic financial statements - Government-wide financial statements

Basic financial statements - Fund financial statements

Notes to the financial statements

Required Supplementary Information (RSI)

4.1.1.210 Financial accountability

Financial reporting entity flowchart and notes

4.1.1.10 **GAAP reporting requirements**

The requirements for financial reporting in accordance with generally accepted accounting principles (GAAP) are established by the Governmental Accounting Standards Board (GASB) in the GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

The following diagram illustrates the minimum requirements for general purpose external financial reports.

4.1.1.20 Comparative financial statements mean two complete sets of financial statements for each 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.

1. Management Discussion and Analysis (MD&A)

4.1.1.30 MD&A should introduce the basic financial statements and provide an analytical overview of the local government's financial activities. It is part of the Required Supplementary Information (RSI), however it should be presented before the basic financial statements. The MD&A should provide an objective and easily readable analysis of the local government's financial activities. It should include comparisons of current year to the prior year based on the government-wide information. It also includes information regarding the local government budget variances, capital assets, long-term debt activity, and a description of currently known facts, decisions, or conditions expected to have a significant effect on financial position or results of operations.

2. Basic financial statements

Government-wide financial statements

4.1.1.40 The government-wide financial statements consist of a *Statement of Net Position* and a *Statement of Activities*. They are prepared using the economic resources measurement focus and the accrual basis of accounting. Each statement distinguishes between the governmental and business-type activities of the primary government and its discretely presented component units.

Statement of Net Position

4.1.1.50 The Statement of Net Position presents the local government as one economic unit rather than a compilation of different funds. The statement focuses on type of activities, rather than type of funds. Local governments should report all capital assets, including infrastructure assets in the government-wide statement of net position. The net position should be reported in three categories: net investment in capital assets, restricted and unrestricted.

Statement of Activities

4.1.1.60 The Statement of Activities is a report on the results of the local government's operations. The statement presents the cost of each function and the extent to which each of the local government's functions, programs or services either contributes to or takes away from the local government's general revenue.

The required format provides:

1. Information indicating the extent to which current-year program revenues supported the cost of the current-year services, and
2. How the local government finances its activities.

Fund financial statements

Governmental Fund Financial Statements

4.1.1.70 Governmental funds should be reported using the current financial resources measurement focus and the modified accrual basis of accounting. These funds are presented by general fund; major funds, and aggregated nonmajor funds.

There are two statements required - the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balance. General capital assets and general long-term liabilities are not reported in the governmental fund balance sheet. (They are reported in the government-wide financial statements.)

4.1.1.80 The Statement of Revenues, Expenditures and Changes in Fund Balance reports information about the inflows, outflows, and balances of current financial resources of each major governmental fund and for the nonmajor governmental funds in the aggregate.

4.1.1.90 Each statement reports separate columns for the general fund and for other major governmental and enterprise funds. Major funds are funds whose revenues, expenditures/expenses, assets, or liabilities (excluding extraordinary items) are at least 10 percent of corresponding element totals for all funds of that category or type and at least five percent of the corresponding element total for all governmental or enterprise funds combined. The local government may choose to report any other funds as a major fund if they believe they are important to users. The nonmajor funds are reported in aggregate in a separate column.

Proprietary funds financial statements

4.1.1.100 There are three required fund financial statements for proprietary funds:

1. *Statement of Net Position*,
2. *Statement of Revenues, Expenses and Changes in Fund Net Position*, and
3. *Statement of Cash Flows*

4.1.1.110 Proprietary funds continue to be presented on the economic resources measurement focus and the full accrual basis of accounting. Proprietary funds are reported the same way as in the government-wide financial statements. However, internal service funds should be reported as a fund type (aggregated) in a separate column. Major enterprise funds are reported in separate columns and nonmajor enterprise funds are aggregated in a single column.

4.1.1.120 The proprietary Statement of Net Position presents assets and liabilities in a classified format. Restricted assets are reported separately. Net position should be reported in the following three components: net investment in capital assets, restricted and unrestricted.

4.1.1.130 The proprietary Statement of Revenues, Expenses, and Changes in Fund Net Position reports in a specific format prescribed by the GASB Statement 34. All transactions that affect net

position are included. Revenues are reported by major source. Expenses are reported by either detail (object) or function level. Revenues and expenses should distinguish between operating and nonoperating.

Fiduciary fund financial statements

4.1.1.140 The following are required financial statements for fiduciary funds:

1. *Statement of Fiduciary Net Position*, and
2. *Statement of Changes in Fiduciary Net Position*

The fiduciary statements are prepared using the economic resources measurement focus and full accrual basis of accounting (with some exceptions for liabilities for defined benefit pension plans and certain postemployment health care plans).

4.1.1.160 The Statement of Fiduciary Net Position should include information about the assets, liabilities, and net position for each fiduciary fund type and for similarly discretely presented component units of the reporting entity. The local government should provide details for all other fiduciary funds, or clearly indicate where the information is displayed.

4.1.1.170 The Statement of Changes in Fiduciary Net Position should include information about the additions to, deductions from, and net increase (or decrease) for the year in net position for each fiduciary fund type and similar discretely presented component units. It should provide information about significant year-to-year changes in net position. The local government should provide additional details about investments and provide the level of details for all other fiduciary funds or clearly indicate where the information is displayed.

3. Notes to the financial statements

4.1.1.180 Notes to the financial statements are essential to fair presentation of the basic financial statements. The notes include the summary of significant accounting policies and summary disclosure of such matters as significant contingent liabilities, encumbrances outstanding, significant effects of subsequent events, pension plans, accumulated unpaid employee benefits (such as vacation and sick leave), material violations of finance-related legal and contractual provisions, debt service requirements to maturity, commitments under noncapitalized leases, construction and other significant commitments, any excess of expenditures over appropriations in individual funds, deficit balances of individual funds, and interfund receivables and payables. Any other disclosures necessary in the circumstances should also be included.

The NCGA has discussed the notes to financial statements in more detail in its Interpretation 6, which also provides guidance for presenting notes in a logical order.

4. Required Supplementary Information (RSI)

4.1.1.190 Statements, schedules, statistical data, and other information the GASB deem necessary is reported as required supplementary information (RSI). Except for the MD&A, required supplementary information, including the budgetary comparison information, should be presented immediately following the notes to the financial statements.

There are four types of RSI (other than MD&A) that must be presented:

- Budgetary comparisons (for the general fund and other individual special revenue funds),
- Infrastructure condition and maintenance data (for local governments using the modified approach),
- Pension trend data (for certain pension plans and participating employers),
- Revenue and claims development trend data (for public-entity risk pools).

Reporting Entity

4.1.1.200 GASB Statement 14, as amended by Statements 34, 39, 61, 84, 90 and 97 establishes standards for defining and reporting on the financial reporting entity and applies to financial reporting by primary governments, as well as to separately issued financial statements of governmental component units. The standards and its amendments are codified in GASB Codification section 2100 *Defining the Financial Reporting Entity* and section 2600 *Reporting Entity and Component Unit Presentation and Disclosure*. These sections define the financial reporting entity as consisting of (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

4.1.1.210 As described in GASB Codification 2100, a primary government is financially

accountable for a separate legal entity – and therefore should include the entity in its financial statements – in the following circumstances:

a. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

b. The primary government is financially accountable if a special purpose district is fiscally dependent on the primary government and there is a potential for the special purpose district to provide specific financial benefits to, or impose specific financial burdens on, the primary government, regardless of whether the special purpose district has (1) a separately elected governing board, (2) a governing board appointed by higher level of government, or (3) a jointly appointed board.

c. The primary government is financially accountable for a legally separate organization if the primary government holds a majority equity interest in an organization that does not meet the definition of an investment.

4.1.1.220 Component units should be reported in the financial statements of the primary government by either discrete presentation or blended presentation based on. Discrete presentation involves reporting the component unit in separate columns on the government wide statements. Blended presentation involves reporting the component unit's balances and transactions as if they were part of the primary government in both the fund level and government wide statements.

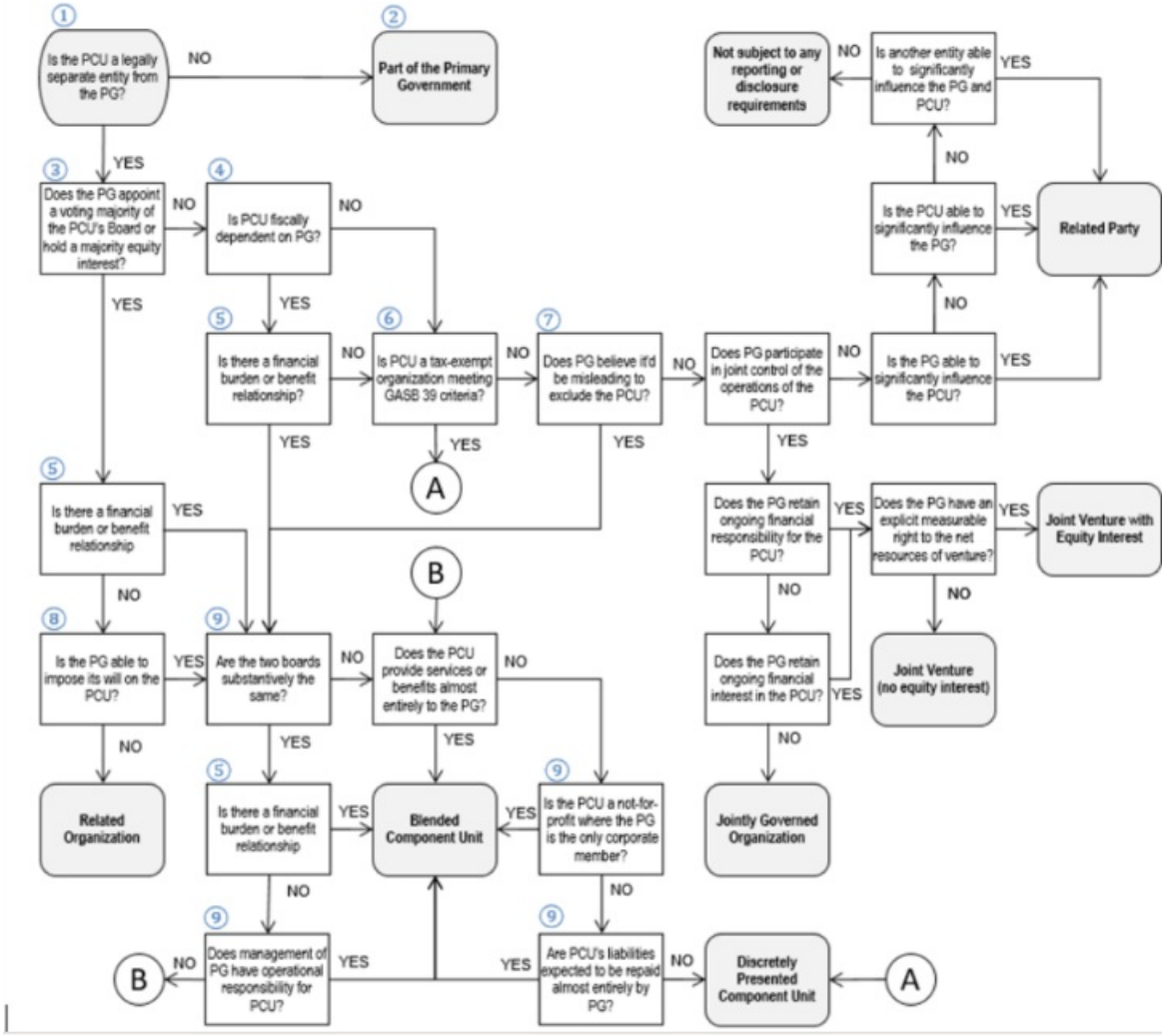
The following flowchart will help to determine the reporting status of an organization. Refer to GASB Codification section 2100 for definitions of the various terms.

4.1.1.230 In September 2006, GASB issued the Statement 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This Statement applies to ***all*** intra-entity transactions (sales and donations) that involve the transfer of financial assets, capital assets and future revenues.

When accounting for the transfer of capital and financial assets and future revenues within the same financial reporting entity, the transferee should recognize the assets or future revenues received at the carrying value of the transferor. The difference between the amount paid (exclusive of amounts that may be refundable) and the carrying value of the assets transferred should be reported as a gain or loss by the transferor (revenue in governmental funds) and as a revenue or expenditure/expense by the transferee in a separately-issued statements, but reclassified as transfers in the financial statements of the reporting entity. Application of this Statement should be the same for both discretely presented and blended component units.

4.1.1.240 ***Hospital districts***: The *General Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards*, section Ho5.601 supersedes the June 1996 AICPA *Audit and Accounting Guide, Health Care Organizations*, to the extent of financial reporting. However, the Guide continues to provide guidance on individual transactions that are unique to healthcare organizations. The Guide is considered Category B guidance in the hierarchy of GAAP.

Financial Reporting Entity Flowchart



Notes to Financial Reporting Entity Flowchart

PG = primary government (the government preparing financial statements)
PCU = potential component unit (the entity under consideration)

1. An organization has separate legal standing if it is created as a corporate or a corporate body possessing the corporate powers that would distinguish it as being legally separate from the primary government (such as the right to sue and be sued in its own name, hold or lease property in its own name, loan money or open a bank account in its own name and with its own tax or other identification number, etc.). For example, a government may have advisory committees or councils which are not incorporated as separate legal entities, or a government may participate in cost sharing projects or joint purchasing arrangements or other contractually coordinated efforts with other governments that (see GASB Codification J50.115). All funds, organizational units, agencies, departments, offices and activities of an organization that are not legally separate are, for financial reporting purposes, considered part of a primary government.

2. If the activity or operation is not separate legal entity, it should be reported as part of the government. For example, departments, projects, committees or initiatives of the government may have distinct branding, purposes or management structures within the government, but for reporting purposes would be reflected using appropriate accounting as part of the government's funds. As discussed in GASB Codification J50.114, a government may have an arrangement that resembles a joint venture but has no separate entity or organization created by the participants. In such a joint operation (or undivided interest), each participant reports their own assets, liabilities and activity since there is no separate organization to hold property or incur obligations.

3. With regard to a voting majority, the primary government's appointment authority should be substantive and continuing. A primary government's appointment authority may not be substantive if candidates are limited by a nominating process or if its responsibility is limited to confirming appointments made by individuals or groups other than the primary government's officials or appointees. In the absence of continuing appointment authority, the ability of a primary government to unilaterally abolish an organization also provides the basis for ongoing accountability. If the primary government performs the duties of a governing board, it would be considered the same as appointment of a voting majority, with the exception of a potential

component unit that is a defined contribution pension plan, defined contribution other post-employment benefit plan, or other employee benefit plan (e.g., a 401k, 401a, 403b or 457 plan). In addition, the primary government would also be considered financially responsible if it held a majority equity interest in the entity, regardless of control, unless equity interest would be more appropriately classified as an investment (that is, unless the equity interest is held primarily for purpose of income and has a present service capacity based solely on its ability to generate or be sold for cash).

4. An organization is fiscally dependent if it cannot meet ***all*** three of the following requirements without substantive approval of a primary government:

a. Determine it budget,

b. Levy taxes or set rates or charges, and

c. Issue bonded debt.

It is also important to make a distinction between substantive and ministerial (compliance) approval. Ministerial approval is often a result of the general oversight of the respective state or local governments. This may include evaluation of programs, review for compliance with the statutory requirements, etc. Being subject to ministerial approval does not qualify an organization as fiscally dependent. Also, a primary government that is temporarily under the fiscal control of another government continues to be fiscally independent.

5. The ***benefit or burden*** relationship may result from legal entitlements or obligations, or it may be less formalized and exist because of a decision made by the primary government or agreements between the primary government and component unit.

An organization has a financial benefit or burden relationship with the primary government if ***any one*** of these conditions exists, either directly or indirectly:

a. The primary government is legally entitled to or can otherwise access the organization's resources.

b. The primary government is legally obligated or has otherwise assumed the obligation to finance deficits of, or provide financial support to, the organization.

c. The primary government is obligated in some manner for the debt of the organization.

Exchange transactions between organizations and the primary government are not considered a financial benefit or burden relationship.

6. Certain organizations warrant inclusion because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government or its other component units. A legally separate, tax exempt organization (e.g., foundation or association) should be reported as a discretely presented component unit if ***all*** of the following criteria are met:

a. The economic resources received or held by the organization are almost entirely for the direct benefit of the primary government, its component units, or its constituents.

b. The primary government is entitles to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.

c. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

7. Other organizations should be evaluated as potential component units if they are closely related to or financially integrated with the primary government and included as component units if the nature and significance of their relationship with the primary governments is such that exclusion from the financial reporting entity would render the financial statements incomplete or misleading. It is a matter of professional judgment to determine whether the nature and the significance of a potential component unit's relationship with the primary government warrant inclusion.

8. A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, activities, or level of services performed or provided by the organization. The existence of ***any one*** of the following abilities indicates that the primary government has the ability to impose its will on an organization:

a. Ability to remove the appointed members of the organization's governing body at will.

b. Ability to modify or approve the budget of the organization.

c. Ability to modify or approve the rate or fee changes affective revenues, such as water usage rate increases.

d. Ability to veto, overrule, or modify the decisions (other than those in b and c) of the organization's governing body.

e. Ability to appoint, hire, reassign, or dismiss those persons responsible for the day-to-day operations (management) of the organization.

There may be other conditions indicating the imposition of will. When assessing them, remember to make the distinction between substantive and ministerial approvals.

A potential component unit for which a primary government is financially accountable may be fiscally dependent on another government. An organization should be included as a component unit of ***only one*** reporting entity. Professional judgment should be used to determine the most appropriate reporting entity. A primary government that appoints a voting majority of the governing board of a component unit of another government should make the disclosures required for related organizations.

9. A component unit should be presented as blended in any of the following circumstances:

a. When the component unit's governing body is substantively the same as the governing body of the primary government ***and*** (1) there is a financial benefit/burden relationship between the primary government and the component unit ***or*** (2) management of the primary government has operational responsibility for the component unit. The primary government is considered to have operational responsibility if it is managing the day-to-day operations of the component unit.

b. When the component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to it. The essence of this type of arrangement is similar to an internal service fund – the goods or services are provided to the government itself rather than to the citizenry.

c. The component unit is organized as a not-for-profit corporation in which the primary government is the only corporate member.

d. The component unit's outstanding debt or leases are expected to be repaid entirely or almost entirely from the resources of the primary government.

If a component unit does not meet criteria for blending, it should be presented discretely.

GAAP Versus Cash Basis Reporting

4 **Reporting**

4.1 **Reporting Principles and Requirements**

4.1.7 **GAAP Versus Cash Basis Reporting**

4.1.7.10 Approximately 20 percent of local governments – the largest and most complex in the state – report financial information in accordance with generally accepted accounting principles (GAAP). All other local governments report on a cash basis as prescribed in the *Budgeting, Accounting, and Reporting System* (BARS) Manuals.

4.1.7.20 Under authority of RCW 43.09.200, the Washington State Auditor's Office allows local governments the option to report on either a GAAP or cash basis. However, while the State Auditor's Office does not require reporting on a GAAP basis, it may be a requirement of federal grants, bonds, contracts, or other oversight agencies.

4.1.7.30 As discussed in the BARS Manuals, the design of a government's accounting system and controls for financial reporting is a management decision – including the selection of the basis of reporting. Adequate accountability, oversight and control can be achieved whether reporting on a cash or GAAP basis.

4.1.7.40 The most appropriate basis of reporting for a particular government is a matter of judgment based on the needs, activity and resources of that government. Each method has advantages and disadvantages. We recommend that governments carefully consider the costs verses benefits. To assist governments in this decision, a summary of common benefits and drawbacks of different reporting options is provided below.

4.1.7.50 **GAAP basis reporting**

Advantages	Disadvantages
• Financial reports that are more comprehensive, sophisticated and potentially informative	• May be more difficult to understand and use for managers or governing bodies who are unfamiliar with accrual concepts and terminology
• Improved ability to evaluate government's financial position and changes in its net position	• Requires more qualified staff, a more complex accounting system, and more time devoted to preparation and controls over financial reporting
• Consistent with nationally recognized financial reporting standards	• More costly financial reporting
• More familiar to external users	• May need to reconcile between multiple basis of accounting for financial reporting and operational purposes
• May be required by grantors or oversight agencies	

4.1.7.60 **Cash basis reporting**

Advantages	Disadvantages
• Financial reports that are more simple and easier to understand and use	• Statements are focused on short-term rather than long-term financial position
• Clear presentation of cash flows and available cash	• Less information on non-cash assets, including infrastructure, and changes in these assets
• Financial reporting that is aligned with budgets	• Less information on liabilities and changes in liabilities
• Financial reporting may be less costly	• May not be as familiar to external user
• Less training required for staff	

4.1.7.70 Governments should evaluate these general benefits and costs in relation to their specific situation, including their personnel, software systems, organizational structure and activities. Other factors that may be specifically considered include:

- Accounting and reporting basis used by the government's fiscal agent or by entities for which the government acts as the fiscal agent;
- Accounting and reporting basis used by other entities with which the government engages in

joint ventures or service contracts;

- Familiarity of management and the governing body with a particular basis of reporting;
- Importance and amount of the government's non-cash assets;
- Importance and amount of the government's liabilities not reported on Schedule 09;
- Whether there is uncertainty about future reporting needs, as it is easier to convert from GAAP to cash basis than the other way;
- Needs and expectations of external users of the government's financial statements.

Summary of Reporting Requirements

4 **Reporting**

4.1 **Reporting Principles and Requirements**

4.1.4 **Summary of Reporting Requirements**

The following matrixes summarize the GAAP and SAO reporting requirements.

4.1.4.10 Governments should use proprietary fund accounting and reporting if the predominant revenue source comes from fees and charges for selling goods or performing services. If taxes or grants are the predominant source of revenue, governmental fund accounting and reporting should be used.

4.1.4.20 Governments have an option to participate in the GFOA's Certificate of Achievement for Excellence in Financial Reporting program. To participate in this program, a government must prepare an Annual Comprehensive Financial Report (ACFR). These reports have to provide additional information, which is not required in preparation of basic GAAP financial statements. For additional information on preparation of an ACFR, see BARS Manual 4.9, *GFOA Financial Reporting Recognition Programs*.

MATRIX OF STATUTORY REPORTING REQUIREMENTS:

These statements should be prepared in accordance with GASB pronouncements:[1]

(A) Governmental Funds: 000, 100, 200, 300, 700

(B) Proprietary Funds: Enterprise Funds - 400, Internal Service Funds - 500

(C) Fiduciary Funds: 600 - 699

(D) Component Unit(s)

Government-Wide Financial Statement	**(A) Governmental Funds**	**(B) Proprietary Funds**		**(C) Fiduciary Funds**	**(D) Component Units**
		Enterprise Funds	**Internal Service Funds**		
Certification					
Statement of Net Position:					
Governmental Activities	All	N/A[3]	If governmental funds are the predominant customer/ participant OR	N/A	Nonfiduciary component units reported in separate column(s)[2]
Business-Type Activities	N/A[3]	All	If enterprise funds are the predominant customer/ participant	N/A	
Statement of Activities:					
Governmental Activities	All	N/A[3]	Often all	N/A	Separate columns/rows for nonfiduciary component units only[2]
Business-Type Activities	N/A[3]	All	In certain circumstances[4]	N/A	

[1] Local governments with total revenues of $2 million or less are not required to prepare basic

financial statements unless debt covenants, a contract, a grantor or the city/county/district's legislative body requires the city/county/district to prepare the financial statements or to receive a financial statements audit. If this request is made, basic financial statements and notes should be prepared. The $2 million threshold calculation excludes any proceeds from issuance of long-term debt and resources held by the government in its fiduciary capacity. Local governments which choose not to prepare financial statements must have their budgeted information available for the audit.

[2] For component unit reporting requirements, see BARS Manual 4.1.2, BARS Reporting Requirements.

[3] Some governmental activities may be accounted for in enterprise funds (for example, some public transit operations), and some business-type activities may be accounted for in governmental funds.

[4] Part of internal service fund(s) net income or loss, if ***significant***, should be allocated to business-type activities that purchased the good or services.

MATRIX OF STATUTORY REPORTING REQUIREMENTS:

These statements should be prepared in accordance with GASB pronouncements.

(A) Governmental Funds: 000, 100, 200, 300, 700

(B) Proprietary Funds: Enterprise Funds - 400, Internal Service Funds - 500

(C) Fiduciary Funds: 600 - 699

(D) Component Unit(s)

	(A)		**(B)**		**(C)**	**(D)**
Fund Financial Statements	**Governmental Funds**		**Proprietary Funds**		**Fiduciary Funds**	**Component Units**
	General Fund	**Other Governmental Funds**	**Enterprise Funds**	**Internal Service Funds**		
Balance Sheet – Governmental Funds[1]	One column for General Fund	Separate columns for each major fund, one column for all non-major funds	N/A	N/A	N/A	N/A
Statement of Revenues, Expenditures, and Changes in Fund Balances	One column for General Fund	Separate columns for each major fund, one column for all non-major funds	N/A	N/A	N/A	N/A
Statement of Net Position (or Balance Sheet) – Proprietary Funds	N/A	N/A	Separate columns for each major fund, one column for all non major funds	One column for all internal service funds	N/A	N/A
Statement of Revenues, Expenses, and Changes in Fund Net Position	N/A	N/A	Separate columns for each major fund, one column for all non major funds	One column for all internal service funds	N/A	N/A
Statement of Cash Flows	N/A	N/A	Separate columns for each major fund, one column for all non major funds	One column for all internal service funds	N/A	N/A

Statement of Fiduciary Net Position	N/A	N/A	N/A	N/A	Separate columns for each fiduciary fund type: pension, investment, private purpose and custodial fund type	Fiduciary component units are included with the appropriate fund type
Statement of Changes in Fiduciary Net Position	N/A	N/A	N/A	N/A	Separate columns for each fiduciary fund type: pension, investment, private purpose and custodial fund type	Fiduciary component units are included with the appropriate fund type
Notes to Financial Statements	Prepared for reporting entity as a whole.					
Required Supplementary Information (RSI)	Prepared for reporting entity as a whole.					

[1] The statement should not include: general capital assets and general long-term liabilities.

After preparing the reports, the government will need to keep all worksheets on file and available for the auditor.

If you are preparing an Annual Comprehensive Financial Report, there are additional statements, schedules, and statistical data that must be included in the report. This matrix does not list these additional requirements. For more information, see BARS Manual 4.9, GFOA Financial Reporting Recognition Programs.

- If your government assumes risk or self-insures, OR provides claims servicing or insurance coverage to others, please see BARS Manual 3.4.9, Risk Management Principles for additional reporting requirements.

MATRIX OF STATUTORY REPORTING REQUIREMENTS:
Additional Schedules Required by the State Auditor's Office.
(A) Governmental Funds: 000, 100, 200, 300, 700
(B) Proprietary Funds: Enterprise Funds - 400, Internal Service Funds - 500
(C) Fiduciary Funds: 600 - 699

Schedule No.	**Schedule**	**(A) Governmental Funds**	**(B) Proprietary Funds**	**(C) Fiduciary Funds**	
				Pension, Investment and Private-Purpose	**Custodial Funds**
1	Revenues/Expenditures/Expenses	Prepare for each fund	Prepare for each fund	Prepare for each fund	Prepare for each fund
9	Liabilities (one schedule for entity as a whole)	Include all current and noncurrent liabilities.	Include all current and noncurrent liabilities.	N/A	N/A
15	State Financial Assistance	Prepare one schedule for the entity as a whole. Include all state grants.			
16	Expenditures of Federal Awards	Prepare one schedule for the entity as a whole. Include all federal grants.			
17	Public Works	Prepare one schedule for the entity as a whole.			
20	Sales and Use Tax for Public Facilities – Rural Counties (Counties Only)	Prepare one schedule for the entity as a whole.			
21	Risk Management	Prepare one schedule for the entity as a whole.			

22	Assessment Questionnaire [1]	Fire districts, conservation districts, local/regional trauma care councils, transportation benefit districts and industrial development corporations should prepare this Schedule regardless of amount of revenues.

If you are preparing an Annual Comprehensive Financial Report, there are additional statements, schedules, and statistical data that must be included in the report. This matrix does not detail these additional requirements.

[1] Required only for local governments with total revenues usually less than $300,000.

Government-Wide Financial Statements Presentation Requirements

4 **Reporting**

4.2 **Government-Wide Financial Statements**

4.2.1 **Presentation Requirements**

4.2.1.10 Statements should always have a total column/row for the primary government. A total column for the government as a whole is permitted, but not required. If the business-type activities are immaterial, the government is not required to report them separately. In the statement of activities, the business-type activities may be combined within administrative or similar function or may be reported as a separate row.

4.2.1.20 The basic financial statements should include separate information for each major discretely presented component unit. This requirement can be met in one of three ways:

1. Include separate column for each major discretely presented component unit on the face of the statement of net position (with a single aggregated column for nonmajor component units).

2. Within the basic financial statements, include a combining statement of net position for major discretely presented component units (with a single aggregated column for nonmajor component units and a total column that supports the presentation on the face of the government-wide statement of net position).

3. Include condensed financial statements for each major component unit in the notes to the financial statements.

4.2.1.30 Prior-year or comparative data may be presented in the government-wide statements but is not required.

4.2.1.40 The reports should follow the basic format in non-authoritative illustration presented in the GASB Statement 34 and the Governmental Accounting, Auditing, and Financial Reporting issued by Government Finance Officers Association. The management's discussion and analysis should appear before the government-wide financial statements (statement of net position and statement of activities), fund financial statements including notes to the financial statements and the required supplementary information.

4.2.1.50 The government-wide financial statements use the economic resources measurement focus and full accrual basis of accounting.

4.2.1.60 **The local government should consider materiality before applying any of the reporting requirements.**

Statement of Net Position

4 **Reporting**

4.2 **Government-Wide Financial Statements**

4.2.2 **Statement of Net Position**

4.2.2.10 The governments have two format options to present net position.

1. **Net position format**: Assets plus deferred outflows, less liabilities, less deferred inflows of resources, equals net position

2. **Balance sheet format**: Assets plus deferred outflows of resources equals liabilities plus deferred inflows of resources, plus net position

The statement of net position requires distinguishing between the governmental and business-type activities.

4.2.2.20 ***Governmental activities*** generally are financed through taxes, intergovernmental revenues, and other non-exchangeable revenues. Governmental activities are usually reported in the governmental fund types and internal service funds in the funds financial statements. Examples include police, election, fire prevention services, etc.

4.2.2.30 ***Business-type activities*** are financed in whole or in part by fees charged to the users of the services. They are reported in the enterprise funds in the funds financial statements. Example includes utility operations.

If the government has immaterial business-type activities, it is not required to separate them on the face of financial statements. They may be reported in the governmental activities column.

4.2.2.40 Internal service funds are generally reported in the governmental activities column, but they may also be reported in the business-type columns if the predominant users of these funds are enterprise funds. Some interfund balances are to be eliminated. See BARS Manual 4.2.7, *Eliminations*.

Assets

4.2.2.50 Assets should be presented either in order of their relative liquidity or in the classified format. Liquidity describes how readily an asset can be converted into cash. Liquidity may also depend on whether there are restrictions limiting the use of those resources. Restricted assets should also be analyzed in terms of their liquidity and placed accordingly in the financial statement.

The statement's lines are not specifically defined and the governments should use their own judgment regarding what level of detail they want to present in the financial reports (e.g., capital assets may be one-line item or have separate lines for land, buildings, infrastructure, etc.). The government should list separately any assets with significant balances.

4.2.2.51 **Capital asset reporting**

To report capital assets, governments need to divide assets into two categories:

- Assets that are depreciated (they become worn out or obsolete when used up),

- Assets that are not depreciated (inexhaustible or infrastructure using the modified approach). Inexhaustible capital assets are defined as one whose economic benefit or service potential is not used up or is used up so slowly that its estimated useful life is extraordinarily long (e.g., land, certain land improvements, certain infrastructure, construction in progress, etc.).

If the government has a significant amount of nondepreciable capital assets, it should report them in the statement of net position separately.

The depreciable capital assets should be reported net of accumulated depreciation. Accumulated depreciation equals total of all amounts of depreciation expenses in statements of activities (from the time when a capital asset was acquired). Accumulated depreciation may be netted against capital assets or reported as a separate line on the face of financial statements or in parentheses. Regardless of the presentation method, it has to be disclosed in the notes to the financial statements.

4.2.2.53 **Capital assets of governmental activities**

Capital assets of the government that are not specifically related to activities in proprietary or fiduciary funds are considered general capital assets. They are associated with governmental activities and financed by the resources of governmental funds.

Capital assets of internal service funds should be generally reported as capital assets of the governmental activities unless the internal service fund is reported in the business-type activities column.

Deferred outflows of resources

4.2.2.60 A deferred outflow of resources is a consumption of net assets by the government that is applicable to a future reporting period. Recognition of deferred outflows of resources should be limited to those instances identified by the GASB in authoritative pronouncements. See BARS Manual 3.5.1, *Classification of Deferred Outflows/Inflows of Resources*

Liabilities

4.2.2.70 Liabilities should be presented in order of their relative liquidity, which is based on their maturity, or when cash will be used to liquidate them. The liabilities whose average maturities are greater than one year should be reported in two components:

1. The amount due within one year, and

2. The amount due in more than one year.

4.2.2.80 The face of the financial statements should contain a summary of liabilities information and the details about their changes should be provided in the notes. This requirement applies not only to bonded debt but also operating liabilities like compensated absences, claims and judgments. Their portions *due within one year* need to be reasonably estimated.

4.2.2.90 The governmental activities' liabilities will consist of:

1. ***Current liabilities*** – They equal liabilities reported in the governmental funds financial statements. They may also include some liabilities from the enterprise fund(s), if the activity accounted for in this fund is presented as a governmental type in the statement of net position.

2. ***General long-term liabilities*** – This amount should equal the unmatured portion of liabilities not reported in governmental funds. The liabilities should include: general obligation debt, capital leases, special assessments, compensated absences, claims, judgments, landfill closure and postclosure care costs, certain pension related debts and postemployment benefits, etc.

3. ***Liabilities reported in the internal service funds*** – (Unless these activities are presented in the business-type activities column.)

4.2.2.100 There is no change in presentation of liabilities for business-type activities since both the enterprise funds and government-wide financial statements are prepared using full-accrual basis of accounting.

Deferred inflows of resources

4.2.2.110 A deferred inflow of resources is an acquisition of net assets by the government that is applicable to a future reporting period. Recognition of deferred inflows of resources should be limited to those instances identified by the GASB in authoritative pronouncements. See BARS Manual 3.5.1, *Classification of Deferred Outflows/Inflows of Resources*

Net position

4.2.2.120 For information about net position see BARS Manual4.2.8, *Net Position*.

Statement of Net Position
December 31, 20__

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash equivalents				
Investments				
Receivables (net)				
Internal balances				
Inventories				
Capital assets not being depreciated:				
Land				
Construction in progress				
Capital assets net of accumulated depreciation:				
Buildings				
Improvements other than buildings				
Machinery and equipment				
Infrastructure				
Intangible				
Total capital assets				
Total assets				
DEFERRED OUTFLOWS of RESOURCES				
Accumulated decrease in fair value of hedging derivatives				
Deferred loss on refunding				
Grants paid in advance				
Total deferred outflows of resources				
LIABILITIES				
Accounts payable				
Other current liabilities				
Accrued expenses				
Due to primary government				
Other credits				
Liabilities payable from restricted assets				
Noncurrent liabilities:				
Due within one year				
Due in more than one year				
Total liabilities				
DEFERRED INFLOWS of RESOURCES				
Accumulated increase in fair value of hedging derivatives				
Deferred service concession arrangement receipts				
Deferred property tax				
Advance payments of property tax				
Advance payments of special assessments				
Deferred gain on refunding				
Grants received in advance				
Total deferred inflows of resources				
NET POSITION				
Net investment in capital assets				
Restricted for:				
_____				
_____				
Unrestricted				
Total net position				

The notes to the financial statements are an integral part of this statement.

Statement of Activities

4 **Reporting**

4.2 **Government-Wide Financial Statements**

4.2.3 **Statement of Activities**

4.2.3.10 The statement of activities distinguishes between governmental and business-type activities. Eliminations are required between and within the fund/programs of the primary government, (BARS Manual 4.2.7, *Eliminations*). There are no eliminating entries between the primary government and the discretely presented component unit. These transactions are considered external ones and the receivables/payables between them should be reported as a separate line item.

Internal service funds are not reported on the statement of activities unless they provide goods or services to entities outside the primary government. See BARS Manual 4.3.6, *Internal Service Funds*.

Sample City
Statement of Activities
Year Ended December 31, 201X
(in thousands)

Functions/Programs	Expenses	Optional Column: Indirect Expense Allocation	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue: Governmental Activities	Net (Expense) Revenue: Bu
PRIMARY GOVERNMENT:							
Governmental Activities:							
General Government	1,862		283			(1,579)	
Judicial							
Public Safety	7,399		247	539	27	(6,586)	
Physical Environment	1,941		111	28		(1,802)	
Transportation	4,950		869	446	4,047	462	
Health and Human Services	5					(5)	
Economic Environment	756		747		8	(1)	
Culture and Recreation	2,608		638	31	30	(1,909)	
Interest on Long-Term Debt	428					(428)	
TOTAL GOVERNMENTAL ACTIVITIES	19,949		2,895	1,044	4,162	(11,848)	
Business-Type Activities:							
Utilities	10,349		12,586		1,431		
TOTAL BUSINESS-TYPE ACTIVITIES	10,349		12,586		1,431		
Total Primary Government	30,297		15,487	1,044	5,539	(11,848)	
COMPONENT UNITS:							
Total Component Units							

General Revenues:		
Taxes:		
Property Tax, Levied for General Purposes	5,224	
Property Tax, Levied for_____		
Sales and Use Taxes	4,649	
Business and Occupation Taxes	3,621	
Excise Taxes	769	
Penalties and Interest	5	
Grants and Contributions not Restricted to Specific Programs		
Unrestricted Investment Earnings	1,247	
Miscellaneous	1,271	
Endowments and Permanent Fund Contributions		
Extraordinary Item		
Special Item - Gain on Sale of Capital Asset		
Transfers	(50)	
Total General Revenues, Extraordinary, Special Items, and Transfers	16,736	
Change in Net Position	4,888	
Net Position Beginning	25,786	
Net Position-Ending	30,674	

The notes to financial statements are an integral part of this statement.

Expenses/functions

4.2.3.20 At a minimum, the statement of activities should present activities accounted for in governmental funds by function. A function is defined as a group of activities aimed at accomplishing a major service or regulatory responsibility (e.g., general government, public safety, etc.). All functions of a government have expenses. Some functions generate revenues.

4.2.3.30 The activities accounted for in the enterprise funds should be presented by different identifiable activities. The activity is identifiable if it has a specific revenue stream and related expenses and gains and losses that are accounted for separately. [1]

4.2.3.40 Report all expenses by function except for the special or extraordinary items and transfers. At least, the governments should report direct expenses for each function. Direct expenses are those that are *specifically associated with a service, program, or department and, therefore, are clearly identifiable to a particular function*. All expenses reported in the enterprise fund financial statements (except special and extraordinary items) should be reported in the business-type activities function as direct expenses for that function.

4.2.3.50 Indirect functions, such as general government, support services or administration should report expenses, which are indirect for other functions as their own direct expenses. However, local governments may allocate some or all indirect expenses to other functions. If governments choose to allocate some or all indirect cost, those expenses have to be reported in a separate column in the statement of activities. A total column of direct and indirect cost is optional.

4.2.3.60 The government should be careful in determining what level of details it will present in the statement of activities. Programs may be presented for all or some functions. The statement, when too detailed, may be overwhelming for its users. The same level of detail is not required for each function.

Depreciation expense

4.2.3.70 Deprecation should be also reported in the statement of activities. Governments can use any systematic and rational depreciation method. Depreciation expense for capital assets that can be specifically identified with a function should be included in the direct expenses of that function. Depreciation expense for shared capital assets should be allocated to the functions sharing the assets.

If a capital asset (e.g., city hall, etc.) serves essentially all functions and is not practical to allocate the depreciation to all these functions, that expense should be reported in a separate line or as part of the expenses of general government function. If a government chooses a separate line, it should clearly indicate that this line excludes the direct depreciation reported in the specific functions.

Depreciation may be also allocated through a separate indirect expense column.

Interest expense

4.2.3.80 The interest on general long-term debt should be reported as a separate function. The interest should include interest on bonds and notes, capital leases and other vendor financing arrangements, claims and judgments, pension related debts and employer net pension obligations.

In extreme situations, when the borrowing is essential to the creation or continuation of the program and omitting interest expenses would be misleading (e.g., loan programs, etc.), the interest on general long-term debt can be reported as a direct expense. In that case the line should be clearly labeled to indicate that not all interest is reported here.

Interest expenses in the enterprise fund financial statements should be reported as direct expenses for those functions.

4.2.3.90 Classification of Revenues and Expenses for the Statement of Activitiesprovides a table showing BARS account codes and related functions. The local government may use this matrix for the preparation of the statement of activities. Some governments may not perform all listed functions.

Revenues

4.2.3.100 Revenues are reported as either program revenues or general revenues. *Program revenues* are generated directly by the program itself. Non-exchange revenues (except taxes) are *program* revenues if restricted to a specific program(s) or if unrestricted, should be reported as *general revenue*. Taxes are always *general revenues* even if restricted to a specific program. Revenues from the government itself are usually *general revenues* (e.g., revenues from investments).

Program revenues

4.2.3.110 Program revenues reduce the expenses of the function/program, which generates them, and show the net cost of the function/program to be financed by the general revenues. They should not be allocated to multiple functions (there may be an exception for grants that are restricted to several programs).

Program revenues include charges for services and program-specific operating and capital grants and contributions.

4.2.3.120 **Charges for services** are to customers who purchase, use, or directly benefit from the goods, services, or benefits. The charges generally result from exchange or exchange/like transactions. They include fees for services, licenses, permits, fines, forfeitures, special operating assessments, and charges for interfund services, etc. Charges for services should be reported net of any uncollectible amounts.

Charges for services are program revenues of a function/program that assess the charge even if the money is required to be spent on a different function/program.

Operating revenues reported in the enterprise fund financial statement should be reported as charges for services of business-type activities. Nonoperating revenues with the exception for taxes and investment income should be also reported as program revenues.

4.2.3.130 **Program-specific grants and contributions (both operating and capital)** arise from transactions with other governments, organizations, or individuals that restrict the use of resources for particular purposes. They may be either mandatory or voluntary nonexchange transactions. The restrictions indicate the function/program where they should be reported. (Attention: not all grants and contributions are program revenues.)

The operating grants and contributions are used to finance operations of specific function/program and should be reported separately from capital grants and contributions.

Capital grants and contributions are restricted to purchasing, constructing, or renovating capital assets associated with a specific function/program.

Unrestricted grants and contributions should be reported as general revenues.

4.2.3.140 Earnings on endowments or permanent fund investments should be reported as program revenues if restricted to a program or programs specifically identified in the endowment or permanent fund agreement or contract. Also, earnings on investments not held by permanent funds may be legally restricted to specific functions or programs. Those earnings should be reported as program revenues.

General revenues

4.2.3.150 ***General revenues*** include all revenues and gains that do not meet the definition of program revenues. The one exception is that *taxes (including taxes levied for very specific purposes) should always be reported as general revenues*. Taxes should be reported by type of tax (sales, property, etc.). General revenues also include gains from routine selling or disposing of capital assets. General revenues are reported in the statement of activities after the total net expense of the government's functions.

All general revenues, including taxes, should be reported net of estimated refunds and uncollectible amounts.

4.2.3.160 Shared revenues and entitlements should be reported in the same way as grants and contributions.

4.2.3.170 Special assessments revenues should be reported as program revenues either as charges for services (operating special assessments) or as program-specific capital grants/contributions (capital special assessments).

4.2.3.180 Investment income (including realized and unrealized gains and losses) should be reported as general revenues. There may be exceptions if there are some specific restrictions placed on it (e.g., legal restrictions in permanent funds investments or restrictions on earnings on grants, etc.).

Investment income reported in the enterprise fund financial statements should be reported as general revenues in the business-type activities column in the statement of activities (unless the investment originated from grants or contributions).

4.2.3.190 BARS Manual 4.2.4, *Classification of Revenues and Expenses for the Statement of Activities* contains a matrix of BARS account codes related to revenues and functions has been provided. This matrix designates each BARS code as a program or general revenue.

Net program (expense) revenue

4.2.3.200 Separate columns should be used to identify net program (expense) revenue for each function/program category of governmental activities and business-type activities and for discretely presented component units.

Endowment and permanent fund contributions

4.2.3.210 Contributions to term and permanent endowments and permanent fund principal should be reported in a separate category after general revenues. They cannot be used to finance any function/program so cannot be reported as a reduction of functional expenses.

Extraordinary and special items

4.2.3.220 Extraordinary and special items should be reported in a separate category after general revenues and endowment and permanent fund contributions.

Extraordinary items are transactions or other events that are both unusual in nature and infrequent in occurrence. They are also not within control of management (e.g., environmental or natural disasters, etc.). However, transactions which are unusual and infrequent but within control of management should be also reported as extraordinary items.

Special items are significant transactions or other events within control of management that are either unusual in nature or infrequent in occurrence (e.g., sales of certain governmental capital assets, early retirement program, significant forgiveness of debt, etc.). Transactions or other

events that are either unusual or infrequent but not within control of management should be disclosed in the notes to financial statements.

Before classifying a transaction or an event, as extraordinary or special, government should assess its materiality and significance in the context of financial statements in which it would be presented. Something that is significant or material in the fund financial statements may not be significant or material in the government-wide statements.

Transfers

4.2.3.230 Transfers within the governmental or business-type activities are eliminated. The net amount transferred between the two types of activities should be reported as a single line after special items.

Also interfund payments in lieu of taxes (PILOTs) that are not payments for services (or are not a reasonable equivalent of the value of these services) should be reported as transfers.

Footnotes

[1] Determining whether an activity is different may require the use of professional judgment. *Return to Reference 1*

Classification of Revenues and Expenses for the Statement of Activities

4 **Reporting**

4.2 **Government-Wide Financial Statements**

4.2.4 **Classification of Revenues and Expenses for the Statement of Activities**

4.2.4.10 Governments may use the following matrix as a guide for the preparation of their statement of activities. Governments should have a classification policy for assignment of revenues, this policy should be applied consistently. The matrix identifies each BARS revenue account as a program or general revenue. It also indicates the expenditure function the revenue may be generated by. The expenditures function is the minimum level of detail required. Governments can choose to report at a lower level (program). Governments should consider materiality when determining what functions they present on their government-wide statement of net position.

BARS Revenue Code	BARS Title	REVENUE Program	REVENUE General	Expenditure Function
310000	Taxes		X	
3210000	Business Licenses and Permits	X		General Government
3221000	Buildings, Structures and Equipment	X		Economic Environment
3222000	Marriage Licenses	X		General Government
3223000	Animal Licenses	X		Natural Environment
3224000	Street and Curb Permits	X		Transportation
3229000	Other Non-Business Licenses and Permits	X		General Government

3300000 (exclude 3360000)	Intergovernmental Revenues	X [1]		
3360000	State Shared Revenues, Entitlements, and Impact Payments	X [1]	X [1]	
3410000	General Governments	X		General Government
34120 (exclude .21)	Filing and Recording Services	X		Judicial
3412100	Auditor's Filings and Recordings	X		General Government
3413000 (exclude .35, .36, .38)	Records Services	X		Judicial
3413500	Other Statutory Certifying and Copy Fees	X		General Government
3413600	Auditor's Centennial Documents Preservation	X		General Government
3413800	Records Search by County Auditors	X		General Government
3414000	Financial Services	X		General Government
3416200	Word Processing, Printing, and Duplicating Services - Municipal/District Court	X		Judicial
3416500	Word Processing, Printing, and Duplicating Services - Superior Court	X		Judicial
3417000	Sales of Merchandise	X		General Government
3418100	Data/Word Processing, Printing, Duplicating and IT Services	X		General Government
3418200	Engineering Services			General Government
3419000	Other General Government Services	X		General Government
342000	Public Safety	X		Public Safety
344000	Transportation	X		Transportation
3451000	Natural Resource Conservation and Control	X		Natural Environment

3450000	Economic Environment	X	Economic Environment
3460000 (exclude 3468000)	Social Services	X	Social Services
3468000	Coroner/Medical Examiner	X	Social Services
3470000	Culture and Recreation	X	Culture and Recreation
3500000 (exclude 3590000)	Fines and Penalties	X	Judicial (or Public Safety[2])
3590000	Non-Court Fines and Penalties	X	General Government
3600000	Miscellaneous Revenues	X	Varies

4.2.4.20 The following matrix ties each BARS expenditure account to the appropriate function. The governments may use it as a guide for the preparation of their statement of net position. The expenditures function is the minimum level of detail required. Governments can choose to report at a lower level (program) if needed. Governments should consider materiality when determining what functions they will present on their government-wide statement of net position.

BARS Code	BARS Expenditure Account	Function
511	Legislative Activities	General Government
512	Judicial Activities	Judicial
513	Executive Activities	General Government
514	Financial, Recording and Election Activities	General Government
515	Legal Activities	General Government
517	Employee Benefit Programs	General Government
518	Centralized Services	General Government
519	Miscellaneous General Government Services	General Government
521	Law Enforcement Activities	Public Safety
522	Fire and Emergency Medical Activities	Public Safety
523	Detention/Correction Activities	Public Safety
524	Protective Inspection Services	Public Safety

525	Disaster Services	Public Safety
527	Juvenile Services	Public Safety
528	Dispatch Services	Public Safety
531	Storm Drainage Utilities	Utilities
532	Television/Cable Utilities	Utilities
533	Electric/Gas Utilities	Utilities
534	Water Utilities	Utilities
535	Sewer Utilities	Utilities
536	Cemetery	Utilities
537	Solid Waste Utilities	Utilities
538	Combined Utilities	Utilities
539	Irrigation/Reclamation Utilities	Utilities
541	Roads/ Streets Construction: Preservation Projects	Transportation
542	Roads/Streets Ordinary Maintenance	Transportation
543	Roads/Streets General Administration and Overhead	Transportation
544	Road and Street Operations	Transportation
545	Road and Street Extraordinary Operations	Transportation
546	Airports and Ports	Transportation
547	Transits, Railroads and Other Transportation Systems	Transportation
548	Public Works Centralized Services	General Government
552	Employment Opportunity	Economic Environment
553	Conservation	Natural Environment
554	Environmental Services	Natural Environment

557	Community Services	Economic Environment
558	Community Planning and Economic Development	Economic Environment
559	Housing and Property Development	Economic Environment
561	Hospitals, Assisted Living and Convalescent Facilities	Social Services
562	Public Health Services	Social Services
563	Coroner/Medical Examiner	Social Services
564	Mental Health Services	Social Services
565	Other Social Services	Social Services
566	Chemical Dependency Services	Social Services
567	Children Services	Social Services
568	Developmental Disabilities Services	Social Services
569	Aging and Disability Services	Social Services
571	Education and Recreational Services	Culture and Recreation
572	Libraries	Culture and Recreation
573	Cultural and Community Events	Culture and Recreation
574	Participant Recreation	Culture and Recreation
575	Cultural and Recreational Facilities	Culture and Recreation
576	Park Facilities	Culture and Recreation

Footnotes

[1] Grants and shared revenues are considered program revenues in all cases unless they are unrestricted. In that case, they are classified as general revenues.

[2] The assignment of revenues would be dependent on the government's classification policy for

assigning the revenues. This policy should be applied consistently.

Eliminations

4 **Reporting**

4.2 **Government-Wide Financial Statements**

4.2.7 **Eliminations**

4.2.7.10 In effort to report information about the overall government without displaying individual funds, the governments should eliminate interfund activities and balances to avoid inappropriate *grossing-up* effect. This section describes the necessary eliminations.

4.2.7.20 Transactions between the primary government and ***discretely*** presented component units should be treated as if the primary government and the component units are unrelated third parties. No elimination should be made for these transactions in the primary government columns, the discretely presented component unit(s), or total (if presented). Payables and receivables between the primary government and discretely presented component units or between component units should be reported in separate lines in the statement of net position.

4.2.7.30 Transactions between the primary government and ***blended*** component units should be reclassified or eliminated in the same way as internal activities and balances within the primary government. The eliminations and/or reclassifications will prevent the government from double counting.

4.2.7.40 First, transactions should be eliminated within the governmental activities column and business-type activities column and then separately in the primary government column (for the balances between the governmental and business-type activities).

4.2.7.50 The elimination column in the statements is not necessary. The**internal balances** can be reported in a single line in both governmental and business-type activities. One of them will be negative and they should add up to zero.

Statement of Net Position

4.2.7.60 To complete the statement of net position perform the following eliminations:

1. Eliminate interfund receivables and payables between funds reported in the governmental activities column. Include internal service funds unless they are reported in the business-type activities column. Add the amounts together; receivables should equal payables.
2. Eliminate interfund receivables and payables between funds reported in the business-type activities column. Include internal service funds unless they are reported in the governmental activities column. Add the amounts together; receivables should equal payables.
3. Eliminate interfund receivables and payables between the governmental and business-type activities from the primary government column. Internal payables should equal internal receivables.
4. Move (reclassify) amounts due from or to fiduciary funds to an external receivable or payable.

Statement of Activities

4.2.7.70 The following internal or interfund activities should be analyzed for the elimination/reclassification in the statement of activities:

1. Internal service fund – for details see BARS Manual 4.3.6, *Internal Service Funds*.
2. Interfund activity similar to internal service fund charges – when a fund different than internal service (e.g., general) provides services to other funds and reports the charges as a revenue, both amounts (revenue and expenses) should be eliminated. If the fund providing the service reports the charges as a reduction of its own expenses (i.e., interfund reimbursements) the elimination is not necessary.
3. Allocation of overhead expenses. **[1]**
4. Interfund services provided and used (quasi-external transactions) – the “like external” sales and purchases of goods and services should not be eliminated.
5. Transfers within the governmental or business-type activities have to be eliminated. The net amount transferred between both types of activities should be reported as a single line after extraordinary and special items.
6. Transactions between different functions but within the same fund should be eliminated. They should be reported in the function to which they are allocated.

Footnotes

[1] Although not acting as internal service funds, some funds charge other funds for what are, in effect, allocations of overhead expenses. These allocations should be treated the same way as interfund activity.

Net Position

4 **Reporting**

4.2 **Government-Wide Financial Statements**

4.2.8 **Net Position**

4.2.8.10 The difference between (1) assets and deferred outflows of resources, and (2) liabilities and deferred inflows of resources is called net position. Net position should be displayed in three categories which focus on the accessibility of the underlying assets:

- Net investment in capital assets
- Restricted
- Unrestricted

Net investment in capital assets

4.2.8.20 The *net investment in capital assets*category of a government's net position represents the investment in capital assets, net of capital asset related items. The amount should be calculated as follows:

1. Capital asset balances in the statement of net position (including restricted capital assets, tangible and intangible capital assets),
2. ***Minus*** accumulated depreciation (if capital assets are not reported net), and
3. ***Minus*** outstanding balances of capital related bonds, mortgages, notes, or other debt and liabilities that are attributable to the acquisition, construction, or improvement of those assets. (This includes capital-related retainage and accounts payable, as well as premiums and discounts on bonds. This balance excludes unspent debt proceeds.),
4. ***Minus*** deferred inflows of resources that are capital related (e.g., gain on refunding of outstanding capital-related debt), and
5. ***Plus*** deferred outflows of resources that are capital related (e.g., loss on refunding of outstanding capital-related debt).

All capital assets should be reported as *Net Investment in Capital Assets,* regardless of restrictions but they should not include any financial resources restricted for capital assets acquisition, construction, or improvement (e.g., unspent bond proceeds, grant monies, etc.) or financial resources held for capital assets acquisition, construction, or improvement. The unspent resources would be reported as *Restricted* or *Unrestricted* components of net position, depending on the constraints on these financial resources.

4.2.8.30 If part of the debt proceeds were spent on assets that have been not capitalized or other non-capital purposes (assuming that part is immaterial), the entire amount of debt should be considered capital related. If the amount spent on non-capitalized purposes is material, this amount should be removed from the debt outstanding balances calculation.

If a part of the debt proceeds was spent to establish a debt service reserve fund, this amount should be removed from the debt outstanding balances calculation.

Capital asset related debt should include debt issued to refund existing capital related debt.

If one government issued debt to finance the capital assets of another government, this debt should not reduce the *Net Investment in Capital Assets* unless the capital assets are also reported by the government issuing debt. If the assets are not reported by the government issuing the debt, the debt should be reported in the *Restricted* or *Unrestricted* component of net position, depending on the constraints on the financial resources. If the amount is significant, the government should disclose details about the transaction in the notes to the financial statements.

The amounts of unspent bond proceeds at the year-end should be reported as an increase of *Restricted* or *Unrestricted* component of net position, depending on the constraints on the these financial resources, not as a reduction of *Net Investment in Capital Assets*, as these amounts should already be excluded from the outstanding principal of capital-related borrowings.

If there is no capital related debt, the line should be labeled *Investment in Capital Assets*.

4.2.8.31 The net investment in capital assets should be calculated as follows:

Restricted component of net position

4.2.8.40 Components of net position should be reported as *restricted* when constraints placed on its use are either:

- Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or
- Imposed by law through constitutional provisions or enabling legislation.

The constraints placed on the use of the asset must, in addition to the above criteria, be narrower than the purpose of the reporting unit:

- Governmental activities: the reporting unit for this criteria is the governmental activities column on the Statement of Net Position.
- Business-type activities: the reporting unit for this criteria is the individual enterprise fund.

4.2.8.50 Designation in the management's plan for the use of the resources is not equivalent to enabling legislation. Enabling legislation refers to a situation when a government passes a law that gives them the ability to levy tax or otherwise raise revenues and includes a legally enforceable requirement that those resources be used for the specific purpose stipulated in the law.

4.2.8.60 *Restricted* net position consists of restricted assets reduced by liabilities and deferred inflows related to those assets. The government must distinguish between major categories of restrictions (e.g., restricted for debt service, restricted for capital projects capital, etc.), details about the *restricted* net position should not be displayed on the face of the statement and should be disclosed in the notes to the financial statements. If there are permanent funds, this component of the *restricted* net position should also be displayed as expendable and nonexpendable.

See BARS 3.4.2, *Pensions* for information on how to calculate the restricted net position related to net pension assets.

4.2.8.70 The *restricted* net position of governmental activities may not be equal to restricted fund balances in the governmental funds. The reasons are: different measurement focus and different basis of accounting.

4.2.8.80 No category of restricted component of net position can be negative, if liabilities related to restricted assets exceed those assets, no balance should be reported. The negative amount should be reported as reduction of unrestricted component of net position.

Unrestricted component of net position

4.2.8.90 The *unrestricted* component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of *net investment in capital assets* or the *restricted* components of net position. Designations should not be reported on the face of the statement, but the details can be disclosed in the notes to the financial statements.

4.2.8.100 It is possible that the *unrestricted* component of net position may be a negative number (e.g., significant balances of noncurrent operating liabilities such as compensated absences, net pension liabilities, non-capital related debt, etc.).

4.2.8.110 The government may use the following worksheet to convert the governmental fund balances to net position. The worksheet is easier to use after the fund financial statements are completed.

- Columns one and two list the funds and their balances. This information will come from the fund financial statements.
- Column three lists the major categories of restrictions. Allocate the fund balances to appropriate restriction category (make sure that the amounts posted here meet the government-wide financial statements' definition of *restricted assets*).
- Column four includes all amounts that are not restricted.
- Column five contains the information from the government's capital assets and long-term debt records and can be calculated as described in 4.2.8.31.

Worksheet for Converting Government Fund Balances to Net Position

1	2	3			
		Restricted for:			
	Total				
Fund Balances:					
Total fund balances					
Adjustments:					
Net position					

Fund Financial Statements
Fund Types

4 **Reporting**

4.3 **Fund Financial Statements**

4.3.1 **Fund Types**

4.3.1.10 The financial statements for governmental funds should report a separate column for each individual major fund, with data from all non-major governmental funds aggregated into a single *Other Non-Major Governmental Funds* column, regardless of fund type.

There are three basic types of funds: governmental, proprietary, and fiduciary.

4.3.1.20 The **governmental** fund type consists of:

1. General Fund
2. Special Revenue Funds
3. Debt Service Funds
4. Capital Project Funds
5. Permanent Funds

4.3.1.30 The **proprietary** fund type consists of:

1. Enterprise Funds

2. Internal Service Funds

Although, the internal service fund is classified as a proprietary fund type (and has to be reported as such in the funds financial statements), they should be included as part of the *Governmental Activities* in the government-wide financial statements unless its predominant customers are external entities or enterprise funds, then they would be reported in the *Business-Type Activities* column. For more details about the internal service funds see Internal Service Funds.

4.3.1.40 The **fiduciary** funds are limited to account for resources that arenot available to support governments' operations and programs. This fund type consists of:

1. Private-Purpose Trust Funds
2. Pension (and Other Employee Benefit) Trust Funds
3. Investment Trust Funds
4. Custodial Funds (if the custodial fund holds the amounts for other funds of the government, these amounts should be reported in the appropriate funds)

For detailed description of funds seeFund Types and Accounting Principles.

Major Funds

4 **Reporting**

4.3 **Fund Financial Statements**

4.3.2 **Major Funds**

4.3.2.10 The governmental and proprietary fund financial statements have to provide financial information for each major fund in a separate column. Major funds represent the government's most important funds and are determined by a mathematical calculation. However, governments should avoid an overly mechanical approach and try to identify the individual funds that are most important to users. To determine which funds, in addition to those, which must be reported as major, are of particular importance or interest to the users, the governments should consider factors like:

- Political/social sensitivity of the activities financed from that fund.
- Impact or potential impact of that fund on other programs or services.
- Significance of that fund on financing activities which are of high interest to public.
- Existence of known uses or users of that information (e.g., bond rating companies, investors, etc.).
- Relative size (without regard to theGovernmental Accounting Standards Board (GASB) Statement 34 limits).
- Year-to-year consistency in reporting, etc.

4.3.2.20 The general (current expense) fund is always reported as a major fund. Major funds reporting only applies to governmental and enterprise funds. It does not apply to internal service or fiduciary funds. The determination of which funds are major must be made each fiscal year.

4.3.2.30 Governmental and enterprise funds are required to be reported as major funds if they meet the following criteria:

- Total assets plus deferred outflows of resources, liabilities plus deferred inflows of resources, revenues, or expenditures/expenses **[1]** of that individual governmental or enterprise fund are at least ten percent of the corresponding element total (assets, liabilities, etc.) for all funds of that category **[2]** or type **[3]** (either total governmental or total enterprise), **and**
- The same element that met the above ten percent intention is at least five percent of the corresponding element total for all governmental and enterprise funds combined.

4.3.2.40 However, before using the spreadsheet remember:

1. They have to meet ***both*** of the criteria above to be required to be reported as a major fund.
2. No elimination of interfund balances is necessary in order to apply the criteria unless there are some significant amounts of interfund payables and receivables, then those can be netted.
3. Total revenues means all revenues - both operating and nonoperating revenues of enterprise funds, including capital contributions except for other financing sources (governmental funds), transfers in and gains from the extraordinary items.
4. Total expenditures/expenses means all expenditures or expenses – both operating and nonoperating except for other financing uses (governmental funds), transfers out and losses

from the extraordinary items.

5. The test should be applied to the GAAP amounts reported in the funds financial statements.

4.3.2.50 If there are no major enterprise funds, they all should be reported in one column and the second column would show the internal service fund(s). For more details see BARS Manual 4.3.4, *Proprietary Funds Financial Statements*.

4.3.2.60 Internal service funds are reported in a single column on the face of the proprietary fund financial statements to the right of the enterprise funds. For more details see BARS Manual 4.3.6, *Internal Service Funds*.

4.3.2.70 Fiduciary funds are to be reported in the fund financial statements by fund type (e.g., pension, investment trust, private purpose, and custodial funds). For more details see BARS Manual 4.3.5, *Fiduciary Funds Financial Statements*.

Nonmajor funds

4.3.2.80 Nonmajor funds should be aggregated and reported in a single column to the right of the major funds in the financial statements. It is not permitted to use more than one column for nonmajor funds. Interfund transactions and balances may be, but are not required to be, eliminated when nonmajor funds are combined.

Combining statements for the nonmajor funds are not required, but may be presented as supplementary information.

Determining Major Funds

	Assets + Deferred Outflows	Liabilities + Deferred Inflows	Revenues	Expenditures/ Expenses	Exceeds		Qualifies as a Major Fund?
					10%	5%	
General fund	9,004	654	14,320	13,685			Yes
Special revenue funds:							
SR1	1,890	6596	5,001	8,904	4	4	Yes
SR2	3,875	2,750	889	999	4	4	Yes
SR3	2,045	1,200	475	154	4		No
SR4	26	7	54	2			
SR5	21	24	19	18			
SR6							
Debt service fund							
Capital project funds:							
CPF1							
CPF2							
CPF3							
CPF4							
Total governmental funds	16,861	11,231	20,758	23,762			
10% of total governmental funds	1,686	1,123	2,076	2,376			
Enterprise funds:							
ENT1	29,526	5,034	4,601	3,500	4	4	Yes
ENT2	27,041	4,024	6,704	254	4	4	Yes
ENT3	8,504	7,350	1,000	123	4	4	Yes
ENT4							
ENT5							
Total enterprise funds	65,071	16,408	12,305	3,877			
10% of total enterprise funds	6,507	1,640	1,231	388			
Total governmental and enterprise funds	81,932	27,639	33,063	24,150			
5% of total governmental and enterprise funds	4,097	1,381	1,653	1,208			

Footnotes:

[1] These amounts apply for the year being reported. Do not use prior year data.
Back to Reference 1

[2] ". . . all funds of that category" means all governmental funds, including the general fund.
Back to Reference 2

[3] ". . . all funds of that type" means all enterprise funds.
Back to Reference 3

Governmental Funds Financial Statements

4 **Reporting**

4.3 **Fund Financial Statements**

4.3.3 **Governmental Funds Financial Statements**

4.3.3.10 Governmental funds should be reported using the current financial resources measurement focus and the modified accrual basis of accounting.

The governments are required to provide a summary reconciliation of total governmental fund balances to net position of governmental activities in the statement of net position. The reconciliation may be presented at the bottom of the balance sheet or in an accompanying schedule. (For possible reconciling items, see BARS Manual 4.4, *Conversion and Reconciliation between Government-Wide and Fund Financial Statements*.)

The governments have the option to report the budgetary information in the governmental funds financial statements instead as a part of the required supplementary information.

Balance Sheet

4.3.3.20 The financial information is required to be reported separately for general fund, each major governmental fund and nonmajor governmental funds in aggregate.

Current assets, liabilities, and fund balances of governmental funds should be displayed in a balance sheet using the following formula:

Current Assets = Current Liabilities + Fund Balance

General capital assets and general long-term liabilities are not reported in the governmental fund balance sheet **[1]**.

4.3.3.30 When preparing the governmental balance sheet, remember:

- Interfund liabilities should be reported as fund liabilities regardless of their date of scheduled repayment. Interfund loans may be reported as short-term or long-term liabilities depending on their conditions. The governments should also show the reservation of the fund balance for the noncurrent interfund receivables.
- Equity interest in joint ventures should not be reported as an asset in the governmental fund balance sheet except for amounts that meet the definition of financial resources (e.g., receivable from/payable to joint venture, etc.). All equity interest should be reported in the government-wide financial statements.
- A reconciliation that shows adjustments made between the balance sheet and the government-wide statement of net position is required on the bottom of the report. See BARS Manual 4.4, *Conversion and Reconciliation between the Government-Wide and Fund Financial Statements*.
- If any categories of the fund balances are displayed on the face of financial statements in aggregate, the specific components and purposes must be disclosed in the notes to financial statement.

Balance Sheet
Governmental Funds
December 31, 20__
(in thousands)

	General Fund	Major Special Revenue Fund	Major Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS and OUTFLOWS of RESOURCES					
Cash and Cash Equivalents	$2,700	1,000	500	2,000	6,300
Investments	3,500	500		3,000	7,000
Receivables, Net	500	200		500	1,200
Due from Other Governments	200			100	300
Prepayments	100			100	200
Total Assets	$7,000	1,700	500	5,700	14,900
Deferred Outflows of Resources	100				100
Total Assets and Deferred Outflows of Resources	$7,100	1,700	500	5,700	15,000
LIABILITIES, DEFERRED INFLOWS of RESOURCES and FUND BALANCES					
Liabilities:					
Accounts Payable	$1,500	700	200	2,000	4,400
Due to Other Governments	300	100	100	500	1,000
Matured Bonds Payable	1,200	200		1,500	2,900
Total Liabilities	$3,000	1,000	300	4,000	8,300
Deferred Inflows of Resources	20				20
Fund Balances:					
Nonspendable	$100			100	200
Restricted	1,580	500	200	800	3,080
Committed	1,000			400	1,400
Assigned	800	200		200	1,200
Unassigned	600			200	800
Total Fund Balances	$4,000	700	200	1,700	6,680
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$7,100	1,700	500	5,700	$15,000

Amounts reported for governmental activities in the statement of net position are different because: [2]	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	**20,000**
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	**4,850**
Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net position.	**5,500**
Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	**-14,575**
Net position of governmental activities:	**$30,675**

The notes to financial statements are an integral part of this statement.

The notes to financial statements are an integral part of this statement.

4.3.3.31 **Classification of fund balances**

Nonspendable – These are amounts that are not in a form that can be spent because they are either not in a spendable form or they are legally or contractually required to be maintained intact. This includes items such as inventories, prepaid amounts, corpus (or principal) of a permanent fund, long-term loans and notes receivable, as well as property acquired for resale. However, if the use of the proceeds from the collection of the receivables, loans, or from the sale of properties is restricted, committed, or assigned, then they should be included in the appropriate fund balance classification (restricted, committed, or assigned), rather than nonspendable fund balance.

Restricted – These are amounts remaining from resources received from external parties that can be spent only for the specific purposes designated by external providers, constitutionally, or through enabling legislation. Restrictions are changed or lifted only with the consent of resource providers. External resource providers could include creditors, grantors, and donors.

Committed – These are amounts remaining from resources received that can only be used for the specific purposes determined by a formal action (ordinance or resolution) of a government's highest level of decision-making authority. Changing or removing a commitment requires taking the same formal action that originally imposed the constraint.

Assigned – These are amounts intended to be used by the government for specific purpose that are neither restricted nor committed. Intent can be expressed in one of two ways:

- The governing body can state its intent to use resources for a specific purpose
- The governing body can delegate authority to others to express intent to use amounts for specific purposes.

Assigned amounts include all the remaining amounts (except for negative balances) that are reported in special revenue, capital project, debt service, or permanent funds that have not been designated as restricted or committed.

Assigned amounts in the general fund represent funds that are intended to be used for a specific purpose as stated by the governing body or its delegate.

Unassigned – This is the amount remaining in the fund after classifying amounts as nonspendable, restricted, committed, or assigned. Unassigned amounts are technically available for any purpose. The General Fund is the only fund that will have a positive unassigned fund balance.

Emergency Funds, Savings Accounts, and Rainy Day Funds

4.3.3.32 To be reported as committed funds set aside for use in emergency situations, revenue shortages, budgetary imbalances, or other similarly intended arrangements must have formal action by the governing body which imposed parameters for spending. The parameters should identify and describe the specific circumstances under which a need for spending arises. The detailed circumstances should be such that they would not be expected to occur routinely. For example, a stabilization amount that can be accessed "in an emergency" would not qualify to be classified within the committed category because the circumstances or conditions that constitute an emergency are not sufficiently detailed, and it is not unlikely that an "emergency" of some nature would routinely occur. For the purpose of classifying these arrangements as committed fund balance, the formal action should be sufficiently detailed and include *what* the funds can be spent on, *how* the funds will be replenished if spent, *when* the funds can be spent, and *why* the funds can be spent (the event that must occur for the funds to be spent).

Statement of Revenues, Expenditures, and Changes in Fund Balances

4.3.3.40 The governmental fund statement of revenues, expenditures, and changes in fund balances reports information about the inflows, outflows, and balances of current financial resources of each major governmental fund and for the nonmajor governmental funds in the aggregate. There is one permitted format for the statement.

Revenues (detailed)	$ _____
Expenditures (detailed)	_____
Excess (deficiency) of revenues over expenditures	_____
Other financing sources and uses, including transfers (detailed)	_____
Special and extraordinary items (detailed)	_____
Net change in fund balances	_____
Fund balances – beginning of period	_____
Fund balances – end of period	$ _____

4.3.3.50 When preparing the governmental statement of revenues, expenditures and changes in fund balances, remember:

- Governmental fund revenues should be classified by major revenue source (taxes, licenses and permits, etc.); expenditures – by function (e.g., general government, public safety, etc.). However, the governments can report additional details on the statement.
- Debt issue costs paid out of either debt proceeds or from existing resources should be reported as expenditures. The face amount of the debt should be reported as other financing sources and debt premiums or discounts should be shown as a separate component of O*ther Financing Sources (Uses).*

- Payments to escrow agents for bond refunding from the proceeds of the refunding (new) debt should be reported separate category in *Other Financing Sources (Uses).*
- Sales of assets (unless they are considered a special item) and transfers should be also shown as separate categories in *Other Financing Sources (Uses).*
- ***Extraordinary*** and ***special items*** should be separated on the bottom of the statement. For more details see BARS Manual *4.2.2, Statement of Net Position*.
- A reconciliation that shows adjustments made between the statement of revenues, expenditures, and changes in fund balances and the government-wide statement of net position, is required on the bottom of the report. See BARS Manual *4.4, Conversion and Reconciliation between the Government-Wide and Fund Financial Statements*.

4.3.3.60 The governments are required to provide a summary reconciliation between total change in governmental fund balances and the change in net position in governmental activities in the statement of net position. The reconciliation may be presented at the bottom of the statement of revenues, expenditures, and changes in fund balances or in an accompanying schedule. (For possible reconciling items, see BARS Manual *4.4, Conversion and Reconciliation between Government-Wide and Fund Financial Statements*.)

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For Year Ended December 31, 20__
(in thousands)

	General Fund	Major Special Revenue Fund	Major Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	$2,500	1,300	900	1,200	5,900
Licenses and Permits	500			500	1,000
Charges for Services	500			500	1,000
Intergovernmental Revenues	600	500		200	1,300
Fines and Penalties	400			300	700
Investment Earnings	200	100	100	100	500
Miscellaneous	300	100		200	600
Total Revenues	$5,000	2,000	1,000	3,000	11,000
EXPENDITURES					
Current:					
General Government	$800			1,500	2,300
Public Safety	600				600
Public Works	500			200	700
Social Services	500				500
Culture and Recreation		1,000			1,000
Economic Development	600			200	800
Transportation	400			150	550
Debt Service:					
Principal	350	250		200	800
Interest and Other Charges	50	50		50	150
Capital Outlay	600	500	900	200	2,200
Total Expenditures	$4,400	1,800	900	2,500	9,600
Excess (Deficiency) of Revenues over Expenditures	$600	200	100	500	1,400
OTHER FINANCING SOURCES (USES)					
Bonds Issued	$1,500			500	2,000
Transfers-In	500	100	50		650
Transfers-Out	(300)			(100)	(400)
Total Other Financing Sources and Uses	$1,700	100	50	400	2,250
Net Change in Fund Balances	$2,300	200	150	900	3,650
Fund Balances-Beginning	$1,700	400	50	800	2,950
Fund Balances-Ending	$4,000	700	200	1,700	6,600

The notes to financial statements are an integral part of this statement.

Footnotes

[1] They are reported only on the government-wide financial statements.
Return to Reference 1

[2] For more details see Conversion and Reconciliation between Government-Wide and Fund Financial Statements.
Return to Reference 2

Proprietary Funds Financial Statements

4 **Reporting**

4.3 **Fund Financial Statements**

4.3.4 **Proprietary Funds Financial Statements**

Quick Links

4.3.4.10 Proprietary funds financial statements
Proprietary Fund Statement of Net Position
Statement of Revenues, Expenses, and Changes in Fund Net Position
Footnotes

4.3.4.10 The following are required fund financial statements for proprietary funds:

- Statement of net position,
- Statement of revenues, expenses, and changes in fund net position, and
- Statement of cash flows (see Statement of Cash Flows).

Proprietary funds are presented using the economic resources measurement focus and the full accrual basis of accounting. They are reported the same way as in the government-wide financial statements. However, internal service funds should be reported as a fund type (aggregated) in a separate column. Major enterprise funds are reported in separate columns and nonmajor enterprise funds are aggregated in a single column. A combined total column for all enterprise funds should be presented. By reporting the internal service funds separately from the proprietary funds, the information in the *Totals* column in these statements flows directly to the *Business-Type Activities* column on the government-wide statement of net position. The interfund eliminations within enterprise funds are not required.

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Proprietary Fund Statement of Net Position

4.3.4.20 Governments have two options for layout:

1. Statement of Net Position
Assets plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position, or

2. Balance Sheet
Assets plus deferred outflows of resources equals liabilities plus deferred inflows of resources plus net position.

4.3.4.30 Assets and liabilities should be presented in a classified format. This requires reporting assets and liabilities as either current or noncurrent. A one-year cut-off is typical when determining if assets are expected to be realized in cash or consumed and liabilities are expected to be paid. Current assets include: cash available from current operations, receivables, inventories, prepaid expenses, and investments, etc. Current liabilities include accounts payable, notes payable, amounts due to other funds, current portion of long-term debt, current portion of compensated absences, claims, and judgments, etc.

4.3.4.40 Any asset that normally would be available for use in operations but which use is restricted by externally enforceable constrains should be reported as ***restricted assets***. Examples: cash held by a trustee in escrow for future debt service payments, assets that are restricted for the acquisition or construction of noncurrent assets, etc. Most of the restricted assets are noncurrent. However, restricted assets that will be used in current operations (e.g., certain grants, etc.) should be reported as current assets. Liabilities payable from restricted assets should be reported separately as current or noncurrent.

4.3.4.50 Governments have two options for presentation:

1. Single column presentation
In this presentation all activities are combined into one column.

2. Multiple column presentation
In this option each activity should be reported separately. All duplicating transactions should be eliminated. The elimination may be presented in a separate column on the face of the financial statements or in the notes. The government must also present a *total* column for all underlying activities.

4.3.4.60 The difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources is called net position. Net position should be reported in three components:

1. Net investment in capital assets
2. Restricted (listed by major restrictions)
3. Unrestricted

For classification of the net position refer to theNet Position.

4.3.4.70 The account titles shown on the statement are for references and are sufficient for most local governments operations. The line items presented are an example and may need to be customized. The accounts listed are deemed to be at the appropriate level of detail for most reporting local governments' activities. Before deleting any lines make sure the local government does not have activity in that area. In some instances additional accounts may be required. Adjust the statement appropriately.

4.3.4.80 If amounts reported for enterprise funds differ **[1]** from those reported on government-wide financial statements in the business-type activities column, the government should present a summary reconciliation on the bottom of the proprietary funds statement of net position.

4.3.4.81 Additional instructions for the ***public entities risk pools*** are provided here.

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Example 1: General governments

Example 1: General Governments

Statement of Net Position
Proprietary Funds
December 31, 20__

	Business-Type Activities Enterprise Funds				Governmental Activities
	Major Enterprise Fund	Major Enterprise Fund	Nonmajor Enterprise Funds	Total	Internal Service Fund(s)
ASSETS					
Current Assets:					
Cash and Cash Equivalents					
Investments					
Account Receivables (Net)					
Taxes Receivable					
Notes/Contract Receivable					
Restricted Assets					
Due from Other Governments					
Inventories					
Prepayments					
Other Current Assets					
Total Current Assets					
Noncurrent Assets:					
Investments					
Investment in Joint Venture(s)					
Restricted Assets					
Capital Assets not Being Depreciated[2]:					
Land					
Construction in Progress					
Capital Assets Being Depreciated:					
Improvements to Land					
Buildings					
Equipment					
Intangible Assets					
Less Accumulated Depreciation					
Total Capital Assets (Net)					
Total Noncurrent Assets					
TOTAL ASSETS					
DEFERRED OUTFLOWS of RESOURCES					
Accumulated Decrease in Fair Value of Hedging Derivatives					
Deferred Loss on Refunding					
Grants Paid in Advance					
TOTAL DEFERRED OUTFLOWS of RESOURCES					

Also see Footnote 2

LIABILITIES					
Current Liabilities:					
Accounts Payable					
Payable from Restricted Assets					
Deposits					
Compensated Absences					
Claims and Judgements					
Bonds, Notes, and Loans Payable					
Other Current Liabilities					
Total Current Liabilities					
Noncurrent Liabilities:					
Compensated Absences					
Payable from Restricted Liabilities					
Claims and Judgements					
Bonds, Notes, and Loans Payable					
Other Noncurrent Liabilities					
Total Noncurrent Liabilities					
TOTAL LIABILITIES					
DEFERRED INFLOWS of RESOURCES					
Accumulated Increase in Fair Value of Hedging Derivatives					
Deferred Service Concession Arrangement Receipts					
Deferred Property Tax					
Advance Payments of Property Tax					
Advance Payments of Special Assessments					
Deferred Gain on Refunding					
Grants Received in Advance					
TOTAL DEFERRED INFLOWS of RESOURCES					
NET POSITION					
Net Investment in Capital Assets					
Restricted for [3]					
Unrestricted					
TOTAL NET POSITION					
Some amounts reported for *business-type activities* in the statement of net position are different because[4]					
Net position of business-type activities					

The notes to financial statements are an integral part of this statement.

Also see Footnote 3 and Footnote 4

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Example 2: Stand-Alone Enterprise Fund

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Statement of Fund Net Position
December 31, 20___

ASSETS		
Current Assets:		
Cash and Cash Equivalents	$	
Investments		
Accounts Receivables (Net)		
Taxes Receivable		
Notes/Contracts Receivable		
Receivables from Third Party Payers (Net)		
Pledges and Other Receivables (Net)		
Restricted Assets		
Inventories		
Prepayments		
Other Current Assets		
TOTAL CURRENT ASSETS		
Noncurrent Assets:		
Investments		
Investment in Joint Venture(s)		
Other Assets		
Restricted Assets		
Capital Assets Not Being Depreciated[5]		
Land		
Construction in Progress		
Capital Assets Being Depreciated:		
Improvements to Land		
Buildings		
Equipment		
Intangible Assets		
Less Accumulated Depreciation	( )	
Total Capital Assets (Net)		
TOTAL NONCURRENT ASSETS		
TOTAL ASSETS	$	
DEFERRED OUTFLOWS OF RESOURCES		
Accumulated Decrease in Fair Value of		
Hedging Derivatives	$	
Deferred Loss on Refunding		
Grants Paid in Advance		
TOTAL DEFERRED OUTFLOWS OF RESOURCES	$	

Also see Footnote 5

	Page 2 o
LIABILITIES	
Current Liabilities:	
Accounts Payable	$
Payable to Third Party Payers	
Payables from Restricted Assets	
Compensated Absences	
Claims and Judgments	
Bonds, Notes and Loans Payable	
Accrued Expenses	
Other Current Liabilities	
TOTAL CURRENT LIABILITIES	
Noncurrent Liabilities:	
Payables from Restricted Assets	
Compensated Absences	
Claims and Judgments	
Bonds, Notes and Loans Payable	
Other Noncurrent Liabilities	
TOTAL NONCURRENT LIABILITIES	
TOTAL LIABILITIES	$
DEFERRED INFLOWS OF RESOURCES	
Accumulated Increase in Fair Value of	
Hedging Derivatives	
Deferred Service Concession Arrangement	
Receipts	
Deferred Property Tax	
Advance Payments of Property Tax	
Advance Payments of Special Assessments	
Deferred Gain on Refunding	
Grants Received in Advance	
TOTAL DEFERRED INFLOWS OF RESOURCES	$
NET POSITION	
Net Investment in Capital Assets	
Restricted for _____ [6]	
Unrestricted	
TOTAL NET POSITION	$

The notes to financial statements are an integral part of this statement.

Also see Footnote 6

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Statement of Revenues, Expenses, and Changes in Fund Net Position

4.3.4.90 There is a specific format for this statement:

Operating revenues (detailed)[7]
Total operating revenues

Operating expenses (detailed)[8]
Total operating expenses

Operating income (loss)

Nonoperating revenues (detailed)
Nonoperating expenses (detailed)

Income before capital contributions, additions to permanent or term endowments, special/extraordinary items and transfers

Capital contributions (grants, developer, and other)
Additions to permanent or term endowments
Special/extraordinary items (detailed)
Transfers

Increase (decrease) in net position
Net position – beginning of period
Net position – end of period

Also see Footnote 7 and Footnote 8

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This is an all-inclusive format. All transactions (including capital contributions) that affect net

position should be included. No amounts may be reported as direct addition to net position. All transactions, including capital contributions **[9]**, additions to permanent funds, equity transactions involving joint ventures have to be reported in the statement of changes.

4.3.4.100 The local governments have two options for presentation:

1. Single column presentation
In this presentation all activities are combined in one column.

2. Multiple column presentation
In this option each activity should be reported separately. All duplicating transactions should be eliminated. The elimination may be presented in a separate column on the face of the financial statements or in the notes. The governments must also present a *total* column for all underlying activities. **[10]** Elimination is also done to minimize the *grossing up* effect on assets (receivables) and liabilities (payables) on the statement of net position.

4.3.4.110 Revenues should be reported by major source. All revenues should be reported net of discounts and allowances (they should be disclosed in parenthesis or in the notes to the financial statements). Uncollectible amounts should not be reported as expense but as adjustments to revenue.

4.3.4.120 Revenues and expenses should distinguish between operating and nonoperating. Governments should establish their own policy for defining operating and nonoperating revenues and expenses and the policy should be disclosed in the notes to the financial statements. Operating revenues and expenses should be directly related to the primary function of the entity. It is the source of revenue not its purpose that defines the revenue as operating in the statement of changes.

4.3.4.130 Although there is not a specific definition for the operating or nonoperating revenues, the following revenues should be considered as nonoperating:

- Operating grants and contributions and grants and contributions that are not restricted to either operating or capital functions.
- Property or other taxes.
- Exchange-like transactions which are restricted for capital or financing purposes.
- Interest and dividends and realized and unrealized gains or losses on investments.
- Interest expense, debt issue expenses, and premium or discount on debt.

4.3.4.140 The government should present a summary reconciliation on the bottom of the statement of changes if the amounts reported for enterprise funds differ from those reported on government-wide financial statements in the business-type activities column. For more details see Conversion and Reconciliation between Government-Wide and Fund Financial Statements.

4.3.4.150 The following forms do not contain provisions for component units. If the government has a component unit as defined by GASB Statement 14 **[11]**, make the appropriate modifications to its statement. The *Manual* discusses the reporting entity and potential component units in GAAP Reporting Requirements and provides examples of financial statements which include component units. For further information, refer to the Manual and GASB Statement 34, paragraph 126.

4.3.4.160 Additional instructions for the ***public entities risk pools*** are provided here.

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Example 1: General Governments

Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
Year Ended December 31, 20__

	Business-Type Activities Enterprise Funds				Governmental Activities
	Major Enterprise Fund	Major Enterprise Fund	Nonmajor Enterprise Fund	Totals	Internal Service Fund(s)
OPERATING REVENUES					
Charges for Services					
Other Operating Revenues					
Total Operating Revenues					
OPERATING EXPENSES					
Depreciation					
Other Operating Expenses					
Total Operating Expenses					
Operating Income (Loss)					
NONOPERATING REVENUES (EXPENSES)					
Interest Income					
Miscellaneous Revenues					
Interest Expense					
Gain/Loss on Sale of Capital Assets					
Total Nonoperating Revenues (Expenses)					
Income (Loss) before Contributions, Transfers and Special Items					
CAPITAL CONTRIBUTIONS					
TRANSFERS-IN					
TRANSFERS-OUT					
SPECIAL ITEMS					
Change in Net Position					
Total Net Position-Beginning					
Total Net Position-Ending					
Some amounts reported for *business-type activities* in the statement of activities are different because[12]					
Change in net position of business-type activities					

The notes to financial statements are an integral part of this statement.

Also see Footnote 12

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Example 2: Stand-Alone Enterprise Fund

MCAG No. ____ _____

Statement of Revenues, Expenses, and Changes in Fund Net Position
For the Year Ended December 31, 20___

OPERATING REVENUES:	
Sales and Service Fees	$
_____	_____
Other Operating Revenue	
Total Operating Revenue	_____
OPERATING EXPENSES:	
_____	_____
_____	_____
Depreciation	
Other Operating Expenses	
Total Operating Expenses	
OPERATING INCOME (LOSS)	$_____

NONOPERATING REVENUES (EXPENSES):	
Operating Assessments	
Tax	
External Operating Subsidies[13]	_____
Investment Income	
Interest Expense and Related Charges	
Equity in Income (Loss) of Joint Ventures/	
Subsidiaries	
Gains (Losses) on Capital Asset Disposition	
Other Nonoperating Revenues	_____
Other Nonoperating Expenses	
Total Nonoperating Revenues (Expenses)	_____
Income before Capital Contributions,	
Contributions to Term and Permanent Endowments	
Extraordinary and Special Items	
Capital Contributions	_____
Contributions to Term and Permanent Endowments	
Extraordinary Item	
Special Item	_____
CHANGE IN NET POSITION	
TOTAL NET POSITION, January 1	$
PRIOR PERIOD ADJUSTMENTS[14]	_____
TOTAL NET POSITION, December 31	$_____

The notes to financial statements are an integral part of this statement.

Also see Footnote 13 and *Footnote 14*

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Footnotes

[1] The difference may be due to the internal service funds, which can be included in the

business-type of activities in the government-wide statement of net position.
Return to Reference 1

[2] When detailed information regarding capital assets is provided in the notes, the government can use here one line for presentation of capital assets. However, if the government has a significant amount of nondepreciable capital assets, they have to be presented separately from depreciable ones on the face of financial statements, regardless of level of details in the notes.
Return to Reference 2

[3] When permanent endowments are included, restricted component of net position should be displayed in two additional components: expendable and nonexpendable.
Return to Reference 3

[4] For more details see Conversion and Reconciliation between Government-Wide and Fund Financial Statements.
Return to Reference 4

[5] When detailed information regarding capital assets is provided in the notes, the government can use here one line for presentation of capital assets. However, if the government has a significant amount of nondepreciable capital assets, they have to be presented separately from depreciable ones on the face of financial statements, regardless of level of details in the notes.
Return to Reference 5

[6] When permanent endowments are included, restricted component of net position should be displayed in two additional components: expendable and nonexpendable.
Return to Reference 6

[7] Examples: power, water sales (PUDs); patient revenue (hospitals); airport, marina, marina terminal charges (ports); passenger or special fares (transits); member assessments/contributions, supplemental assessments, application fees (risk pools); tenants revenues (housing authorities).
Return to Reference 7

[8] Examples: Incurred loss/loss adjustment expenses, claims paid, change in unpaid claims liability, unallocated loss adjustment expenses, excess/reinsurance premiums (risk pools);
Return to Reference 8

[9] Capital contribution include revenues received in the form of contributed capital assets, nonexchange grants and contributions restricted to capital purposes, fees and charges restricted to capital assets acquisition.
Return to Reference 9

[10] This presentation requires additional audit procedures due to the multiple opinion units and it may result in an increased audit time.
Return to Reference 10

[11] As updated by GASB Statement 30, *Determining Whether Certain Organizations are Component Units*.
Return to Reference 11

[12] For more details see Conversion and Reconciliation between Government-Wide and Fund Financial Statements.
Return to Reference 12

[13] If operating grants and subsidies are shown as operating revenues (optional presentation) note disclosure is required in the summary of significant accounting policies.
Return to Reference 13

[14] Note disclosure needs to be given for a prior period adjustment. Direct adjustments to net position should be limited to corrections of errors and changes in accounting principles.
Return to Reference 14

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Internal Service Funds

4 **Reporting**

4.3 **Fund Financial Statements**

4.3.6 **Internal Service Funds**

4.3.6.10 The internal service funds are reported in all of the proprietary fund financial statements in a separate column to the right of the total enterprise funds column. Major fund requirements do not apply to the internal service funds and their information is combined into one column. See BARS Manual 4.3.4, *Proprietary Funds Financial Statements* for reporting requirements and BARS Manual 3.9.6, *Internal Service Funds* for more information about the funds.

The individual internal service funds may be presented as supplementary information.

Reporting the internal service funds in the government-wide financial statements

4.3.6.20 Even though internal service funds are classified as proprietary funds, the nature of the activity accounted for in them is generally governmental and should normally be reported as governmental activities. The exception to this presentation is when the internal service funds serves predominantly **[1]** external parties or enterprise funds. Then they should be reported together with the business-type activities.

There may be cases where internal service funds provide services for both governmental and enterprise funds. In that situation the internal service fund should be consolidated in the same activities column as its predominant customers. The fund should be consolidated entirely within either governmental or business-type activities column (i.e., one fund cannot be allocate between two columns).

4.3.6.30 Before allocating any of the balances, the government needs to consider their materiality. Also, instead of prorating balances to different functions, it may be sufficient to allocate the entire amount to a predominant function. The revenues and expenses associated with services provided to external customers should be excluded from this allocation. The government has to use its professional judgment to determine if the failure to allocate the internal service fund balances would materially affect the government-wide financial statements. The allocations and adjustments do not need to be posted to the general ledger. They are matters of spreadsheet calculations.

4.3.6.40 The internal service fund asset and liability balances that are not eliminated**[2]** should be reported in the governmental activities column (unless the enterprise funds are predominant or only user of its services).

The amounts reported in the internal service funds are added to the net position of the governmental funds and then included in the statement of net position.

4.3.6.50 In the statement of activities the eliminations are necessary to remove the *doubling* effect of internal service fund activities. To accomplish that only the residual balances are reported. Internal revenues (except investment income) and expenses (except interest) should be netted. The difference should be charged back entirely or on pro-rata basis to the funds/functions that used services or acquired goods from that internal service fund (e.g., if the internal service fund reports net income, the entire amount should be charged back to the participating funds and would reduce their expenses related to the services and goods purchased from that fund).

Certain revenues and expenses are not internal and should not be eliminated, especially significant investment income or interest expense. In this case they have to be reported in the related categories in the statement.

Accounting for fiduciary fund activity in internal service funds

4.3.6.60 Guidance provided in the Comprehensive Implementation Guide 2015-1 Question 7.47.20 states internal service funds that provide services to fiduciary funds should be included as internal customers in the calculation to determine the predominant customer. This calculation will help to determine whether the internal service fund activity should be reported in an internal service fund (predominantly services internal customers) or an enterprise fund (predominantly serves external customers). However, the transactions related to the fiduciary fund activity would be reported as an external customer transaction for BARS coding purposes.

Example: *A county has an equipment rental internal service fund. The county acts as the treasurer for the junior taxing districts within their jurisdiction and records these districts' monies in fiduciary funds. If the junior taxing districts use the equipment rental fund the County would include these transactions as internal in their calculation determining the predominant customer. The County would* ***not*** *include the fiduciary funds as internal for coding or reporting purposes.*

Footnotes

[1] The GASB Statement 34 does not define the term *predominantly*. This term will require

professional judgment. The local government should consider whether the fund's primary purpose is to serve government, or whether the fund's primary purpose is to provide, and charge a fee for, goods and services and a government is just a "customer".
Return to Reference 1

[2] Interfund payables and receivables should be eliminated unless the internal service fund is reported in as governmental activities and has transactions with business-type activities (and vice versa).
Return to Reference 2

Fiduciary Funds Financial Statements

4 **Reporting**

4.3 **Fund Financial Statements**

4.3.5 **Fiduciary Funds Financial Statements**

4.3.5.10 The Governmental Accounting Standards Board (GASB) Statement 84, *Fiduciary Activities* requires the following financial statements for fiduciary funds. **[1]**

- Statement of Fiduciary Net Position, and
- Statement of Changes in Fiduciary Net Position.

The fiduciary statements are to be prepared using the economic resources measurement focus and full accrual basis of accounting. **[2]**

Defined benefit pension and Other Post Employment Benefit (OPEB) plans

4.3.5.30 The GASB has issued Statement 67, *Financial Reporting for Pension Plans* and Statement 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* These statements require that local governments administering defined benefit pension and OPEB plans through a qualifying trust report financial information on their plan assets, liabilities, net position and changes in net position using the statement of fiduciary net position, and statement of changes in fiduciary net position. These statements also require specific plan disclosures in the notes to the financial statements and required supplementary information that varies depending upon plan type. The plan note disclosures are discussed in notes to financial statements, and the required schedules are discussed in BARS Manual 4.7, *Required Supplementary Information (RSI)*.

4.3.5.40 Only defined benefit pension and OPEB plans that are administered through qualifying trusts should present the statement of fiduciary net position and the statement of changes in fiduciary net position. A qualifying trust is one that meets all of the following criteria:

- Contributions from employers and nonemployer contributing entities to the plan and earnings on those contributions are irrevocable.
- Plan assets are dedicated to providing benefits to plan members in accordance with the benefit terms.
- Plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the plan administrator, and plan members.

Plans that are not administered through trusts that meet the above criteria should not present either a statement of fiduciary net position or a statement of changes in fiduciary net position. In these cases, any assets accumulated for pension or OPEB purposes are required to be reported as assets of the employer. This means the activity in these funds must be rolled into another relevant fund (most often the general fund) for financial reporting purposes.

4.3.5.50 The reporting goal of the GASB statements is to assure that audited detail of each pension and OPEB plan is available to the public, regardless of whether a plan is administered through a qualifying trust or not. OPEB plan reporting can be accomplished using several methods, they are:

- Prepare a standalone financial report for pension and OPEB plans that are administered through qualifying trusts.

This reporting method requires preparing a standalone financial report containing fiduciary fund statements, notes and RSI. The fiduciary statements in a standalone report require a multi-column presentation when multiple pension and OPEB plans are administered. Detail is required at the

plan level in the statements, notes and RSI.

- Present the pension and OPEB plans financial information within the administrator/employer's financial report. When an audited standalone report is not publicly available, an employer participating in a pension or OPEB plan is responsible for reporting audited plan information. Employer reporting can be satisfied by:

- Contributions from employers and nonemployer contributing entities to the plan and earnings on those contributions are irrevocable.
- Plan assets are dedicated to providing benefits to plan members in accordance with the benefit terms.
- Plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the plan administrator, and plan members.

1. For plans administered through a qualifying trust, report the plans using the Pension and OPEB trust funds column of the fiduciary fund statements. When more than one pension and/or OPEB plan exists, individual plan statements are required to be presented in the notes to the financial statements.

2. For plans that are not administered through a qualifying trust, fiduciary fund statements should not be presented.

3. Regardless of the plan type (qualifying trust or non-qualifying trust), prepare the required note disclosures and RSI for each pension and/or OPEB plan.

- Report detail of pension and OPEB plans in an Annual Comprehensive Financial Report (ACFR).

When multiple pension and/or OPEB plans are administered by an employer through qualifying trusts, the details of financial reporting can be met by presentation of the plans as individual funds in the combining statements of an ACFR. The plan notes and RSI will be presented in the financial statement notes and in the RSI section following the notes.

External investment pools

4.3.5.53 An external investment pool is defined as:
"An arrangement that commingles (pools) the moneys of more than one legally separate entity and invests, on the participants' behalf, in an investment portfolio; one or more of the participants is not part of the sponsor's reporting entity (GASBS 31, paragraph 22)."

Governmental external investment pools are required to be reported in either an investment trust fund or external investment custodial fund that reports transactions and balances using the economic resources measurement focus and the accrual basis of accounting. If a ***separate financial report is issued*** for the pool, the financial statements of the sponsoring government should:

- Disclose how to obtain that report.

If a ***separate report is not issued***, the sponsoring government's financial statements should include, for each pool, the following disclosures:

- The frequency of determining the fair value of investments
- The method used to determine each participant's shares sold and redeemed
- Condensed statements of fiduciary net position and the changes in fiduciary net position
- A brief description of any regulatory oversight for the pool
- Whether the fair value of the position in the pool is the same as the value of pool shares
- If participation is involuntary, this should be disclosed
- Any limitation or restriction on participant withdrawals – such as mandated notice periods, maximum transaction amounts, liquidity fees or redemption gates.

If the pool distributes investment income on an amortized cost basis, the notes must indicate that distributions are made on an amortized cost basis, which differs from a fair value basis, and that the difference between the two methods is reported in the net position section on the statement of fiduciary net position as undistributed and unrealized gains (losses).

The ***condensed statements*** of fiduciary net position and changes in fiduciary net position of the pool should include, in total, the net position held in trust for pool participants, and the ***equity of participants should distinguish between internal and external portions***. If the government sponsors more than one external investment pool, the disclosures are required for each pool separately.

The external portion of investment pools that are not held in a trust or equivalent arrangement that meets the criteria of the GASBS 84 should be reported in a separate *external investment pool fund* column, under ***custodial*** funds classification.

Individual investment accounts

4.3.5.56 An individual investment account is separately managed by a government for legally separate entities which are not component units. Specific investments are acquired for the individual separate entities, and the income from and changes in the value of those investments affect only the separate entity for which they were acquired.

The GASBS 31 requires governments to report as separate investment trust funds the individual investments accounts. All individual investment accounts may be aggregated as a single investment trust fund and be presented as one column.

Private-Purpose Trust Funds

4.3.5.57 Private-purpose trust funds should be used to report all fiduciary activities that (1) are not required to be reported in pension (and other employee benefit) trust funds or investment trust funds ***and*** (2) are held in trust or an equivalent arrangement that meets theGASBS 84 criteria.

Custodial Funds

4.3.5.58 Custodial funds should be used to report fiduciary activities that are***not*** required to be reported in pension (and other employee benefit), investment and private-purpose trust funds. The external portion of investment pools that are not held in a trust or an equivalent arrangement that meets the criteria of the GASBS 84 should be reported in a separate *external investment pool fund* column, under custodial funds classification.

Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 20__

	Pension (and OPEB) Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds	Custodial Funds	External Investment Pool
ASSETS					
Cash and cash equivalents					
Receivables:					
Employee					
Employer					
Taxes for other governments					
Interest and dividends					
.....					
Other receivables					
Total receivables					
Investments, at fair value:					
U.S. Government obligations					
Bonds, notes….					
.....					
Other investments					
Total investments					
Total assets					
DEFERRED OUTFLOWS of RESOURCES					
LIABILITIES					
Accounts payable and other liabilities					
Due to local governments					
.....					
Other long-term liabilities					
Total liabilities					
DEFERRED INFLOWS of RESOURCES					
NET POSITION					
Restricted for: Pensions OPEB Pool participants Individuals, organizations and other governments					
Total net position					

The notes to financial statements are an integral part of this statement.

Statement of Fiduciary Net Position

4.3.5.60 This statement should include information about the assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position for each fiduciary fund type **[3]** and similar discretely presented component units of the government. The governments reporting a pension plan or an OPEB plan in the pension (and OPEB) trust fund should provide level of details for assets, deferred outflows, liabilities, deferred inflows and net position in accordance with GASB Statements 67 and 74.

Statement of Changes in Fiduciary Net Position

4.3.5.70 The statement of changes in fiduciary net position should include information about the additions to, deductions from for each fiduciary fund type **[4]** and similar discretely presented component units. It should provide information about significant year-to-year changes in net position.

The governments reporting a pension plan or an OPEB plan in the pension (and OPEB) trust fund should report changes in plan's fiduciary net position in accordance with GASB Statements 67 and 74.

The statement of changes in fiduciary net position should disaggregate additions by source including, if applicable, separate display of:

a. Investment earnings

b. Investment costs (including investment management fees, custodial fees, and all other significant investment-related costs)

c. Net investment earnings (investment earnings minus investment costs).

Deductions should be disaggregated by type and, if applicable, should separately display administrative costs.

If the resources in custodial funds, upon receipt, are normally expected to be held for three months or less, a government may report a single aggregated total for additions and deductions. The description of the aggregated totals should indicate the nature of the resource flows (e.g., *property tax collected for other governments*, etc.).

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended December 31, 20__

	Pension (and OPEB) Trust Funds	Investment Trust Funds	Private-Purpose Trust Funds	Custodial Funds
ADDITIONS				
Contributions:				
Employer				
Plan members				
Gifts and bequests				
Total contributions				
Investment earnings:				
Net increase (decrease) in fair value of investments				
Interest				
Other				
Total investment earnings				
Less investment costs:				
.....				
Net investment earnings				
Tax collections for other governments				
Miscellaneous				
Total additions				
DEDUCTIONS				
Benefits paid to participants or beneficiaries				
Medical, dental, and life insurance for retirees				
Beneficiary payments to individuals				
Payments of tax to other governments				
Administrative expense				
Total deductions				
Net increase (decrease) in fiduciary net position				
Net position – beginning				
Net Position – ending				

The notes to financial statements are an integral part of this statement.

Footnotes

[1] Component units that are fiduciary in nature should be presented within the fund type columns with the fiduciary funds of the primary government. A separate column for fiduciary component units should not be presented.
Return to Reference 1

[2] There are some exceptions for liabilities of defined benefit pension plan and certain postemployment health care plans. Paragraph 20 of Statement 67 and paragraph 26 of Statement 74 provide guidance on recognition of these liabilities.
Return to Reference 2

[3] The major fund reporting does not apply to fiduciary funds.
Return to Reference 3

[4] The major fund reporting requirements do not apply to fiduciary funds.

Return to Reference 4

Determining Fiduciary Activities to be Reported in Custodial Funds

4 **Reporting**

4.3 **Fund Financial Statements**

4.3.7 **Determining Fiduciary Activities to be Reported in Custodial Funds**

Quick Links

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4.3.7.10 **Purpose**

Due to the generally accepted accounting principles established by the Governmental Accounting Standards Board in GASB Statement 84, *Fiduciary Activities* and Washington State law that requires the Office of the Washington State Audit to prescribe a uniform system of accounting for local governments, fiduciary activities implementation is required by all local governments. The accounting standards for these activities only provide a framework which could lead to incorrect implementation, therefore the Auditor's Office has prescribed certain activities as custodial and therefore should be reported in a Fiduciary Custodial Fund. Additionally, the Auditor's Office has prescribed certain activities that, may appear custodial, but are ultimately not custodial and therefore would be reported in the appropriate governmental or proprietary fund.

Business Type Activities: If the resources are normally held for less than 90 days, then fiduciary reporting is not required for those resources.

4.3.7.20 **Determination questions**

1. Are the assets associated with the activity controlled by the government?

A government is considered to be controlling assets if either:

(a) The government holds the assets. An example of holding assets is when a government receipts money or has the money in the government's bank account.

or

(b) The government has the ability to direct the use, exchange, or employment of the assets in a manner that provides benefits to the specified or intended recipients.

For purposes of this criteria a government uses an asset when it expends or consumes that asset for the benefit of individuals, organization, or other governments, outside of the government's provision of services to them.

Restrictions from legal or other external restraints that stipulate the assets can be used only for a specific purpose do not negate a government's control of the assets. When a government appoints a designee to act on its behalf, the designee is performing the government's fiduciary duties and not assuming them. Thus, appointing a designee to act on its behalf does not alter the government's ability to direct the use, exchange, or employment of the assets.

Examples include:

The government is the treasurer for another government or acting as their bank.

The government is on the bank account.

Any asset the government is holding for another government and the holding government is not using the asset for their own operations.

If "no", this is not a fiduciary custodial activity; if "yes", proceed.

2(a). Are the assets derived solely from the government's own-source revenues?

Own-source revenues are revenues that are generated by a government itself. They include exchange and exchange-like revenues (for example, water and sewer charges for service) and investment earnings. Derived tax revenues (such as leasehold taxes) and imposed nonexchange revenues (such as property taxes) are also included in own-source revenue. Derived tax revenues (such as leasehold taxes) and imposed nonexchange revenues (such as property taxes) are also included.

Examples include:

When a local government leases office space the lease revenue is own-source revenue while the collected leasehold excise tax is not own-source revenue because that portion is imposed by the state under Chapter 82.29A RCW.

When a county or city imposes an impact fee those revenues are generated by that government and are own-source revenue even when those resources are required to be 100 percent remitted to other governments (such as to a school, fire or park district). The county's or city's ability to levy the fee by RCW means this revenue is own-source revenue.

If "yes", this is not a fiduciary custodial activity; if "no", proceed.

2(b). Are the assets associated with the activity from either government-mandated or voluntary nonexchange transactions?

Government-mandated nonexchange transactions, occur when a government provides resources to another government and requires the recipient government to use the resources for a specific purpose (for example, federal programs that state or local governments are mandated to perform or state programs that local governments are mandated to perform).

Example:

Washington State Department of Revenue's requirement that all sales taxbe remitted to the State for allocation and disbursement.

Washington State's mandate on cities and counties to perform concealed permit processing.

Voluntary nonexchange transactions, result from legislative or contractual agreements, other than exchanges, entered into willingly by the parties to the agreement (for example, certain grants and private donations for government programs).

Example:

Administrative Office of the Courts mandated fees collected bycities and counties.

Washington State Department of Licensing functions that counties are contracted to perform.

*Donations to a government for one of its programs would be voluntary nonexchange revenue and the answer would be **"yes"**. However, a donation given to a government for the benefit of a third party would be answered **"no"** (this revenue classification does not apply because the resources are not governmental revenue).*

If "no" (meaning not government-mandated or voluntary exchange transactions), proceed to step (3); if "yes" proceed to 2(c).

GAAP – See BARS Manual 3.6.9 – Revenue Accruals in Governmental Funds for definitions.

2(c). Are the assets from pass-through grants for which the government *does not have* administrative involvement or direct financial involvement?

A government has administrative involvement if it, for example (a) monitors secondary recipients for compliance with program-specific requirement, (b) determines eligible secondary recipients or projects, even if using grantor-established criteria, or (c) has the ability to exercise discretion in how the funds are allocated.

A government has direct financial involvement if it, for example, (a) finances some direct program costs because of grantor-imposed matching requirements, or (b) is liable for disallowed costs.

An example is:

A government does not have administrative involvement when a jail corrections officer approves inmate purchases ordered outside the corrections facility (to help ensure that contraband does not enter the facility). Keeping contraband out of the facility is a general goal of the government and not specific to overseeing the use of those funds.

If "no" (meaning the government has administrative or direct financial involvement), this is not a fiduciary activity; if "yes", proceed.

3. Are *any* one of the following three sets of criteria true? (all parts of the individual set must be met)

3(a). The assets are:

(a) administered through a trust in which the government itself is not a beneficiary,

(b) dedicated to providing benefits to recipients in accordance with the benefit terms, and

(c) legally protected from the creditors of the government.

If this set of criteria is true the assets should be reported in a fiduciary trust fund.

or

3(b). The assets are:

(a) for the benefit of individuals and

(b) the government does not have administrative involvement with the assets or direct financial involvement with the assets.

(c) In addition, the assets are not derived from the government's provision of goods and services to those individuals.

Provision of goods and services examples:

The government sells maps, umbrellas, utilities (water/sewer), etc.

The government provides services such as finger printing, background checks, etc.

Examples of when this set of criteria is true is inmate accounts for commissary purchases and patient accounts in certain medical facilities.

or

3(c). The assets are:

(a) for the benefit of organizations or other governments that are not part of the financial reporting entity and

(b) not derived from the government's provision of goods or services to those organization or

other governments.

Examples include:

In evaluating each component of a transaction — collected leasehold excise tax is fiduciary because those specific dollars are for the benefit of the state and the tax is not derived from the collecting governments provision of goods or service to the state (the provision of services is to a third party).

When a government has a component unit that is considered part of the financial reporting entity, the component unit would not be reported in the fiduciary funds. The exception would be if the government was the acting fiscal agent, then the government would report the component unit in its custodial funds.

If "yes" to any one of the three sets of criteria, fiduciary reporting is applicable and activities should be reported in the custodial funds; if "no", this is not a fiduciary activity.

4.3.7.30 **Prescribed custodial transactions**

Below is a list of prescribed custodial fund activities, including the responses to the custodial criteria questions.

Leasehold tax and other state mandated taxes

Step 1 – Are the assets associated with the activity controlled by the government?

Yes, the collecting government receives the tax and is holding the monies in their bank account until the monies are remitted to the State.

Step 2(a) – Are the assets derived solely from the government's own-source revenues?

No, these taxes are levied by the State through RCWs therefore they are not solely from the reporting government’s own-source revenue.

Step 2(b) – Are the assets associated with the activity from either government-mandated or voluntary nonexchange transactions?

Yes, these monies are from derived government-mandated tax revenue.

Step 2(c) – Are the assets from pass-through grants for which the government does not have administrative involvement or direct financial involvement?

No, these monies are not from a grant and the reporting government does not have administrative or direct financial involvement.

Step 3(a) – Are the assets held in a trust or equivalent arrangement and the government itself is not a beneficiary?

No, these monies are not in a trust.

Step 3(b) – Are the assets for the benefit of individuals and the government does not have administrative involvement or direct financial involvement?

No, these monies are not for the benefit of individuals.

Step 3(c) – Are the assets for the benefit of organizations or other governments that are not part of the financial reporting entity? Are assets held for organizations or other governments not derived from the collecting government’s provision of goods or services to those organizations or other governments?

Yes, these monies are for the benefit of the State and the State is not part of the collecting government’s financial reporting entity. Yes, the collecting government did not provide a good or service to the State.

Conclusion: Leasehold tax and other state mandated taxes are fiduciary activities and should be reported in the custodial funds.

Department of Licensing accounts (counties only)

Step 1 – Does the government control the asset?

Yes, the collecting government’s name and tax identification number are on the bank account.

Step 2(a) – Are the assets derived solely from the government's own-source revenue?

No, the State amounts are collected in addition to the local government's revenues and are mandated by state law.

Step 2(b) – Are the assets derived from government-mandated or voluntary nonexchange transactions?

No, these monies are not from a government-mandated or nonexchange transaction.

Step 2(c) – Are the assets derived from a pass-through grant for which the government has administrative involvement or direct financial involvement?

No, these monies are not from a grant and the collecting government does not have administrative or direct financial involvement.

Step 3(a) – Are the assets held in a trust or equivalent arrangement and the government itself is not a beneficiary?

No, these monies are not in a trust.

Step 3(b) – Are the assets for the benefit of individuals and the government does not have administrative involvement or direct financial involvement?

No, these monies are not for the benefit of individuals.

Step 3(c) – Are the assets for the benefit of organizations or other governments that are not part of the financial reporting entity? Are assets held for organizations or other governments not derived from the collecting government's provision of goods or services to those organizations or other governments?

Yes, these monies are for the benefit of the State and the State is not part of the collecting government's financial reporting entity. Yes, the collecting government did not provide a good or service to the State Department of Licensing.

Conclusion: The portion of the licensing fees that are the State's portion are fiduciary activities and should be reported in the custodial funds. The collecting government's portion of these fees are the government's own-source revenue and should be reported in the reporting government's governmental or proprietary funds.

Permits and certificates fees (concealed pistol permits, birth certificates, etc.)

Step 1 – Does the government control the asset?

Yes, the collecting government receives the fees and is holding the monies in their bank account until the monies are remitted to the State.

Step 2(a) – Are the assets derived solely from the government's own-source revenue?

No, the State amounts are collected in addition to the local government's revenues and are mandated by state law.

Step 2(b) – Are the assets derived from government-mandated or voluntary nonexchange transactions?

No, these monies are not derived from a government-mandated or nonexchange transaction.

Step 2(c) – Are the assets derived from a pass-through grant for which the government has administrative involvement or direct financial involvement?

No, these monies are not from a grant and the reporting government does not have administrative or direct financial involvement.

Step 3(a) – Are the assets held in a trust or equivalent arrangement and the government itself is not a beneficiary?

No, these monies are not in a trust.

Step 3(b) – Are the assets for the benefit of individuals and the government does not have administrative involvement or direct financial involvement?

No, these monies are not for the benefit of individuals. While the citizen is receiving a

certificate/permit from the city or county the citizen is not receiving a good or service from the government imposing the fee and issuing the permits and/or certificates (the State).

Step 3(c) – Are the assets for the benefit of organizations or other governments that are not part of the financial reporting entity? Are assets held for organizations or other governments not derived from the collecting government's provision of goods or services to those organizations or other governments?

Yes, these monies are for the benefit of the State and the State is not part of the collecting government's financial reporting entity. Yes, the collecting government did not provide a good or service to the State.

Conclusion: The portion of the permit/certificate fees that are the State's portion are fiduciary activities and should be reported in the custodial funds. The collecting government's portion of these fees are for the direct benefit of the collecting government and should be reported in the collecting government's governmental or proprietary funds.

Flexible Savings Accounts and Health Savings Accounts (Government holds the monies for an administrator and reimburses based on administrator determination).

Step 1 – Does the government control the asset?

Yes, the collecting government is holding the monies for an administrator.

Step 2(a) – Are the assets derived solely from the government's own-source revenue?

No, these deposits are from the employee's revenues and not the government's directly.

Step 2(b) – Are the assets derived from government-mandated or voluntary nonexchange transactions?

No, these monies are not government-mandated or voluntary nonexchange transaction.

Step 2(c) – Are the assets derived from a pass-through grant for which the government has administrative involvement or direct financial involvement?

No, these monies are not from a grant and the reporting government does not have administrative or direct financial involvement.

Step 3(a) – Are the assets held in a trust or equivalent arrangement and the government itself is not a beneficiary?

No, these monies are not in a trust.

Step 3(b) – Are the assets for the benefit of individuals and the government does not have administrative involvement or direct financial involvement?

Yes, these monies are for the benefit of employees under the IRS requirements.

Step 3(c) – Are the assets for the benefit of organizations or other governments that are not part of the financial reporting entity?

No, the administrator and the government have a contract that requires the government to collect the monies for the employees and reimburse for approved expenses.

Conclusion: Flexible Savings Accounts and Health Savings Accounts where the reporting government is holding the monies for the administrator of the plan and reimburses the employees based on direction from the administrator of the plan are fiduciary funds.

4.3.7.40 **Prescribed non-custodial activities**

Impact fees (cities & counties only)

Step 1 – Does the government control the asset?

Yes, the collecting government receives the fees and is holding the monies in their bank account until the monies are remitted to the school, fire, or park district.

Step 2(a) – Are the assets derived solely from the government's own-source revenue?

Yes, these fees can only be levied by the collecting government per state law (RCW 82.02.050.110 and WAC 365-196-850).

Conclusion: Not a fiduciary activity. Under state law, only cities and counties can authorize and levy impact fees for school, fire, or park districts. Since the city or county is levying the impact fees these monies would be own-source revenue and reported in the governmental funds of the city or county.

Retainage and refundable deposits

Step 1 – Does the government control the asset?

Yes, the collecting government receives the fees and is holding the monies in their bank account until the contracting party meets their obligations.

Step 2(a) – Are the assets derived solely from the government's own-source revenue?

Yes, although these deposits could be revenues for the collecting government, as revenue recognition is dependent on the contracting party meeting certain criteria in order for the collecting government to remit the retainage and/or deposit to the contracting party.

Conclusion: Not a fiduciary activity, since these monies are derived from the government's own-source revenue. Therefore the retainage and refundable deposits should be reported in the government's governmental or proprietary funds.

Payroll clearing accounts

Step 1 – Does the government control the asset?

Yes, the collecting government receives the fees and is holding the monies in their bank account until remittance to the mandating government (federal and/or state).

Step 2(a) – Are the assets derived solely from the government's own-source revenue?

No, these deposits are from the employee's revenues and not the government's directly.

Step 2(b) – Are the assets derived from government-mandated or voluntary nonexchange transactions?

No, these monies are not government-mandated or voluntary nonexchange transaction.

Step 2(c) – Are the assets derived from a pass-through grant for which the government has administrative involvement or direct financial involvement?

No, these monies are not from a grant and the reporting government does not have administrative or direct financial involvement.

Step 3(a) – Are the assets held in a trust or equivalent arrangement and the government itself is not a beneficiary?

No, these monies are not in a trust.

Step 3(b) – Are the assets for the benefit of individuals and the government does not have administrative involvement or direct financial involvement?

No, these monies are not for the direct benefit of individuals. While the employee benefits from the employing government withholding and paying the employee's portion of taxes and other payroll items, the employee's government is obligated by law to withhold and pay the appropriate employee related payroll withholdings.

Step 3(c) – Are the assets for the benefit of organizations or other governments that are not part of the financial reporting entity?

No, the mandating authority (federal and/or state government) requires the employing government to collect and remit these monies and has the legal authority to enforce the liability on the employing government.

Conclusion: Not a fiduciary activity, since these monies are for the benefit of the collecting government and therefore these items should be reported on the financial statements of the collecting government.

Flexible Savings Accounts and Health Savings Accounts (Government holds the monies for an administrator and makes reimbursement decisions).

Step 1 – Does the government control the asset?

Yes, the collecting government is holding the monies for an administrator.

Step 2(a) – Are the assets derived solely from the government's own-source revenue?

No, these deposits are from the employee's revenues and not the government's directly.

Step 2(b) – Are the assets derived from government-mandated or voluntary nonexchange transactions?

No, these monies are not government-mandated or voluntary nonexchange transaction.

Step 2(c) – Are the assets derived from a pass-through grant for which the government has administrative involvement or direct financial involvement?

No, these monies are not from a grant and the reporting government does not have administrative or direct financial involvement.

Step 3(a) – Are the assets held in a trust or equivalent arrangement and the government itself is not a beneficiary?

No, these monies are not in a trust.

Step 3(b) – Are the assets for the benefit of individuals and the government does not have administrative involvement or direct financial involvement?

No, while these monies are for the benefit of employees under the IRS requirements since the government is making reimbursement decisions there is administrative involvement.

Step 3(c) – Are the assets for the benefit of organizations or other governments that are not part of the financial reporting entity?

No, the administrator and the government have a contract that requires the government to collect the monies for the employees and reimburse for approved expenses.

Conclusion: Not a fiduciary activity, since these monies are under the administrative control of the government.

4.3.7.50 **Court accounting**

Cities and counties with their own court

1. Administrative Office of the Courts (AOC) mandated fees (BARS Codes 386/586)

Step 1 – Does the government control the asset?

Yes, the government is collecting the fines and fees and holding the monies in their bank account until remitting the monies to the State.

Step 2(a) – Are the assets derived solely from the government's own-source revenue?

No, the AOC/state amounts are collected in addition to the local government's revenue.

Step 2(b) – Are the assets derived from government-mandated or voluntary nonexchange transactions?

No, these monies are not a government-mandated or nonexchange transaction.

Step 2(c) – Are the assets derived from a pass-through grant for which the government has administrative involvement or direct financial involvement?

No, these monies are not from a grant and the reporting government does not have administrative or direct financial involvement.

Step 3(a) – Are the assets held in a trust or equivalent arrangement and the government itself is not a beneficiary?

No, these monies are not held in a qualifying trust.

Step 3(b) – Are the assets for the benefit of individuals and the government does not have administrative involvement or direct financial involvement?

No, these monies are not for the benefit of individuals.

Step 3(c) – Are the assets for the benefit of organizations or other governments that are not part of the financial reporting entity? Are assets held for organizations or other governments not derived from the collecting government's provision of goods or services to those organizations or other governments?

Yes, these monies are for the benefit of the state and the state is not part of the collecting government's financial reporting entity. Yes, these funds are for the state and the local government's court is not providing a direct service to the state.

Conclusion: AOC fees are fiduciary activities and should be reported in the custodial funds.

2. Local government revenue fines and fees BARS Codes

Step 1 – Does the government control the asset?

Yes, the government is collecting the fines and fees and holding the monies in their bank account.

Step 2(a) – Are the assets derived solely from the government's own-source revenue?

Yes, as an example, the city's police department or the county's sheriff department issued the tickets during the performance of their public safety function and the revenue is generated by the city/county for their own use.

Conclusion: Not a fiduciary activity, the local government's fines and fees are the government's own revenue.

3. State distributions to local government

Step 1 – Does the government control the asset?

No, the State controls the money and distributes the money.

Conclusion: Not a fiduciary activity, the monies are not reported by the city/county until the money is received by the city/county from the state and would be considered own-source revenue upon receipt.

Cities and counties that contract for court

1. Administrative Office of the Courts (AOC) mandated fees (BARS Codes 386/586)

Step 1 – Does the government control the asset?

Cities and counties that contract out for court services generally do not remit monies to the Administrative Office of the Courts (AOC). The court providing the service to the city/county generally remits the AOC monies for the contracting city/county. The city/county contracting for court services would therefore not report AOC fines and fees in their custodial funds.

2. Local government revenue fines and fees BARS Codes

Step 1 – Does the government control the asset?

No, the city or county does not control the asset, since the court the city contracted with holds the asset in their bank account.

Conclusion – Not a fiduciary activity, the monies are not the city/county until remitted from the court provided to the city/county.

3. Payment for court services

Step 1 – Does the government control the asset?

No, there is no asset. This is an expense for the city or county receiving the court services.

Conclusion: Not a fiduciary activity, this is a direct expense for the city/county receiving the court services and should be coded to BARS code 512.50.PP.

GAAP – providing court services

1. Administrative Office of the Court (AOC) mandated fees (386/586) – Please see above section.

2. Court provider's collection/remittance of the fines and fees for the city/county receiving the court service

Step 1 – Does the government control the asset?

Yes, the court provider is collecting the fines and fees and holding the monies in their bank account.

Step 2(a) – Are the assets derived solely from the government's own-source revenue?

No, these fines and fees are levied/ticketed by another government.

Step 2(b) – Are the assets derived from government-mandated or voluntary nonexchange transactions?

No, these monies are not a government-mandated or nonexchange transaction.

Step 2(c) – Are the assets derived from a pass-through grant for which the government has administrative involvement or direct financial involvement?

No, these monies are not from a grant and the collecting government does not have administrative or direct financial involvement.

Step 3(a) – Are the assets held in a trust or equivalent arrangement and the government itself is not a beneficiary?

No, these monies are not held in a qualifying trust.

Step 3(b) – Are the assets for the benefit of individuals and the government does not have administrative involvement or direct financial involvement?

No, these monies are not for the benefit of individuals.

Step 3(c) – Are the assets for the benefit of organizations or other governments that are not part of the financial reporting entity? Are assets held for organizations or other governments not derived from the collecting government's provision of goods or services to those organizations or other governments?

Yes, these monies are for the benefit of the city or county and the city or county is not part of the collecting government's financial reporting entity. No, the collecting government is providing a service (court) for a fee to another government.

Conclusion: Not a fiduciary activity, the fines and fees are collected by the court provider in which they are providing a service to the local government for a fee and would be reported in the collecting government's financial reports under Restricted Cash and Due to Other Governments liability accounts.

3. Revenue for court services

Step 1 – Does the government control the asset?

Yes, the government is collecting the fee holding the monies in their bank account.

Step 2 – Are the assets derived solely from the government's own-source revenue?

Yes, this is the court provider's revenue for performing the court service for a fee.

Conclusion: Not a fiduciary activity, the revenues are the court providers own revenue and should be coded to BARS Code 341.49.00.

Risk Pools – Statement of Net Position – Additional Reporting Instructions

4 **Reporting**

4.3 **Fund Financial Statements**

4.3.4 **Proprietary Funds Financial Statements**

4.3.4.81 **Risk Pools – Statement of Net Position – Additional Reporting Instructions**

All risk pools are required to report using the enterprise fund model. The following financial reporting guidance is specifically designed for pools where there is transference of risk from the participant to the pool. Pools acting solely in banking and/or claims servicing agent capacity will

not use the accounting described in the following pages. They do not have a transfer of risk and should report claims-servicing revenue and administrative costs. Amounts collected or due from participants, and amounts paid or to be paid for settling claims, should be reported simply as a component of net position or liability.

Reporting requirements for account balances on the Statement of Net Position:

Receivables for Member Contributions/Assessments– Receivables should only be recognized when formally assessed by the governing body or a legally enforceable claim exists, based on the terms of membership agreement. Legal authority in a statute alone does not give sufficient cause to report a receivable.

Equity in Joint Venture – Joint Self-Insurance – If a risk pool has a measurable equity interest in a joint venture (example: Government Entity Mutual, Inc.) it must report its equity interest as an asset. This is a joint venture and should follow equity interest accounting.

Claims Reserve Liabilities (IBNR, Open Claims and ULAE)– The largest liabilities for most risk pools are claims reserve liabilities for IBNR, open claims and unallocated loss adjustment expenses. These liabilities should be reported net of anticipated recoveries (i.e. salvage or subrogation).

IBNR (Incurred But Not Reported) – This is the estimated liability for claim-generating events that have transpired but have not yet been reported to the risk pool. This includes an estimate for known loss events that are expected to be presented as claims, unknown loss events that have not yet been presented as claims and future development of existing claims. This amount is usually estimated by an actuary.

Open Claims – This is the liability representing the costs for settling all known claims as of the statement of net position balance sheet date.

ULAE (Unallocated Loss Adjustment Expense) – This liability is an estimate of overhead costs that cannot be allocated to specific claims. This amount is usually estimated by an actuary; however, a risk pool may internally estimate this based on actual or historical costs. Costs associated with claims or risks that have been transferred to the member and are no longer retained by the pool should not be reported.

Claims reserve liabilities for IBNR, open claims and ULAE liabilities should each be reported as separate lines on the Statement of Net Position or Balance Sheet. In addition, the current and non-current portions should be reported for each. The current portion can be estimated internally, using historical information or other methods. Any method used needs to be reasonable and used consistently.

Unearned Member Contributions/Assessments – Payments or receivables for future periods that have not met revenue recognition criteria. Revenue should be recognized over the period of insurance coverage.

Conversion and Reconciliation between Government-Wide and Fund Financial Statements

4 **Reporting**

4.4 **Conversion and Reconciliation between Government-Wide and Fund Financial Statements**

4.4.10 The first step in preparing the government-wide financial statements is to convert the data in the governmental fund financial statements. This data is presented using the modified accrual basis and adjustments are necessary to transition it to the statements which are on the full accrual basis.

None of the conversions should be performed for individual funds. They should be converted at the total governmental fund summary level. It is also not necessary to convert day to day accounting records.

None of the adjustments should be applied to immaterial items.

Conversion from the governmental funds Balance Sheet to the government-wide Statement of Net Position

4.4.20 The following table describes the assets and liabilities that need to be converted to the full accrual basis for the government-wide Statement of Net Position. Also, the table lists possible

adjustments to reconcile fund balances in governmental funds to the net position in governmental activities in the Statement of Net Position.

Assets and Liabilities	Conversion	Reconciliation
		Start: **Fund Balances - Governmental Funds**
Capital assets of general government	Report capital assets, net of accumulated depreciation/amortization	***Add:*** carrying value of capital assets
Deferred outflow for issuance costs (insurance)	Report unamortized balances of deferred outflow for debt issuance costs (insurance)	***Add:*** unamortized balances of deferred outflow for debt issuance costs (insurance)
Inventories and prepaid items	Report outstanding inventories and unamortized portions of prepaid items	***Add:*** outstanding inventories and unamortized portions of prepaid items
Unmatured long-term debt net of unamortized premiums, discounts, and similar items	Report unmatured long-term debt net of unamortized premiums, discounts, and similar items	***Less:*** net unmatured long-term debt
Accrued interest	Report liability for accrued interest payable	***Less:*** accrued interest payable
Accrued obligations not normally recorded in governmental funds (e.g., compensated absences, claims and judgements, operating leases with scheduled rent increases, special termination benefits, government's net pension obligations as an employer, landfill closure and postclosure care costs, etc.)	Report accrued liabilities outstanding	***Less:*** accrued liabilities not reported in governmental funds
Assets of internal service funds that primarily serve governmental funds	Report assets of internal service funds	***Add:*** assets of internal service funds that primarily serve governmental funds
Liabilities of internal service funds that primarily serve governmental funds	Report liabilities of internal service funds	***Less:*** liabilities of internal service funds that primarily serve governmental funds

Assets and Liabilities	Conversion	Reconciliation
		Start: **Fund Balances - Governmental Funds**
Deferred inflows for unavailable revenue	Remove deferred inflow unavailable revenue	***Add:*** unavailable revenue
		End**: Net Position - Governmental Activities**

Conversion from the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances to the government-wide Statement of Activities

4.4.30 The following table lists adjustments needed to convert the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the government-wide Statement of Activities. Also, the table lists possible reconciliation items.

Transaction/Event	Conversion	Reconciliation
		Start: **Net Change in Fund Balances - Governmental Funds**
Capital outlays	Remove capitalizable expenditures incurred for the acquisition or construction of capital assets	***Add:*** capitalizable expenditures incurred for the acquisition or construction of capital assets
Debt service principal payments and refunding payments	Remove expenditures and other financing uses for debt service principal and refunding payments	***Add:*** expenditures and other financing uses for debt service principal and refunding payments
		Less: other financing sources for debt and related premiums
Other financing sources, uses, and expenditures resulting from debt issuance	Remove other financing sources, uses, and expenditures resulting from debt issuance	***Less:*** excess of carrying value of refunded debt over reacquisition cost of refunded debt
		Add: other financing uses for discounts
		Add: expenditures for issuance costs
		Add: excess of reacquisition cost of refunded debt over carrying value of refunded debt
Donations of capital assets	Record donations of capital assets	***Add:*** donations of capital assets

Sales of capital assets	Replace amount of proceeds by gain or loss on transaction	***Less:*** sale proceeds minus gain and sale proceeds plus loss
Sales of fund assets (foreclosure assets held for resale)	Reclassify revenues and expenditures (or reduction of revenue) related to fund asset sales as gains or losses	***No effect***
Revenues and expenditures related to prior periods	Remove revenues and expenditures related to prior periods	***Less:*** revenues related to prior periods ***Add:*** expenditures related to prior periods
Revenues earned during the period but not yet available	Record revenues earned during the period but not yet available	***Add:*** revenues earned during the period but not yet available
Expenses incurred during the period but not normally expected to be liquidated with expendable available financial resources (unless they are due for payment in the current period)	Record expenses incurred during the period related to liabilities that are still outstanding at year-end that are normally expected to be liquidated with expendable available financial resources unless they are due for payment in the current period	***Less:*** expenses incurred during the period related to liabilities that are still outstanding and not yet due at year-end for: accrued interest, compensated absences, claims and judgements, special termination benefits, landfill closure and postclosure care costs, operating leases with scheduled rent increases, net pension obligation
Depreciation	Record depreciation expense	***Less:*** depreciation expense
Amortization of issuance costs, premiums, discounts, and similar items	Adjust revenues and expenses for amortization	***Less:*** amortization of issuance costs and discounts (and net refunding difference if a debit) ***Add amortization if premiums (and net refunding difference if a credit)***
Consumption of inventories and amortization of prepaids	Record expense for inventories consumed during the period and for amortization of prepaids [1]	***Less:*** inventories consumed during the period and amortization of
Activities of internal service funds properly included within governmental activities	Record internal service fund revenues and expenses not subject to consolidation	***Add:*** net profit ***Less:*** net loss
		End: Change in Net Position-Governmental Activities

Reconciliation to the government-wide financial statements

4.4.40 Differences in the classification, as well as differences in the measurement focus and basis of accounting cause the amounts reported in the governmental activities in government-wide financial statements and governmental funds financial statements to differ significantly. To explain this discrepancy, a government is required to provide a summary reconciliation between those statements. The reconciliation can be presented on the face of the governmental funds balance sheet and the statement of revenues, expenditures, and changes in the fund balances or as accompanying schedule (a page immediately following the statements).

4.4.50 If the aggregated information in the summary reconciliation obscures the nature of the individual elements of a particular reconciling item, a government should present a more detailed explanation in the notes to the financial statements.

4.4.60 The summary reconciliation of the difference between the governmental funds balance sheet and the government-wide statement of net position should address separately at least the following items:

1. Reporting capital assets at historical cost and depreciating them instead of reporting capital acquisition as expenditure when incurred.
2. Adding general long-term liabilities not due and payable in the current period.
3. Reducing unearned revenue for those amounts that were not available to pay current-period expenditures.
4. Adding internal service fund net position balances.

4.4.70 The summary reconciliation of the difference between the governmental funds Statement of Revenues, Expenditures and Changes in the Fund Balances and the government-wide Statement of Activities should address separately at least the following items:

1. Reporting revenues on full accrual basis.
2. Reporting annual depreciation expenses instead of expenditures for capital outlays.
3. Reporting long-term debt proceeds in the Statement of Net Position as liabilities instead of other financing sources; also reporting debt principal payments in the Statement of Net Position as reduction of liabilities instead of expenditures.
4. Reporting other expenses on the full accrual basis.
5. Adding the net revenues (expense) of internal service funds.

4.4.80 There may be a difference between total enterprise funds and business-type activities, in that case, governments have to reconcile the enterprise funds financial statement with the business-type activities column on the government-wide financial statements.

Footnotes

[1] Not applicable if a government uses consumption method.
Return to Reference 1

Statement of Cash Flows

4 **Reporting**

4.5 **Statement of Cash Flows**

4.5.10 The government must present a statement of cash flows for proprietary funds. The only acceptable method of presentation is the direct method. In using the direct method, a reconciliation of operating cash flows to operating income is required.

4.5.20 GAAP requires cash flow activity from blended component units to be presented on the statement of cash flows; however, the statement should not contain cash flow activity from discretely presented component units.

4.5.30 The statement of cash flows reports the flow of cash in four activities:

- Cash Flows from Operating Activities
- Cash Flows from Noncapital Financing Activities
- Cash Flows from Capital and Related Financing Activities
- Cash Flows from Investing Activities

Cash Flows from Operating Activities

4.5.40 In reporting cash flows from operating activities, governments should report major classes of gross cash receipts and gross cash payments and their sum – the net cash flow from operating activities. Cash flows from operations include all cash related to transactions and events reported as components of operating income in the statement of revenues, expenses, and changes in fund net position. In addition, the operating activities category is used for any cash inflow or outflow that cannot properly be classified in one of the other three categories. Governments should, at a minimum, report separately these classes of operating cash receipts and payments:

- Cash receipts from customers
- Cash receipts from interfund services provided
- Other operating cash receipts (if any)
- Cash payments to employees for services

- Cash payments to other suppliers of goods or services
- Cash payments for interfund services used, including payments in lieu of taxes that are payments for, and reasonably equivalent in value to, services provided
- Other operating cash payments (if any)

4.5.50 The cash flows for cash receipts from customers, cash paid to employees and suppliers (item a, d and e above) may be difficult to determine, so the governments may indirectly calculate these amounts. (See the worksheet at the end of this section.)

4.5.60 Further detail of operating cash receipts and payments should be provided if the detail is useful. Interest receipts usually do not qualify to be a part of cash flows from operating activities. Exceptions to this rule are loans that:

1. Fulfill government social programs rather than for income or profit; and
2. Directly benefit individual constituents of government.

4.5.70 Program loans typically refer to loans that meet both of these exceptions. The collection of principal payments related to program loans is reported as a cash inflow in this section.

Cash Flows from Noncapital Financing Activities

4.5.80 This portion of the cash flows statement includes:

- Borrowing and repayments (principal and interest) of debt that is not clearly attributable to capital purposes. Capital purposes include capital acquisition, construction, or improvement, including capital lease repayments.
- Borrowings to finance program loans.
- Grant proceeds not specifically restricted to capital purposes.
- Grant payments (both capital and otherwise) to other governments.
- Transfers to and from other funds (except when a transfer is received for capital purposes).
- Tax receipts not attributable to capital purposes.
- Interest paid on noncapital-related vendor payables.

Cash Flows from Capital and Related Financing Activities

4.5.90 This portion of the cash flows statement includes:

- Borrowing and repayment (principal and interest) of debt clearly attributable to capital purposes.
- Proceeds of capital grants and contributions.
- Transfers from other funds for capital purposes.
- Payments related to the acquisition, construction, or improvement of capital assets.
- Sale or involuntary conversion of capital assets (such as insurance proceeds resulting from the loss of a capital asset).
- Capital-type special assessments.
- Tap fees in excess of the actual cost of connection (if they are to be used for capital purposes).
- Taxes levied specifically for capital purposes or related debt service.

Cash Flows from Investing Activities

4.5.110 This portion of the cash flows statement includes:

- Receipt of interest (except on certain program loans).
- Loan collections (except for certain program loans).
- Proceeds from the sale of investments.
- Receipt of interest on customer deposits.
- Changes in the fair value of investments subject to fair value reporting and classified as cash equivalents.
- Cash outflows in the investing activities category include:
- Loans made to others (except for program loans).
- Purchase of investments.

Reconciliation

4.5.120 Governments are required to provide a reconciliation of the difference between cash flows from operating activities and operating income. This reconciliation should be presented either within the statement of cash flows or as an accompanying schedule to the statement.

Noncash investing, capital, or financing transactions

4.5.130 The statement of cash flows is limited to actual inflows and outflow of cash (and cash equivalents). Therefore, financial statement users still need information on certain noncash activities that otherwise would fail to be reported either in the statement of revenues, expenses, and changes in fund net position or in the statement of cash flows. Specifically, information is needed regarding noncash transactions that meet two criteria:

1. The transaction affects recognized assets or liabilities, and
2. The transaction would not properly have been classified as cash flows from operating activities.

This information can be presented either in a narrative or tabular format on a separate schedule accompanying the statement of cash flows.

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 20___

	Business-Type Activities			Governmental Activities
	Major Enterprise Fund	Nonmajor Enterprise Funds	Totals	Internal Service Funds
CASH FLOWS from OPERATING ACTIVITIES				
Receipts from customers	①			
Payments to suppliers	②			
Payments to employees	③			
Internal activity – payments to other funds	⑤			
Claims paid to outsiders	⑤			
Other receipts				
Other payments				
Net cash provided (used) by operating activities	④			
CASH FLOWS from NONCAPITAL FINANCING ACTIVITIES				
Operating subsidies and transfers to other funds				
Net cash provided (used) by noncapital financing activities				
CASH FLOWS from CAPITAL and RELATED FINANCING ACTIVITIES				
Proceeds from capital debt				
Capital contributions				
Purchases of capital assets				
Principal paid on capital debt				
Interest paid on capital debt				
Other receipts (payments)				
Net cash provided (used) by capital and related financing activities				
CASH FLOWS from INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments				
Interest and dividends				
Net cash provided by investing activities				
Net Increase (decrease) in cash and cash equivalents				
Balances - beginning of the year				
Balances - end of the year				

Cash Flow Worksheet

This worksheet is not mandatory, but it may help the government to prepare the statement of cash flows.

		Business-Type Activities	
Cash received from customers:			
	Operating Revenues		
Add:	Customer Receivables – Beginning		
Less:	Customer Receivables – Ending		
Less:	Increase in Bad Debt		
	Net Cash Received from Customers	①	See Statement of Cash Flows
Cash paid to suppliers:			
	Supplies and Materials		
Add:	Repairs and Maintenance		
Add:	Utilities		
Add:	Other Operating Expenses		
Sub total	Total Expenses Requiring Cash		
Add:	Accounts Payable – Beginning		
Less:	Accounts Payable – Ending		
	Net Cash Paid to Suppliers	②	See Statement of Cash Flows
Cash paid to employees:			
	Salaries and Benefits		
Add:	Salaries and Benefits Payable – Beginning		
Less:	Salaries and Benefits Payable – Ending		
Add:	Compensated Absences Payable – Beginning		
Less:	Compensated Absences Payable – Ending		
	Net Cash Paid to Employees	③	See Statement of Cash Flows
Cash flows from operations:			
	Cash Received from Customers	①	
	Other Operating Cash Receipts (Uses)	Add receipts/Less uses ⑤	
Less:	Cash Paid to Suppliers	②	
Less:	Cash Paid to Employees	③	
	Net Cash Provided (Used) by Operating Activities	④	See Statement of Cash Flows

Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities

Operating income (loss)	
Adjustments to reconcile operating income to net	
Cash provided (used) by operating activities	
Depreciation expense	
Change in assets and liabilities:	
Receivables, net	
Inventories	
Accounts and other payables	
Accrued expenses	
Net cash provided (used) by operating activities	④

The accompanying notes are an integral part of this financial statement.

Note: The required information about noncash investing, capital, and financing activities is not illustrated.

Notes to Financial Statements Instructions

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. ***Therefore, separate notes should be prepared for each fiscal year presented unless the local government presents comparative statements. If comparative statements are prepared, the notes should include disclosures***

for both years presented. The topics which follow, in section 4.6.1.50, are designed to illustrate the disclosures required for GAAP local governments, as applicable. 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 Notes to the financial statements should be prepared by reviewing and compiling templates provided in the manual that are needed for readers to understand the financial statements as well as including notes required by GAAP:

- 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 GASB pronouncements if their application has a significant impact on the government's financial presentation.

4.6.1.40 Governments submitting their Annual Comprehensive Financial Reports (ACFR) 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 The notes should immediately be presented after the financial statements. The following is a suggested sequence of the note disclosures. The government should determine the 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 the reporting entity
- **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
        - Leases, Subscription based information technology arrangements (SBITA), and Public-Private Public-Public Partnerships (PPP)
        - Short-term debt and liquidity
        - Long-term debt
        - Landfill closure and postclosure
        - 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 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 toinclude information for ***both*** years. Comparative financial statements compare the required financial statement information for the current year with the prior year. Both years are presented in a single statement; however, each element (MD&A, basic financial statements, notes, and RSI) must 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 (city/county/district) 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, omit or abridge information that may be complicated or difficult to understand.

Note 1 – Summary of Significant Accounting Policies

Note 1 – Summary of Significant Accounting Policies

The financial statements of the (city/county/district) have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described below.

A. Reporting Entity

[1] The (city/county/district) was incorporated on (date) and operates under the laws of the state of Washington applicable to (type of the government).

As required by the generally accepted accounting principles the financial statements present (city/county/district), the primary government, and its component units. The component units discussed below are included in the (city/county/district) reporting entity because of the significance of their operational or financial relationships with the (entity type).

Individual Component Units Disclosures [2]

B. Basis of Presentation Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. [3] Direct expenses are those that are clearly identifiable with a specific function or segment. Our policy is to (allocate/not to allocate) indirect costs to a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements or a particular function or segment. Internally dedicated resources are reported as general revenues rather than program revenues. Taxes and other items not properly included among program revenues are reported instead as general revenues.

As a general rule the effect of the interfund activity has been eliminated for the government-wide financial statements. [4] Exceptions to this general rule are _____.

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

The (city/county/district) reports the following major governmental funds:[5]

The general (or current expense) fund is the (city/county/district's) operating fund. It accounts for all financial resources of the general government, except those required or elected to be accounted for in another fund.

The (city/county/district) reports the following major enterprise funds:[6]

Additionally, the (city/county/district) reports the following fund types:[7]

Internal service funds account for _____ and _____provided to other departments or agencies of the (city/county/district), or to other (cities/counties/districts), on a cost reimbursement basis.
The private-purpose trust fund is used to account for _____.
The investment trust fund is used to account for _____.
The pension and other employee benefit trust fund is used to account for _____.

C. Measurement Focus, Basis of Accounting

1. Government-Wide and Governmental Funds

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the (city/county/district) considers revenues to be available if they are collected within ____ days of the end of the current fiscal period. The (city/county/district) considers property taxes as available if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, and interest associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the (city/county/district).

2. Proprietary Funds

The (proprietary fund **OR** government-type if reporting stand-alone proprietary entity) statements are reported using the economic resources measurement focus and full-accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when liability is incurred regardless of the timing of the cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the (city/county/district) are (insert revenue types). **[8]** Operating expenses for the district include (e.g., the cost of sales and services, administrative expenses, depreciation on capital assets, etc.). All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Budgetary Information

1. Scope of Budget

Annual appropriated budgets are adopted for _____ funds on the _____ basis of accounting. **[9]** Budgets for debt service and capital project funds are adopted at the level of the individual debt issue or project and for fiscal periods that correspond to the lives of debt issues or projects.

Other budgets are adopted at the level of the fund, except in the general (current expense) fund, where expenditures may not exceed appropriations at the department level and the budgets constitute the legal authority for expenditures at that level.

Appropriations for general and special revenue funds lapse at year-end (except for appropriations for capital outlays, which are carried forward from year to year until fully expended or the purpose of the appropriation has been accomplished or abandoned).

Encumbrances accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservation of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

2. Amending the Budget

The (city manager/county auditor/finance director/mayor) is authorized to transfer budgeted amounts between (departments within any fund/object classes within departments); however, any revisions that alter the total expenditures of (a fund/the city/the county), or that affect the number of authorized employee positions, salary ranges, hours, or other conditions of employment must

be approved by the (city/county) (council/commission).

When (city/county) (council/commission) determines that it is in the best interest of the (city/county) to increase or decrease the appropriation for a particular (fund/department/ object class), it may do so by (ordinance/resolution) approved by one more than the majority after holding public hearing(s).

The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

The financial statements contain the original and final budget information. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

3. Excess of Expenditures over Appropriations **[10]**

4. Deficit Fund Net Position **[11]**

E. Assets, Liabilities, Fund Balance, Net Position **[12]**

1. Cash and Cash Equivalents

The (city/county/district) considers cash and cash equivalents to be cash on hand and demand deposits. In addition, because the (LGIP and/or County Investment Pool) is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

For purposes of the statement of cash flows, the(city/county/district's) considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

2. Investments

It is the (city/county/district's) policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds or (if not prorated, explain the government's unique circumstances).

All investments in (LGIP and/or the County Investment Pool) are reported at amortized cost. All other investments are reported at fair value. **[13]**

3. Receivables **[14]**

Taxes receivable consists of property taxes and related interest and penalties (See Note X – *Property Tax*). Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year.

Special assessments are recorded when levied. Special assessments receivable consists of current and delinquent assessments and related interest and penalties. As of December 31, 20__, $_____ of special assessments receivable were delinquent.

Customer accounts receivable consist of amounts owed from private individuals or organizations for goods and services including amounts owed for which billings have not been prepared. Notes and contracts receivable consist of amounts owed on open account from private individuals or organizations for goods and services rendered. (Unbilled _____ service receivables are recorded at year end.)

4. Amounts Due to and from Other Funds, Interfund Loans and Advances Receivable

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either *interfund loans receivable/payable* or *advances to/from other funds*. All other outstanding balances between funds are reported as *due to/from other funds*. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements *as internal balances*. A separate schedule of interfund loans receivable and payable is furnished in Note X – *Interfund Balances and Transfers.*

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

5. Inventories and Prepaid Items **[15]**

Inventories in governmental funds consist of expendable supplies held for consumption. The cost is recorded as expenditure at the time individual inventory items are (purchased/consumed).

Inventories in proprietary funds are valued by the(FIFO/LIFO/weighted average) method (which approximates the market value).

Certain payments to vendors reflect costs applicable to future accounting periods and are (recorded as prepaid items/recorded as an expenditure when the payment is made).

6. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets**[16]** (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type columns in the government-wide financial statements. Capital assets are defined by the (city/county/district) as assets with an initial, individual cost of more than $_____ and an estimated useful life in excess of ____ year(s). Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Costs for additions or improvements to capital assets are capitalized when they increase the effectiveness or efficiency of the asset. The costs for normal maintenance and repairs are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the _____ method **[17]** over the following estimated useful lives:

Assets	**Years**

See Note X, *Capital Assets*, for additional information.

7. Leases & SBITAs

Lessee/SBITA: The (city/county/district) recognizes a lease/SBITA liability and an intangible right-to-use lease/SBITA asset in the government-wide and proprietary fund financial statements. The (city/county/district) recognizes lease/SBITA liabilities with an initial, individual value of $_____ or more.

The lease/SBITA asset is amortized using the (straight line basis/effective interest method) over its useful life.

Governmental funds recognize a capital outlay and other financing source at the commencement of a new lease/SBITA. Lease/SBITA payments in governmental funds are reported as debt service principal and debt service interest expenditures.

The (city/county/district) uses the interest rate charged by the lessor/vendor as the discount rate. When the interest rate charged by the lessor/vendor is not provided, the (city/county/district) generally uses its incremental borrowing rate as the discount rate (or describe how the discount rate is determined if a different method is used).

Lessor: The (city/county/district) recognizes a lease receivable and a deferred inflow of resources in the government wide and fund financial statements.

The deferred inflow of resources is recognized as revenue over the life of the lease term using the (straight line basis/effective interest method).

The (city/county/district) uses its estimated incremental borrowing rate as the discount rate for leases (or describe how the discount rate is determined if a different method is used).

8. Deferred Outflows/Inflows of Resources**[18]**

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of

resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenue is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

9. Compensated Absences **[19]**

Compensated absences are absences for which employees will be paid, such as vacation (and sick) leave. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements.

Vacation pay, which may be accumulated up to (maximum days or weeks), is payable upon resignation, retirement or death.

10. Pensions **[20]**

For purposes of measuring the net pension liability, net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of all state sponsored pension plans and additions to/deductions from those plans' fiduciary net position have been determined on the same basis as they are reported by the (plan/Washington State Department of Retirement Systems). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

For purposes of calculating the restricted net position related to the net pension asset, the (city/county/district) includes the (net pension asset only/net pension asset and the related deferred outflows and deferred inflows/net pension asset and related deferred inflows).

11. Fund Balance

The fund balance for governmental funds is reported in classifications based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Fund balance is reported as nonspendable when the resources cannot be spent because they are either in a nonspendable form or legally or contractually required to be maintained intact. Resources in nonspendable form include inventories and prepaid assets.

Fund balance is reported as restricted when the constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provision or by enabling legislation.

The (county/city/district)'s highest decision-making level of authority rests with the (governing body). Fund balance is reported as committed when the (governing body) passes a (resolution/ordinance) that places specified constraints on how resources may be used. The (governing body) can modify or rescind a commitment of resources through passage of a new resolution.

Resources that are constrained by the (county/city/district)'s intent to use them for a specific purpose but are neither restricted nor committed, are reported as assigned fund balance. Intent may be expressed by either the (governing body/committees (such as budget or finance)/officials to which the governing body has delegated authority).

Unassigned fund balance represents fund balance that has not been restricted, committed, or assigned and may be utilized by the (county/city/district) for any purpose. When expenditures are incurred and both restricted and unrestricted resources are available, it is the (county/city/district)'s policy to use restricted resources first, then unrestricted resources in the order of committed, assigned, and then unassigned, as they are needed.

12. Fund Balance Details **[21]**

13. Minimum Fund Balance **[22]**

14. Net Position Classification **[23]**

For government wide reporting as well as in proprietary funds, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net

position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

Sometimes the (city/county/district) will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the (city/county/district)'s policy to consider restricted net position to have been depleted before unrestricted net position is applied.

F. Other

1. Stabilization Arrangements **[24]**
2. Miscellaneous **[25]**
3. (Special Purpose District Specific Disclosures)

Additional example disclosures for hospital districts and risk pools can be foundhere.

Instructions to preparer:

[1] For *type of government* describe the legal structure of the government (e.g.,*noncharter code city with a mayor-council form of government* or *first-class county with commissioner form of government* or *home-rule charter city with council-manager form of government)*or the formation agreement (e.g., *The Pool was formed under [describe the formation agreement]. Pool was established to provide [describe risk transference arrangement including the rights and responsibilities of the pool and pool participants].,etc.).*
Return to Reference 1

[2] Provide a brief description of component units and their relationship with the primary government and whether it is discretely presented, blended or fiduciary (see GAAP Reporting Requirements for additional information). Discuss the specific criteria in GASB Codification Section (GASB Cod. Sec.) 2100 – Defining the Reporting Entity used to identify the component units, including both fiscal dependence and the ongoing relationship of financial benefit or burden. For blended component units, state which blending criteria was met in GASB Cod. Sec. 2600 – Reporting Entity and Component Unit Presentation and Disclosure. Include information (addresses) where the complete financial statements of individual component units can be obtained.

The following examples are intended to help you describe the government's circumstances:

Blended component units

The (component unit) is governed by the (number)-member board appointed by the (city/county/district) board. Although it is legally separated from the(city/county/district) the (component unit) is reported as if it was part of primary government because its sole purpose is to finance and construct the (city/county/district) public buildings.

Discretely presented component units

The (component unit) provides (_____) services to the (city/county/district). The (city/county/district) annually provides significant operating subsidiaries to the(component unit).

The (component unit) operates (city/county/district) facilities. The (component unit) operating budget is subject to approval of the (city/county/district) board. The board also approves proposed capital improvements and additions to the (component unit) facilities.

Fiduciary component units:

The (city/county/district) has following fiduciary component unit(s) . The data for this (these) unit(s) is (are) presented in the fiduciary financial statements.

If the major component units are not presented in the financial statements, the city/county/district should present the condensed financial statements of these component units later in the Notes – see Note X – Major Component Units

Also, disclose (for each major component units) the nature and amount of significant transactions with the primary government and other component units.

List the related organizations (organizations for which the reporting entity is accountable because it appoints a voting majority of the board but is not financially accountable). Disclose the nature of city/town/district's accountability. The following example is intended to help you to describe the government's circumstances:

The (city/county/district) is also responsible for appointing the members of the board of (organization name), but the accountability for this organization does not extend beyond making the appointments. In __, the (city/county/district) appropriated operating grant of $__ to the (organization name).

Also list the organizations that are excluded from the combined financial statements.

If there is significant (in relation to the total component units' column) long-term debt of any component unit, the disclosure of the debt service requirements to maturity should be made.

Additional note disclosures may be needed if the accounting policies or the fiscal year of the component unit differ from those of the government.

If the government itself is a component unit, this note should identify the primary government and describe the nature of the relationship.

[3] The city/county/district is not required to allocate the indirect expenses to other functions. However, some cities/counties/districts may prefer to do so or use a full-cost allocation approach among functions. Some cities/counties/districts may charge funds or programs (through internal service funds or the general fund) for *centralized* expenses, which may include an administrative overhead component. Governments are not required to identify and eliminate these administrative charges, but they should disclose the policy for their allocation.
Return to Reference 3

[4] The note should disclose how the government distinguishes overhead costs (which are eliminated in the process of consolidation) from interfund services provided and used between functions (which are not eliminated in the process of consolidation).
Return to Reference 4

[5] List and describe major governmental funds. The description should be specific to the government rather than generic. Identify which revenues and other resources are reported in each major special revenue fund.
Return to Reference 5

[6] List and describe all proprietary major funds. The description should be specific to the government rather than generic.
Return to Reference 6

[7] Describe the activities of the internal service and applicable fiduciary fund(s). The description should be specific to the government rather than generic.
Return to Reference 7

[8] Define the operating revenues and expenses. Additional special purpose district examples:
Return to Reference 8

Water/Sewer/Irrigation: *Charges for providing _____ services. The District also recognizes as operating revenue (e.g., the portion of the top fees intended to recover the cost of connecting new customers to the system, etc.).*

Housing Authority: *Operating revenues result from fees and charges from providing services in connection with the ongoing operations of providing low income housing. Operating subsidies and grants are reported as non-operating revenues and are presented as cash flows from non-capital financing activities in the statement of cash flows. Operating expenses are those expenses that are directly incurred in the operation of providing low income housing.*

[9] List the funds for which the city/county/district prepares budgets and the accounting bases used in these budgets. If the budgetary basis of accounting differs from GAAP, the notes should include reconciliation (if not presented on the face of the statements). The reconciliation should be sufficiently detailed.
Return to Reference 9

[10] List the funds and amounts of overspending in the general fund and annually budgeted major special revenue funds. Also, explain how the expenditures were funded. You can provide this information either here or as a separate note. (See Note X, *Violations of Finance-Related Legal or Contractual Provisions*.) Regardless of whether the government presents required budgetary comparison as a basic governmental fund financial statement or as RSI, the notes to financial

statements should disclose any material violations of the budget.
Return to Reference 10

[11] If any of the funds of the city/county/district had deficit fund net position at the year end, disclose the amount of the deficit, reason for it, and the expected means of eliminating this deficit. You can provide this information either here or as a separate note (See Note X – *Violations of Finance-Related Legal or Contractual Provisions*).
Return to Reference 11

[12] The government should disclose specific asset and liability line items that are significant or have unusual accounting treatment or items that required application of non-authoritative guidance. Add additional line items to this section as needed.
Return to Reference 12

[13] The government should also disclose any investments outside of LGIP that are valued at amortized cost. For the county investment pools, governments should confirm whether those investments are reported at amortized cost or fair value.
Return to Reference 13

[14] Disclose any asset valuation allowances for losses (e.g., on receivables) in government-wide and proprietary funds (GASB Cod. Sec. 2200 – Annual Comprehensive Financial Report, Classification and Disclosure of Allowances).
Return to Reference 14

[15] If city/county/district holds inventories for the purpose of resale, it has to disclose that inventories are reported at lower-of-cost or market..
Return to Reference 15

[16] The lack of or partial implementation of retroactive infrastructure reporting should be disclosed. When a change in retroactive infrastructure is implemented it is considered a change in accounting principle and must be disclosed in the accounting changes note.
Return to Reference 16

[17]

If city/county/district uses modified approach for reporting eligible infrastructure assets, then it should describe the approach (i.e., types of assets, etc.).
Return to Reference 17

[18] Disclosure of different types of deferred outflows/inflows of resources is required only if the information is not displayed on the face of the financial statements.

In some situations, the amount reported for a component of net position (net investment in capital assets, restricted, and unrestricted) may be significantly affected by a transaction that has resulted in recognition of a deferred outflow of resources or deferred inflow of resources. If the difference between a deferred outflow of resources or deferred inflow of resources and the balance of the related asset or liability is significant, governments should provide an explanation of that effect on its net position in the notes to the financial statements.
Return to Reference 18

[19] Describe the policies regarding leave (sick, vacation, PTO, etc.). For example:

Upon resignation or retirement, any outstanding sick leave is lost.

If an employee terminates with at least ten years of service, he or she will be paid for sick leave balances up to thirty days, at one-half his or her final pay rate.

The (city/town/district) allows (unlimited/up to _____) accumulation of sick leave. Upon separation or retirement, employees do not receive any payment for unused sick leave. However, employees eligible for full retirement benefits may use their unused sick leave toward determining their length of service for purpose of determining their retirement benefits.
Return to Reference 19

[20] If your government does not participate in DRS plans (such as PERS, TRS, SERS, PSERS, LEOFF) then select “plan.”

Choose one of the three methods. Please see BARS Section3.4.2 Pensions for instructions on how to calculate the Restricted Net Position related to the net pension assets.
Return to Reference 20

[21] If restricted, committed, or assigned fund balances are not presented in sufficient details on

the face of financial statements, then the specific purposes (not functions) information should be disclosed in the notes. The two components of nonspendable fund balance (1) not in spendable form, and (2) legally or contractually required to be maintained intact should be disclosed in notes if displayed in aggregate on the face of financial statements. *If the government displays this information in a separate note, indicate more information can be found in that note.*
Return to Reference 21

[22] If a city/county/district has formally adopted a minimum fund balance policy, the city/county/district should describe the policy that sets forth the minimum amount.
Return to Reference 22

[23] If the city/county/district is proprietary only, the references to government-wide statements should be removed. If the city/county/district has a different policy than the one described this disclosure should be updated to reflect the policy.
Return to Reference 23

[24] A city/county/district that established stabilization arrangements, even if an arrangement does not meet the criteria to be classified as restricted or committed, should disclose the following information:

a. The authority for establishing stabilization arrangements (for example, by statute or ordinance),

b. The requirements for additions to the stabilization amount,

c. The conditions under which stabilization amounts may be spent,

d. The stabilization balance, if not apparent on the face of the financial statements.
Return to Reference 24

[25] Include other disclosure which may be necessary (e.g., comparative data column, reclassification of data etc.).
Return to Reference 25

Note X – Accounting and Reporting Changes

Note X – Accounting and Reporting Changes

Instructions to preparer:

This note has been replaced by Note X – Accounting Changes and Error Corrections

Note X - Accounting Changes and Error Corrections

Note X - Accounting Changes and Error Corrections

A template for this note is not available. See "Instructions to preparer:" for disclosures that may be required.

Instructions to preparer:

Include changes in accounting principles, changes in accounting estimates, changes to or within the reporting entity, and error corrections in previously issued financial statements as defined at BARS 3.1.10. See the Government Accounting Standards Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards* (Cod.) Section (Sec.) 2250 — Additional Financial Reporting Considerations for more details.

For all accounting changes and error corrections, the note disclosure should include:

1. A narrative description, specific details are included with each category below
2. Tabular format that reconciles beginning net position/fund balances as previously reported to beginning net position/fund balances as adjusted or restated for each reporting unit for each accounting change and/or error correction

Specific narrative requirements for each accounting change and/or error correction are listed below:

Change in accounting principle:

1. The nature of the change including:
    - Identification of the financial statement line item affected, and
    - Identification of the new pronouncement implemented
2. The reason for the change; if not because of the implementation of a new pronouncement, include an explanation of why the new accounting principle is preferable

Change in accounting estimate:

1. The nature of the change, including the identification of the line items affected
2. The reason for the change to an input, if applicable, unless the change in measurement is required by a GASB pronouncement.

Change to or within the reporting entity:

1. The nature of the change
2. The reason for the change

Error correction:

1. The nature of the error and the correction, including the periods affected by the error
2. Identification of the financial statement line items that are affected by the error
3. The effect on the prior period's change in net position, fund balance, or fund net position, as applicable, had the error not occurred

Examples:

Example – Change to or within the reporting entity: During fiscal year 20XX, the (government type) experienced a (change to OR within the financial reporting entity) which resulted in adjustments to the (beginning net position OR fund net position) as identified in Column (X) of the table below.

Example – Error correction: During fiscal year 20XX, the (government type) identified (describe error). The effect of that error is shown in Column (X) of the table below.

Table format example:

	12/31/20XX				12/31/20XX
	Net Position/Fund Balance As previously reported	Change in accounting principle	Change to or within the financial reporting entity	Error correction	Net Position/Fund Balance As restated/adjusted
Government-wide					
Governmental Activities					
Business-type Activities					
Total primary government					

Governmental
Funds

Major Funds:

General Fund

Fund 1

Nonmajor Funds

Total
Governmental
Funds

Fiduciary Funds

Fund 1

Discretely
Presented
Component Units

Fund 1

Total Discretely
Presented
Component Units

Note X – Asset Retirement Obligations (ARO)

Note X – Asset Retirement Obligations (ARO)

A template for this note is not available. See "Instructions to preparer:" for various disclosures that may be required.

Instructions to preparer:

Disclosure requirements (except for minority share):

a. A general description of the AROs and the associated tangible assets, as well as the source of the obligations (whether they are a result of federal, state , or local laws and regulations, contracts or court judgements)

b. The method and assumptions used to measure the liabilities

c. The estimated remaining useful life of the associated tangible capital assets

d. How any legally required funding and assurance provisions associated with AROs are being met; for example, surety bonds, insurance policies, letters of credit, guarantees by other entities, or trust used for funding and assurance

e. The amount of assets restricted for payments of liabilities, if not separately displayed in the

financial statements.

If an ARO or portions thereof has been incurred by a government but is not yet recognized either because it is not reasonably estimable, or because the government does not currently plan to ever retire the asset, but instead to maintain it indefinitely (and is therefore not depreciating the asset), the government should disclose the general description of the ARO, associated assets and source of the obligation along with the reasons that a liability cannot be determined at this time.

If a government has a minority share in an ARO, it should disclose the following:

a. A general description of the ARO and associated tangible capital asset, including:

1. The total amount of the ARO shared by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, other minority owners, if any, and the reporting government

2. The reporting government's minority share of the total amount of the ARO, stated as a percentage

3. The dollar amount of the reporting government's minority share of the ARO

b. The date of the measurement of the ARO produced by the nongovernmental majority owner or the nongovernmental minority owner that has operational responsibility, if that date differs from the government's reporting date

c. How any legally required funding and assurance provisions associated with the government's minority share of an ARO are being met; for example, surety bonds, insurance policies, letters of credit, guarantees by other entities, or trusts used for funding and assurance

d. The amount of assets restricted for payment of the government's minority share of the ARO, if not separately displayed in the financial statements.

Example notes:

The (city/county/district) has (number and size) underground fuel storage tanks. Under state law, the (city/county/district) is required to decommission the tank and the (city/county/district) plans to (retire/replace) the tanks and tank sites by (date). The (city/county/district) will incur estimated costs of $_____related to the project. These liabilities are reported on the Statement of Net Position. During (reported year) the (city/county/district) paid $____ for the related work.

The (city/county/district) has (___number of____) wells requiring capping in the foreseeable future. Due to the (federal/state) law and/or the legal agreement with (_____) the (city/county/district) will incur estimated costs of $_____related to the capping. These liabilities are reported on the Statement of Net Position. During (reported year) the (city/county/district) paid $____ for the related work.

The (city/county/district) has property (describe in adequate detail) required to be decommissioned by (date). Due to contractual obligations with (_____) the (city/county/district) will incur estimated costs of $_____related to the project. These liabilities are reported on the Statement of Net Position. During (reported year) the (city/county/district) paid $____ for the related work.

Note X – Bankruptcy

Note X – Bankruptcy

A template for this note is not available. See "Instructions to preparer:" for various disclosures that may be required.

Instructions to preparer:

As required per GASB Statement 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, governments that have filed for bankruptcy should disclose the following:

a. Pertinent conditions and events giving rise to the petition for bankruptcy,

b. The expected or known effects of such conditions and events, including:

1. The principal categories of the claims subject to compromise or that already have been

adjusted,

2. The principal changes in terms and the major features of settlement,

3. The aggregate gain expected to occur by re-measuring liabilities subject to a proposed Plan of Adjustment, or realized, as appropriate; or a statement that any gain is not yet reasonably estimable and the reasons thereof,

4. Contingent claims not subject to reasonable estimation, based on the provisions of the NCGA Statement 4.

c. Significance of those conditions and events on the levels of service and operations of the government, and any mitigating factors, such as assumption of services of other governments.

d. Possibility of termination of the governments, or any plans to terminate the government, as appropriate.

e. How to obtain a copy of the government's Plan of Adjustment or a statement that a plan is not yet available and an estimate of when it will be completed.

Note X – Capital Assets

Note X – Capital Assets

A. Capital Assets – Governmental Activities **[1]**

Capital assets activity for the year ended December 31, 20__ was as follows:

Governmental Activities	**Beginning Balance 01/01/20__**	**Increases**	**Decreases**	**Ending Balance 12/31/20__**
Capital assets, not being depreciated:				
Land				
Construction in progress				
Intangible assets **[2]**				
Total capital assets, not being depreciated				
Capital assets, being depreciated/amortized:				
Buildings				
Intangible assets **[2]**				
Improvements other than buildings				
Machinery and equipment				
Infrastructure				
Right-to-use lease assets **[3]**				
Right-to use subscription asset				
Total capital assets being depreciated/amortized				
Less accumulated depreciation/amortization for:				
Buildings				
Intangible assets				
Improvements other than buildings				
Machinery and equipment				
Infrastructure				
Right-to-use lease assets **[3]**				
Right-to use subscription asset				
Total accumulated depreciation/amortization				
Total capital assets, being depreciated/amortized, net				

Governmental activities capital assets, net

B. Capital Assets – Business-Type Activities

Business-Type Activities:	**Beginning Balance 01/01/20__**	**Increases**	**Decreases**	**Ending Balance 12/31/20__**
Capital assets, not being depreciated:				
Land				
Construction in progress				
Intangible assets [2]				
Total capital assets, not being depreciated				
Capital assets, being depreciated/amortized:				
Buildings				
Intangible assets [2]				
Improvements other than buildings				
Machinery and equipment				
Infrastructure				
Right-to-use lease assets [3]				
Right-to use subscription asset				
Total capital assets being depreciated/amortized				
Less accumulated depreciation/amortization for:				
Buildings				
Intangible assets				
Improvements other than buildings				
Machinery and equipment				
Infrastructure				
Right-to-use lease assets [3]				
Right-to use subscription asset				
Total accumulated depreciation/amortization				
Total capital assets, being depreciated/amortized, net				
Business-type activities capital assets, net				

Depreciation/amortization expense was charged to functions/programs [4] of the primary government as follows:

Governmental Activities:	
General Government	$
Judicial	
Physical Environment	
Economic Environment	
Health and Human Services	
Transportation	
Total Depreciation/amortization – Governmental Activities	$
Business-Type Activities:	
Utilities	$

Total Depreciation/amortization – Business-Type Activities	$

C. Collections not Capitalized **[5]**

D. Impaired Capital Assets **[6]**

E. Discretely Presented Component Unit(s) **[7]**

Instructions to preparer:

[1] Applicable only to entities with governmental activities.

[2] If the types of intangible assets differ in nature and usage, then they should not be reported collectively as a single class of capital assets.

[3] Governments must include ***at least*** the total of all right-to-use lease assets in this table. Governments may choose to provide the details by major class of underlying assets (i.e., lease land, lease building, lease equipment, etc.) either in this note or in the Leases (Lessee) note disclosure

[4] Required only for entities with governmental activities. Adjust the functions accordingly.

[5] Describe the collection(s) and reason(s) for not capitalizing collections.

If collections are capitalized, provide same information as for other capital assets (see part A of this note).

[6] If it is not otherwise apparent from the face of the financial statements, the city/county/district should disclose a general description, the amount, and the financial statement classification (e.g., public works, education) of the impairment loss.

If the city/county/district received an insurance recovery related to the impaired asset, its amount and financial statement classification should be disclosed.

The city/county/district needs to disclose the carrying amount of impaired capital assets that are idle at year-end, regardless whether the impairment is considered permanent or temporary.

For more details see the GASB Statement 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

[7] The decision to disclose should be based on the individual component unit's significance to the total of all discretely presented component units and that component unit's relationship with the primary government. It is a matter of professional judgement.

Note X - Certain Risk Disclosures

Note X - Certain Risk Disclosures

Temp note: The Governmental Accounting Standards Board (GASB) Statement 102, Certain Risk Disclosures is effective for fiscal years beginning June 15, 2024, and all reporting periods after.

A template for this note is not available. See "Instructions to preparer" for various disclosures that may be required.

Instructions to preparer:

This disclosure is required only if ***all*** the following criteria is met:

- A concentration or constraint is known before the financial statements are issued
- The concentration or constraint makes the government (or fund) vulnerable to the risk of substantial impact
- An event associated with the concentration or constraint that could cause substantial impact has occurred, started to occur, or is 50% or more likely to occur within 12 months after the financial statements are issued

The disclosure criteria should be evaluated for the primary government. However, if any funds report a liability for revenue debt, the disclosure criteria should also be evaluated in the context of those individual funds.

Concentration: a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. Examples include, but are not limited to, a lack of diverse employers, industries, workforce, or suppliers.

Constraint: a limitation imposed on a government by an external party or by formal action of the government's highest level of decision-making authority. Examples include, but are not limited, to limitations on raising revenue, spending, or incurring debt. Mandated spending may also be a constraint.

If all the disclosure criteria are met, however the government takes mitigating actions prior to the issuance of the financial statements that cause any of the disclosure criteria to no longer by met, a disclosure would no longer be required.

Note: *If the contents required of this note are disclosed as part of another note disclosure, the notes can be combined to avoid unnecessary duplication.*

Disclosure contents:

For each concentration or constraint that meets all the disclosure criteria, the required disclosure should describe:

a) The concentration or constraint

b) Each event associated with the concentration or constraint that could cause a substantial impact if the event had occurred or had begun to occur

c) Actions taken by the government prior to the issuance of the financial statements to mitigate the risk

The disclosure should provide adequate detail of the circumstances and vulnerability for a reader to understand the risk and the impact to the government.

Example notes:

Ex. a. Concentration of Financial Resource Provider

*The Airport Fund accounts for the (City/County/District) airport operations and reports $X million of revenue bonds outstanding on December 31, 20XX. The bond indentures state that revenue generated by airport operations is pledged as the sole source of repayment for the bonds. XX percent of the Airport Fund's revenues are associated with a single airline customer who has notified the (City/County/District) that it plans to terminate its lease and discontinue service to the (City/County/District)'s airport by March 31, 20XX. A loss of revenue from that airline could adversely affect the Airport Fund. (*Note: in this example the government has not taken any mitigation actions, therefore this note does not provide a description of the mitigating actions).

Ex. b. Concentration of Employer

Employer A is a large employer in (City/County/District) that employs nearly (number of employees) personnel. The various tax revenues received by the (City/County/District) directly or indirectly related to the operations of Employer A represent XX percent of the (City/County/District) resources for the year ending December 31, 20XX. On November 30, 20XX, Employer A initiated closure of its facilities in the (City/County/District) and are expected to complete all of the closure actions within six years. The Governing Body has approved various economic incentives aimed at encouraging the redevelopment of the property associated with Employer A.

Ex. c. Constraint: Mandated Spending

The (City/County/District)'s wastewater treatment operations are subject to environmental regulations established by the State Department of Ecology. The Department of Ecology had proposed new regulations that would require reducing the allowable level of certain pollutants in the wastewater treatment plant's discharge by one-third. If adopted, the (City/County/District) would be responsible for complying with the regulations by modifying the plant at a substantial cost to its ratepayers by September 20XX.

On June 15, 20XX, the Board approved an increase in the rates charged to private and

commercial customers to partially address improvements to the wastewater treatment plant aimed at reducing pollutants.

Note X – Changes in Long-Term Liabilities

Note X – Changes in Long-Term Liabilities

A. During the year ended December 31, 20__, the following changes occurred in long-term liabilities: **[1]**

	Beginning Balance 01/01/20__	Additions	Reductions	Ending Balance 12/31/20__	Due Within One Year
Governmental Activities:					
Bonds payable: General obligation bonds Special assessment bonds Premiums Discounts	$	$	$	$	$
Total bonds payable					
Debt from direct borrowings and direct placements [2]					
Leases					
Subscription Based Information Technology Arrangements (SBITA)					
Claims [3]					
Pension/OPEB liabilities *					
Compensated absences*					
Governmental activity long-term liabilities:	$ -	$ -	$	$ -	$ -
Business-Type Activities:					
Bonds payable: General obligation bonds Revenue bonds Premiums Discounts					
Total bonds payable					
Debt from direct borrowings and direct placements [2]					
Leases					
Subscription Based Information Technology Arrangements (SBITA)					
Claims [3]					
Pension/OPEB liabilities *					
Compensated absences*					
Business-type activity long-term liabilities:	$ -	$ -	$	$ -	$ -

Also see Footnote 2 and Footnote 3

*Additions and reductions are reported as a net change

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year end $_____ of internal service funds compensated absences are included in the above amounts. Also, for the governmental activities, claims and judgments, leases, subscription based information technology arrangements, pension, and OPEB are generally liquidated by the general fund. **[4]**

B. Discretely Presented Component Unit(s) **[5]**

Instructions to preparer:

[1] Additions and deductions must be reported separately, rather than netted except for compensated absences, pension, and OPEB. If the government does not net these categories, update the note and table as appropriate.

[2] Governmental Accounting Standard Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards* (Cod.) Section (Sec.) 1500 requires a separate disclosure of any direct borrowings and/or direct placements of debt from other forms of debt.

[3] Include judgments, self-insurance liabilities, etc.

[4] Disclose which governmental funds typically have been used in prior years to liquidate long-term liabilities other than debt except for compensated absences.

[5] The decision to disclose should be based on the individual component unit's significance to the total of all discretely presented component units and that component unit's relationship with the primary government. It is a matter of professional judgement.

Note X – Closure and Postclosure Care Cost

Note X – Closure and Postclosure Care Cost

A template for this note is not available. See "Instructions to preparer:" for various disclosures that may be required.

Instructions to preparer:

The following disclosures are required for all fund types and entities owning and operating the municipal solid waste landfills.

1. The nature and source of landfill closure and postclosure care requirements (federal, state, or local laws or regulations).

2. That recognition of a liability for closure and postclosure care costs is based on landfill capacity used to date.

3. The reported liability for closure and postclosure care at the balance sheet date (if not apparent from the financial statements) and the estimated total current cost of closure and postclosure care remaining to be recognized.

4. The percentage of landfill capacity used to date and estimated remaining landfill life in years.

5. How closure and postclosure care financial assurance requirements, if any, are being met. Also, any assets restricted for payment of closure and postclosure care costs (if not apparent from the financial statements).

6. The nature of the estimates and the potential for changes due to inflation or deflation, technology, or applicable laws or regulations.

For sample text refer to the GASB Statement 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Cost*, Appendix D.

Note X – Concentration of Credit Risk

Note X – Concentration of Credit Risk

The (district) grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. No single patient comprises more than five percent of total receivables at year-end. **[1]**

The mix of patient receivables at December 31, 20__ was as follows:

Medicare	_____%
Medicaid	_____%
Self-Pay (and Private Insurance)	_____%
Other Third Party Payors	_____%

Instructions to preparer:

[1] Modify this statement accordingly.

Note X – Construction and Other Significant Commitments

Note X – Construction and Other Significant Commitments [1]

A. Construction Commitments

The (city/county/district) has active construction projects as of December 31, 20__. The projects include:

At year-end the (city/county/district's) commitments with contractors are as follows:**[2]**

Project	Spent to Date	Remaining Commitment
	$	$
	$	$

(Of the committed balance of $_____ the (city/county/district) will be required to raise $_____ in future financing.)

B. Other Commitments **[3]**

Instructions to preparer:

[1] Commitments are existing arrangements to enter into future purchases at specified prices and sometimes at specified quantities.

[2] Describe the financing arrangements for each project.

[3] Disclose significant encumbrances by major funds and nonmajor funds in aggregate. The city/county/district may disclose further breakdown of encumbrances into various fund balance classifications (i.e., restricted, committed, etc.).

Disclose any other commitments like purchase (e.g., power, etc.) orders, etc.

Note X – Contingencies and Litigations

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 Government Accounting Standards Board (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.

Note X – COVID-19 Pandemic

Note X – COVID-19 Pandemic

If governments continue to have substantial impacts, either positive or negative, or have significant amounts of federal funding related to the pandemic this should be disclosed in the (Note X – Contingencies and Litigations).

Note X – Deposits and Investments

Note X – Deposits and Investments

A. Deposits [1]

Custodial credit risk for deposits is the risk that, in event of a failure of a depository financial institution, the (city/county/district) would not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The (city/county/district's) deposits and certificates of deposit are mostly covered by federal depository insurance (FDIC) or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

The (city/county/district) does not have a deposit policy for custodial credit risk. The bank balances that were exposed to custodial credit risks are:

Fund	Uninsured and Uncollateralized	Uninsured and Collateral Held by Bank	Unisured and Collateral Held by Pledging Bank's Trust Department not in (city/county/district's) Name
Total			

-OR-

Uninsured and Uncollateralized	$
Uninsured and Collateral Held by Bank	
Unisured and Collateral Held by Pledging Bank's Trust Department not in (city/county/district's) Name	
Total	$

B. Investments [2]

It is the (city/county/district's) policy to invest all temporary cash surpluses. The interest on these investments is prorated to the various funds (or if not prorated, explain your unique circumstances). [3]

Investments are subject to the following risks.

Interest Rate Risk: Interest rate risk is the risk the (city/county/district) may face should interest rate variances affect the fair value of investments. The (city/county/district) does not have a formal policy that addresses interest rate risk.

		Investment Maturities (in Years)			
	Fair Value	Less Than 1	1 to 5	6 to 10	More than 10
Investment Type					
Debt Securities					
U.S. Treasuries					
U.S. Treasury Strips					
U.S. Agencies					
Collateralized Mortgage Obligations					
Mortgage Pass Throughs					
Asset-Back Securities					
Total Debt Securities					
Other Securities					
Certificates of Deposit					
Real Estate					
Private Equity					
Public Equity					
Total Investments					

In addition to the interest rate risk disclosed above, the (city/county/district) includes investments with fair value highly sensitive to interest rate changes.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The (city/county/district) does not have a formal policy that addresses credit risk.

At December 31, 20__, (city/county/district's) investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and below	Unrated
U.S. Agencies	$	$	$	$	$	$	$
Mortgage Pass Throughs							
Collateralized Mortgage Obligations							
State and Local Government							
Asset-backed Securities							
Negotiable Certificates of Deposit							
Repurchase Agreements							
Commercial Paper							
Annuity Contracts							
Debt Mutual Funds							
Money Market Mutual Funds							
Pooled Debt Funds							
Domestic Corporate Bonds							
Foreign Corporate Bonds							
Foreign Government Bonds							
Totals	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Rating Agency: Identify							

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the (city/county/district) will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The (city/county/district) does not have a formal policy for custodial credit risk.

Investment Type	Held by Counterparty	Held by Counterparty's Trust Dept or Agent
Total		

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The (city/county/district) does not have a formal policy for concentration of credit risk.

Investments in Local Government Investment Pool (LGIP)

The (city/county/district) is a voluntary participant in the Local Government Investment Pool, an external investment pool operated by the Washington State Treasurer. The pool is not rated and not registered with the SEC. Rather, oversight is provided by the State Finance Committee in accordance with RCW 43.250. Investments in the LGIP are reported at amortized cost, which is the same as the value of the pool per share. The LGIP does not impose any restrictions on participant withdrawals.

The Office of the State Treasurer prepares a stand-alone financial report for the pool. A copy of the report is available from the Office of the State Treasurer, PO Box 40200, Olympia, Washington 98504-0200, online at www.tre.wa.gov.

Investments in (county investment pool) **[4]**

The (city/county/district) is a participant in the (county investment pool), an external investment pool operated by the County Treasurer. The pool is not rated or registered with the SEC. Rather, oversight is provided by the County Finance Committee in accordance with RCW 36.48.070. The (city/county/district) reports its investment in the pool at (amortized cost / fair value), which is (the same as the value of the pool per share / or disclose the difference between the reported amount and the value of pool shares). (The pool does not impose any restrictions on participant withdrawals / disclose any liquidity fees, redemption gates or other restrictions).

Investments Measured at Fair Value **[5]**

The (city/county/district) measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted prices that are not observable;
- Level 3: Unobservable inputs for an asset or liability.

At December 31, 20__, the (city/county/district) had the following investments measured at fair value:

		Fair Value M	
	Fair Value	Quoted Prices in Active Markets for Identical (Level 1)	Signi O
Investments by Fair Value Level			
Debt Securities			
U.S Teasuries			
U.S. Treasury STRIPS			
U.S. Agencies			
Mortgage Pass Throughs			
Collateralized Mortgage Obligations			
Asset-backed Securities			
Commercial Paper			
Money Market Mutual Funds			
Total Investments by Fair Value Level			
Total Investments Measured at Fair Value	$		
Other Securities not Measured at Fair Value			
Non-negotiable Certificates of Deposit			
State LGIP			
	$		

Investments Measured at Net Asset Value (NAV) [6]

C. Summary of Deposit and Investment Balances[7]

Reconciliation of (city/county/district's) deposits and investment balances as of December 31, 20__, is as follows:

	[Government Wide /Single Fund]	[Fiduciary Funds]
Cash on Hand		
Amount of Deposits with Private Financial Institutions		
Deposits in State LGIP		
Internal Investment Pool		
External Investment Pool		
Non-Pooled Investments		
Total Deposits and Investments		
Deposits		
Current:		
Cash and Cash Equivalents		
Restricted Cash and Cash Equivalents		
Noncurrent:		
Restricted Cash and Cash Equivalents		
Total Deposits		
Investments		
Current:		
Short-Term Investments		
Restricted Short-Term Investments		
Noncurrent:		
Restricted Investments		
Other Investments		
Total Investments		
Total Deposits and Investments		

D. Securities Lending [8]

E. Gains and Losses on Investments[9]

F. Foreign Currency Risk [10]

Foreign currency risk is the risk that changes in exchange rates will adversely affect deposits or investments. The (city/county/district) does not have a formal policy for foreign currency risk (or briefly describe the policy to manage or limit foreign currency risk). The exposure to foreign currency risk for deposits as of December 31, 20__ is as follows:

Instructions for preparer:

The city/county/district should briefly describe the types of investments authorized by legal and contractual provisions. If there are material violations of these provisions, they should be disclosed. If the types of investments authorized for different funds, fund types, or component units differ significantly from those authorized for the primary government and those funds, fund types, or component units have material investment activity compared with the combined primary government activity, the difference in the authorized investment types should be disclosed. The city/county/district should also disclose its own policies that are related to risks. If a city/county/district has no deposits or investments policy that addresses a specific type of risk that it is exposed to, the disclosure should indicate that fact.

This disclosure is required for a primary government as a whole. Risk disclosures should also be made for governmental and business/type activities, individual major funds, nonmajor funds in aggregate, or fiduciary fund types when the risk exposures are significantly greater than the deposit and investment risk of the primary government.

Disclosures should distinguish between the primary government and it's discretely presented component units. The financial statements should make those discretely presented component unit disclosures that are essential to fair presentation of the basic financial statements.

Disclosure is limited to types of investment held at year-end.

[1] The following disclosures are required regarding cash deposits with financial institutions:

- Legal and contractual provisions regarding deposits;
- Policies governing deposits;
- Exposure to custodial risk as of the date of the balance sheet or statement of net position;
- Defaults and recovery of prior period losses

If the city/county/district has bank balances subject to custodial credit risk, provide a brief description of its deposit policies related to deposit custodial credit risk or state that it does not have a deposit policy for custodial credit risk. Disclose only that portion of the total bank balance that was subject to deposit custodial credit risk. If no bank balance was subject to deposit custodial credit risk, do not include a discussion of deposit custodial credit risk in Note 2.
Return to Reference 1

[2] The following general disclosures are required regarding investments:

- Types of investments authorized by legal or contractual provisions (if types of investments authorized for different funds, fund types, blended component units, or discretely presented component units differ significantly from those authorized for the primary government and have material investment activity compared with the reporting entity's investment activity, the differences in authorized investment types should be disclosed)
- Significant violations during the period of legal or contractual provisions for investments and actions taken to address such violations
- Description of investments policies that are related to the following risks:
    - Interest rate risk
    - Credit risk
    - Custodial credit risk
    - Concentration of credit risk

If applicable, provide disclosures for the following types of risk. If the city/county/district does not have any investments exposed to risks identified below, delete risk description. Risk disclosures applicable to investments should be reported separately by investment type.

- ***Interest rate risk*** – information should be organized by investment type and amount using one of the following methods:
    - segmented time distribution
    - specific identification
    - weighted average maturity

- duration
- simulation model.

Any assumption made in process of applying these methods need to be disclosed.

Describe the highly sensitive investments. For additional information see theGovernmental Accounting Standards Board (GASB) Statement 40, paragraph 16 and 57 (examples listed were asset-backed securities) and Illustration 7. Illustration includes CMO's, inverse variable rate notes, and variable coupon note with multiplier as examples of investments with fair values highly sensitive to interest rate changes.

Governments that participate in a pooled arrangement (other than an external pools investment pool) should disclose interest rate risk for the pooling arrangement. This disclosure is limited to investments in debt mutual funds, external debt investment pools, or other pooled debt investments.

Governments should also disclose any contractual terms for debt investments that expose those investments to the risk of significant changes in fair value resulting from interest rate fluctuation (e.g., coupon multipliers benchmark indices, embedded options, etc.).

- ***Credit risk*** - disclose credit ratings for investments in debt securities, whether held directly or indirectly including the credit ratings for positions in external investment pools. If a rating is not available, that fact should be disclosed. (This requirement does not apply to the debt securities of the U.S. government or obligations of the U.S. government agencies that are explicitly guaranteed by the U.S. government.) The city/county/district should use the various rating categories (e.g., AAA, Aaa, etc.) set by nationally recognized statistical rating organizations (e.g., Fitch Ratings, Moody's Investor Services, Standard & Poor's, etc.).

- ***Custodial credit risk***– disclose for investments only if unregistered/uninsured securities are held either by the counterparty or by the counterparty's trust department or agent, but not in government's name.

  [***Note:*** The Washington Public Deposit Protection Commission eased collateral requirements on uninsured public deposits under Resolution 2016-1, for public depositaries categorized as Well Capitalized as defined in Subsection (b)(a)(A) of Section 38 of the Federal Deposit Insurance Act (FDIA) or hereafter amended and as determined by federal regulatory authority for that public depositary, may collateralize uninsured public deposits at no less than fifty percent. All public depositaries not categorized as Well Capitalized as defined in Section 38 of the FIA are required to fully collateralize uninsured public deposits pursuant to Resolution 2009-1.]

- ***Concentration of credit risk*** - disclose amount and issuer of investments that represents 5 percent or more of total investments. (This requirement does not apply to investments issued or explicitly guaranteed by the U.S government and investments in mutual funds, external investment pools, and other pooled investments.)

In addition, governments should make the following disclosures in the notes to the financial statements:

- the policy for determining which investments, if any, are reported at amortized cost;

- for any investments in external investment pools that are not SEC-registered, a brief description of any regulatory oversight for the pool and whether fair value of the position in the pool is the same as the value of the pool shares;

- any involuntary participation in an external investment pool;

- if an entity cannot obtain information from a pool sponsor to allow it to determine the fair value of its investment in the pool, the methods used and significant assumptions made in determining that fair value and the reasons for having had to make such an estimate;

- for any investments in external investment pools that report their investments at amortized cost in accordance with the GASB Statement 79, the presence of any limitations or restrictions on withdrawals (such as notice periods, maximum transaction amounts, and the qualifying external investment pool's authority to impose fees or redemption gates);

- any income from investments associated with one fund that is assigned to another fund.

Governments should disclose policies relevant to each of different types of risks,***but only for those types of risks actually faced by the government***. If a government does not have a policy

that covers one or more of the risks it is facing, that fact must be disclosed.

For more information see GASB Statements 3, 28, 31, 40, 59 and 72
Return to Reference 2

[3] Disclose any income from investments associated with one fund that is assigned to another fund. See BARS Manual 3.2.3, *Sweeping Interest and Investment Returns into General Fund* for legal requirements related to interest diversion.
Return to Reference 3

[4] This applies only to PARTICIPANTS in investment pools (For Sponsoring a County investment pool see Note X – External Investment Pool (Counties Only) **and** BARS Manual 3.2.2, *County External Investment Pool*)**.**

Participants in external investment pools must disclose:

- For pools that are not SEC-registered, a brief description of any regulatory oversight for the pool and whether fair value of the position in the pool is the same as the value of the pool shares.
- Whether participation is voluntary or involuntary.
- Whether investments in the pool are reported at amortized cost or fair value.
- For pools reported at amortized cost, any limitations or restrictions on withdrawals from external investment pools (such as redemption notice periods, maximum transaction amounts, and the external investment pool's authority to impose liquidity fees or redemption gates).

If the government cannot obtain information from a pool sponsor to make one or more disclosures, the government's understanding of the pool should be disclosed along with the fact that the government was unable to obtain confirmation from the pool about this understanding. See GASB Statement 79, *Certain External Investment Pools and Pool Participants*, paragraphs 42 and 43 for details.
Return to Reference 4

[5] Investments should generally be reported at their fair value. If there are no such investments, this section should be deleted.

- Fair value measurement at the end of the reporting period,
- Level of fair value hierarchy,
- A description of the valuation techniques used,
- For any significant changes in valuation techniques, the changes and the reason for making them.

Disclosure is required for the reason for any nonrecurring measurements.

Disclosure should be organized by type of investment. Appropriate grouping by type is a professional judgement based on:

- Nature, characteristics and risks of the asset or liability,
- Level of fair value hierarchy within which the fair value measurement is categorized,
- Whether standards specify a type for an asset or liability,
- Identifying transactions that are not orderly,
- Objective or the mission of the government,
- Characteristics of the government,
- Relative significance of assets and liabilities,
- Whether separately issued financial statements are available,
- Line items presented in the statement of net position.

However, governments have the option of reporting certain investments at cost or amortized cost. For example, investments held by external investment pools meeting requirements of GASB

Statement 79, *Certain External Investment Pools and Pool Participants*, and money market investments and participating interest-earning investment contracts with a remaining maturity at time of purchase of one year or less, provided that the fair value is not significantly affected by credit impairments or other factors.

Level 1 inputs
Level 1 inputs are quoted (unadjusted) prices in active markets for identical assets or liabilities that the government can access at the measurement date. Observable markets include exchange markets, dealer markets, brokered markets and principal-to-principal markets.

Level 2 inputs
These are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Inputs are derived from or corroborated by observable market data through correlation or by other means.

- Quoted prices for similar assets or liabilities in active markets,
- Quoted prices for identical or similar assets or liabilities in inactive markets,
- Inputs other than quoted prices that are observable for the asset or liability, such as:
    - **Interest rate and yield curves observable at commonly quoted intervals**
    - **Implied volatilities**
    - **Credit spreads**
- Market-corroborated inputs.

Level 3 inputs
Unobservable inputs for the asset or liability; only should be used when relevant Level 1 and 2 inputs are unavailable. Government may use their own data to develop unobservable inputs if there is no information available.

The SSAP should indicate whether the government used this option and, if so, for which one specific categories of investment. Also, if a government uses some other than quoted market prices to estimate the fair values, the methods and significant assumptions should be disclosed.

Note: Governments using a pricing service or custody bank for fair values will need closely review statement to ensure valuation changes are correctly reported.

Determine what the source of the fair value information will be for each item. Do not simply rely on the fair value reported to you on monthly bank statement or brokerage statements. Contact the financial institution to understand how they determine fair value.

Example:

If there are derivatives investments identified as hedging instruments, an additional disclosure is required per GASB Statement 53, *Accounting and Financial Reporting for Derivative Instruments (amended by GASBS 64)*.

Return to Reference 5

[6] Investments Measured at Net Asset Value (NAV)

A government can use NAV per share, as a practical expedient, for investments in nongovernmental entity that does not have a readily determinable fair value (also known as “alternative investments”). The NAV is not permitted for valuation if it is probable the government will sell the investment at a different price. Investments measured at NAV would be excluded from the fair value hierarchy (Level 1, 2, or 3). Note: Investment pools containing language for NAV at fair value or amortized cost should be reported in accordance with other investments at fair value or amortized cost, and not as investments using NAV as a practical expedient.

Alternative investments measured using NAV require additional disclosure for financial statement users to understand the investment’s nature and risks due to the increased uncertainty and subjectivity of the investment and whether such investments are likely to be sold at an amount different from NAV per share. The required disclosure includes:

- Fair value measurement of the investment type and description of the significant investment strategies;
- For investments that can never be redeemed with the investees, the government’s estimate

of the liquidation period;

- Amount of unfunded commitments;
- General description of the redemption terms and conditions;
- Redemption restrictions, estimate of length of restriction period or how long restriction has been in place;
- Any other selling restrictions;
- Fair value of investments for any planned sales at an amount different from NAV per share and any remaining actions required to complete the sale;
- If a sale is planned but not all assets have been identified, the government's plans to sell and any remaining actions required to complete the sale.

Return to Reference 6

[7] Optional disclosure for cash and investments reconciliation. There is no requirement to reconcile the disclosures required for cash equivalents or deposits and investments to the statement of cash flows or to the statement of net position/balance sheet. Many of the deposits and investments that are subject to disclosure requirements may be reported in the statement of net position/balance sheet as *cash and cash equivalents*. Other may be reported in the statement of net position/balance sheet using titles that do not identify their nature as deposits and investments. Disclosure of such reconciliation can provide useful information to the users of the financials.
Return to Reference 7

[8] If in the period covered by the financial statements, the city/county/district participated in the securities lending transactions, the following information should be disclosed:

- legal or contractual authorization for the securities lending transactions;
- significant violations of legal and contractual provisions during the period;
- actions taken to address such violations;
- general description of the securities lending transactions:
    - **type of securities lent,**
    - **type of collateral received,**
    - **whether the government has the ability to pledge or sell collateral securities without a default,**
    - **the amount by which the value of the collateral provided is required to exceed the value of underlying securities,**
    - **any restrictions on the amount of the loans that can be made,**
    - **any loss indemnification (i.e., a securities lending agent's guarantee that it will protect the lender from certain losses);**
- fair values of underlying securities at the balance sheet date;
- whether the maturities of the investments made with cash collateral generally match the maturities of their securities loans, as well as the extent of such matching at the balance sheet date;
- the amount of credit risk, if any, related to the securities lending transactions (if the lender has not credit risk, that fact should be stated);
- the amount of any losses on the securities lending transactions during the period resulting from the default of a borrower or lending agent and amounts recovered from prior period losses, if not separately disclosed in the operating statement.

Securities lending transactions are subject to custodial risk disclosure requirements addressed in paragraph 9 of GASB Statement 40, *Deposits and Investments Risk Disclosures*. See paragraph 10 of the above statement for applicability of this disclosure.

(For more details, see the GASB Statement 28, *Accounting and Financial Reporting for Securities Lending Transactions* as amended by the GASB Statement 40, *Deposits and Investments Risk Disclosures*.)
Return to Reference 8

[9] Local government may disclose realized gains and losses computed as the difference between the proceeds of the sale and the original cost of the investments sold. They also should disclose that:

a. The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments.

b. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year(s) and the current year.

For more details, see the GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*, as amended by the GASB Statement 40, *Deposits and Investments Risk Disclosures*.
Return to Reference 9

[10] If applicable, disclose the U.S. dollar value of any deposits or investments denominated in foreign currency, organized by each different foreign currency denomination and type of investment.
Return to Reference 10

Note X – Derivative Instruments

Note X – Derivative Instruments

A. Summary of Derivative Instruments

At December 31, 20__, the (city/county/district) had the following derivative instruments outstanding: **[1]**

Reported Derivative Instruments	Notional Amount	Changes in Fair Value	
		Classification	Amount
Governmental Activities			
Fair value hedges:			
Cash flow hedges:			
Investment derivatives:			
Business-Type Activities			
Fair value hedges:			
Cash flow hedges:			
Investment derivatives:			
Fiduciary Funds			
Investment derivatives:			

B. Objective and Terms of Hedging Derivatives

The following table displays the objective and terms of the (city/county/district) hedging derivative instruments outstanding at December 31, 20__, along with the credit rating of the associated counter party. **[2]**

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counter Party Rating

C. Net Cash Flows of Derivatives Hedging Debt

The following table displays the (city/county/district) net cash flows of derivatives hedging debt:

Year Ending December 31	Principal	Interest	Hedging Derivatives, Net	Total
20__				
20__				
20__				
20__				
20__				
20__-20__				
20__-20__				
Total				

D. Hedging Derivative Risks **[3]**

E. Investment Derivative Risks **[4]**

F. Contingent Features **[5]**

Instructions to preparer:

Government Accounting Standards Board (GASB) Statement 53 requires the fair value of derivatives to be determined and reported on the appropriate statements of net position (government-wide and proprietary funds). The changes in fair value of investment derivatives should be reported within the investment revenue classification on the appropriate operating statements. Changes in fair value of hedging derivative instruments should be recognized using hedge accounting. This requires these changes be reported on the appropriate statement of net position as either deferred inflows or outflows, as long as the hedge is effective. When the hedging derivative contract ends or the hedge is determined to no longer be effective deferred amounts should be reported on the appropriate operating statements.

GASB Statement 53 also requires financial note disclosure for a government's derivative instrument activity. The following section discusses these requirements for all derivative types. They include disclosures for hedging derivatives for cash flows and fair value and investment derivatives. Governments need only disclose those areas that are applicable to them. The disclosures are:

- Summary of derivative instruments (narrative and table of fair values and changes in fair value)
- Objectives and terms of hedging derivatives (including table of net cash flows, if the item being hedged is debt) and the risks related to hedging derivatives
- Disclosures for investment derivatives
- Contingent liabilities

Summary of derivative instruments:

Derivatives should be summarized and reported in their related activity: governmental-activities, business-type activities and fiduciary funds. Within each of those activities the derivatives will be categorized by type:

- Fair value hedging derivatives
- Cash flow hedging derivatives
- Investment derivatives

Individual derivatives are not required to be displayed. They may be totaled by type and presented by type under the appropriate activities. The following information must be disclosed about each type contained in an activity. See the example derivative summary below.

Example summary disclosure for derivatives:

1. Notional amount – the amount of the underlying; stated in dollars, shares, gallons, etc.
2. Fair value – as of the date of the financial statements and the locations in the financial statements where it is reported.
3. Changes in fair value during the year – and the locations in the financial statements where the changes are reported.
4. The fair value of hedging derivatives that were reclassified as investment derivatives because they were no longer effective.
5. The amount of removed from deferred inflows and outflows in the statements of position and reported as investment income (because a derivative ended).

Footnotes:

[1] Objectives and Terms of Hedging Derivatives

Governments may aggregate information on hedging derivatives; however, if there are differences many may require individual disclosure. Required disclosures include:

- An explanation of a government's objective for entering into the hedging contract and how it plans to achieve its objective.
- Significant terms of hedging derivative to be disclosed:

Notational amount
Indexed or interest rates it's based on, including the impact that changes in the indexes or rates can have on the derivative
Options imbedded in the derivative
Starting and ending dates
The cash payment, if any, that was made when the derivative was initiated.

Example objectives and terms of hedging derivatives:

Type	Objective	Notional Amount	Effective Date	Maturity Date	Terms	Counter Party Rating
Receive-fixed interest rate swaps	Hedge of changes in FV of 20W7 bonds	$30,000	9/30/W6	9/30/Z1	Receive 5%; pay 67% SOFR	A/A
Pay fixed interest rate swaps	Hedge of changes in cash flows on 20W1 series F bonds	$60,000	3/31/W1	3/31/Y6	Pay 5.4%; receive SIFMA index	AAA/Aaa

Pay fixed interest rate swaps	Hedge of changes in cash flows on 20W8 series D bonds	$24,000	2/28/W8	2/28/Y8	Pay 3.9%; receive 67% of SOFR	AAA/Aaa
Rate cap	Rate cap on 20W8 bonds	$10,000	7/31/W7	7/31/Y7	SIFMA swap index cap, 8%	AA/Aa
Commodity forward contract	Hedge of cash flows due to market price fluctuation #2 home heating oil	1,000 BTUs	4/30/X0	12/31/X0	Pay $7.50 per MMBTU; Settlement based on Henry Hub pricing at expiration date	AA/Aa
Pay fixed interest rate swaps	Hedge of changes in cash flows on 20X0 series D bonds	$ 37,000	5/31/X0	5/31/Y0	Pay 3.2%; receive 67% of SOFR	AAA/Aaa

[2] If the item being hedged is debt, the government should disclose the net cash flow of the hedging derivative. This information is to be provided until maturity. The disclosure should present the following information for each of the next five years and then in five year increments until the end of the contract. Principal portion of debt payment, interest portion of payment, net cash flow for debt hedging derivatives, and total. See the example below.

Example Net Cash Flows of Derivative Hedging Debt Table:

Year Ending December 31	Principal	Interest	Hedging Derivatives, Net	Total
20__	$6,000	$7,786	$(1,253)	$12,533
20__	10,000	7,525	(1,211)	16,314
20__	27,000	7,090	(1,141)	32,949
20__	33,000	5,916	(952)	37,964
20__	15,000	4,480	(721)	18,759
20__-20__	29,000	19,140	(3,080)	45,060
20__-20__	15,000	12,385	1,475	28,860
20__-20__	14,000	9,570	(528)	23,042
20__-20__	30,000	6,310	(300)	36,010
Total	$179,000	$80,202	$(7,711)	$251,491

[3] Disclosures for Hedging Derivative Risks

Entities need to present disclosure of the risks for the hedging derivatives which the government

is exposed.

- Termination risk – a government needs to disclose any termination that occurred during the fiscal period, dates that its remaining derivatives may be terminated, and unusual conditions for termination.
- Credit risk – If a derivative exposes it to credit risk, report:

The credit quality of the firm
The maximum potential loss if the firm fails to fulfill it obligations
The collateral or other security supporting the derivatives
Significant concentrations of credit risk with a particular firm or group of firms

- Interest rate risk – describes the terms that increase the government's exposure to interest rate risk.
- Basis risk – disclose the derivatives payment terms and terms of the associated debt.
- Rollover risk – disclose the maturity of the derivative and the subsequent maturity date of the associated debt.
- Market access risk – potential to the risk of being unable to borrow in the future.
- Foreign currency risk – disclose the U.S. dollar balances of derivatives that expose the government to this risk.

[4] Disclosures for Investment Derivatives Risks

For derivatives that are investments, governments should disclose the credit risk information that could give rise to financial loss. Risk disclosures are limited to investment derivatives that are reported as of yearend.

[5] Contingent Features

Governments should disclose obligations to post collateral if the credit quality of the hedgeable item declines. They should report:

- The existence and nature of contingent features and circumstances which could trigger the features.
- The aggregate fair value of the derivatives with those features.
- The aggregate fair value of assets that would be required to be posted as collateral or transferred
- The amount, if any, that has been posted or transferred during the period.

Hybrid Instruments

Hybrid instruments are a derivative instrument that has a companion instrument. If a government reports a hybrid instrument disclosures of the companion instrument should be consistent with disclosures required of similar transactions.

Synthetic Guaranteed Investment Contracts

Governments that report a synthetic guaranteed investment contract that is fully benefit responsive should disclose the following information.

- description of the nature of the SGIC,
- the SGIC's fair value.

Note X – Endowments

Note X – Endowments

A template for this note is not available. See "Instructions to preparer:" for various disclosures that may be required.

Instructions to preparer:

Governments may receive endowments that are subject to donor-imposed restrictions. In these cases the following items need to be disclosed:

- the amount of net appreciation on investments that are available for expenditure authorized by the governing board, and how these amounts are classified within net position on the statement of net position,
- the state/local law regarding the ability to spend net appreciation on investment, and
- the policy for authorizing and spending investment income, such as spending rate or total return policy.

Government Accounting Standards Board (GASB) Statement 34, paragraph 121.

Example:

Endowments are provided to the (city/county/district) on a voluntary basis by individuals and private organizations. Permanent endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor did not provide specific instructions, (e.g., state law, etc.) permits the (city/county/district's) (legislative body) to authorize to expense the net appreciation of the investments of the endowment funds as discussed below.

Expendable endowments as of December 31, 20_ :

Program A	*$_____*
Program B	*$_____*
_____	_____
_____	_____
Total	*$_____*

Nonexpendable endowments as of December 31, 20_ :

Program A	*$_____*
Program B	*$_____*
_____	_____
_____	_____
Total	*$_____*

Note X – External Investment Pool (Counties Only)

Note X – External Investment Pool

The External Investment Pool sponsored by the County was established in [date]. Revised Code of Washington (RCW) 36.29.022, 36.29.010, 36.29.020, authorize the County Treasurer to invest its surplus cash and any funds of municipal corporations which are not required for immediate expenditure and are in the custody or control of the county treasurer. The External Investment Pool's investments are invested pursuant to the Revised Code of Washington. Any credits or payments to pool participants are calculated and made in a manner as required by RCW 36.29.024.

The investments are managed by the Treasurer, which reports investment activity to the County Finance Committee on a (describe timing, i.e., monthly, quarterly, etc.). Additionally, the County treasurer investment activity is subject to an annual investment policy review, compliance oversight, quarterly financial review, and annual financial reporting. The County has not provided nor obtained any legally binding guarantees during the year ended December 31, 20XX, to support the value of shares in the Pool.

The External Investment Pool is not registered with the SEC and is not subject to any formal oversight other than that provided by the County Finance Committee. The Committee is responsible for adopting investment objectives and policies, for hiring investment advisors, and for monitoring policy implementation and investment performance. The Committee's primary role is to oversee the allocation of the Pool's portfolio among the asset classes, investment vehicles, and investment managers.

The interest or other earnings of income from the funds of any municipal corporation of which the governing body has not taken any action pertaining to the investment of funds and that have been invested in accordance with state statutes, shall be deposited in the current expense fund of the county and may be used for general county purposes. The total amount of income from the External Investment Pool assigned to the County's general fund for the year was $_____. These investments made by the County Treasurer on behalf of the participants is involuntary participation in the County Treasurer's Investment Pool as they are required to be invested by statute.

(Percentage) of the County Treasurer's Pool consists of these involuntary participants. Voluntary participants in the County Treasurer's Pool include (describe). The deposits held for both involuntary and voluntary entities are included in the Pooled Investment Trust Fund.

The Treasurer also maintains Individual Investment Accounts, as directed by external depositors, which are invested pursuant to the Revised Code of Washington. This investment activity occurs separately from the County's Pool and is reported in the Individual Investment Trust Fund in the amount of $_____. Income from the specific investments acquired for the individual municipalities, and changes in the value of those investments, affect only the municipality for which they are acquired, and are aggregated in the Individual Investment Fund.

Instructions to preparer:

Investments are stated at fair value and are valued on a (describe basis, i.e. Monthly). The treasurer categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles (GAAP). Securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Securities classified in Level 2 of the fair value hierarchy are valued using other observable inputs such as matrix pricing techniques or based on quoted prices for assets in markets that are not active. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Level 3 inputs are significant unobservable inputs. Securities are valued using the income approach such as discounted cash flow techniques. Investment in an external government investment pool is not subject to reporting within the level hierarchy.

The County treasurer has the following recurring fair value measurements as of December 31, 20XX:

		Fair Value M	
	Fair Value	Quoted Prices in Active Markets for Identical (Level 1)	Signi O
Investments by Fair Value Level			
Debt Securities			
U.S Teasuries			
U.S. Treasury STRIPS			
U.S. Agencies			
Mortgage Pass Throughs			
Collateralized Mortgage Obligations			
Asset-backed Securities			
Commercial Paper			
Money Market Mutual Funds			
Total Investments by Fair Value Level			
Total Investments Measured at Fair Value	$		
Other Securities not Measured at Fair Value			
Non-negotiable Certificates of Deposit			
State LGIP			
	$		

[If a government external investment pool is sponsored by the County and IT DOES PUBLISH A SEPARATE ANNUAL FINANCIAL REPORT FOR THE POOL, add the required GASB 31 disclosures. The following example - placement of this portion of the note is dependent on its applicability.]

Separate financial statements for the Investment funds may be obtained from the County Treasurer's Office, or by calling [provide telephone number].

[If a government external investment pool is sponsored by the County and IT DOES NOT PUBLISH A SEPARATE ANNUAL FINANCIAL REPORT FOR THE POOL, add the required GASB 31, as amended, disclosures. The following example - placement of this portion of the note is dependent on its applicability.]

Since a separate annual financial report on the External Investment Pool has not been, and is not planned to be, issued, the following additional disclosures are being provided in the County's financial statements.

The External Investment Pool's Statement of Net Position and Statement of Operations and Changes in Net Position as of and for the period ended December 31, 20XX, are as follows:

Statement of Net Position December 31, 20XX		
		Amount
Assets:		
Cash in Bank (Overdraft)	$	
Accounts Receivable		
Accrued Investment Income		
Investments		
Total Assets	$	0.00
Liabilities:		
	$	
Total Liabilities		0.00
Net Position As Held in Trust for All Pool Participants:		
Internal Portion		
External Portion		
Total Net Position		0.00
Net Position consists of:		
Participant units oustanding ($1.00)		
Undistributed and unrealized gains/(losses)		
Net position		
Participant net asset value at fair value per share		
($Net Position / Number of Units)		$X.XX

Statement of Operations and Changes in Net Position For the Fiscal Year Ended December 31, 20XX		
		Amount
Increase in Net Position from Operations:		
Revenues:		
Investment Income	$	
Expenditures:		
Investment Management		
Net Increase in Net Position Resulting from Operations		0.00
Distributions to Participants:		
Distributions Paid and Payable		
Share Transactions:		
Reinvestment of Distributions		
Net Share Purchases		
Total Increase in Net Position		0.00
Net Position:		
Beginning of Year		
End of Year	$	0.00

The pool values participant's shares on an amortized cost basis. Specifically, the pool distributes income to participants on a quarterly basis based on their relative participation during the quarter that is calculated based on (1) realized investment gains and losses calculated on an amortized cost basis, (2) interest income based on stated rates (both paid and accrued), (3) amortization of discounts and premiums on a straight-line basis, and (4) investment and administrative expenses. This method differs from the fair value method used to value investments in these financial statements because the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair values of the pool's investments. The total difference between the fair value of the investments in the pool and values distributed to the pool participants using the amortized cost method described above is reported in the net position section of the net position section of the statement of fiduciary net position as undistributed and unrealized gains (losses). The external portion of the Pool is presented in the accompanying financial statements as "Held for external investment pool participants."

Note X – Extraordinary and/or Special Items

Note X – Extraordinary and/or Special Items

A template for this note is not available. See "Instructions to preparer:" for various disclosures that may be required.

Instructions to preparer:

Extraordinary items are events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence. Thus, both of the following criteria should be met to

classify an event or transaction as an extraordinary item:

a. Unusual nature the underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity.

b. Infrequency of occurrence the underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future.

Special items are significant items subject to management's control that meet one but not both of the criteria used for identifying extraordinary items.

Descriptive captions and the amounts for individual extraordinary/special events or transactions should be presented, preferably on the face of the financial statement, if practicable; otherwise disclosure in related notes is acceptable. The nature of an extraordinary/special event or transaction and the principal items entering into the determination of an extraordinary gain or loss should be described.

Note X – Financial Guarantees

Note X – Financial Guarantees

A template for this note is not available. See "Instructions to preparer:" for various disclosures that may be required.

Instructions to preparer:

Guarantors

Regardless of the likelihood of a payment being required, a guarantor should disclose the following information, by type of guarantee, for all non-exchange financial guarantees:

1. A description of the non-exchange financial guarantee, identifying:

- The legal authority and limits for extending the guarantees and types of obligations guaranteed.
- The relationship of the government to the issuer or issuers of the obligations that are guaranteed.
- The length of time of the guarantees.
- Arrangements for recovering payments from the issuer or issuers of the obligations that are guaranteed.

2. The total amount of all guarantees extended that are outstanding at the reporting date.

A guarantor that recognizes a liability or has made payments during the reporting period should disclose the following information:

1. A brief description of the timing of recognition and measurement of the liabilities and information about the changes in recognized guarantee liabilities, including the following:

- Beginning of period balances.
- Increases – including initial recognition and adjustments increasing estimates.
- Guarantee payments made and adjustments increasing estimates.
- End of period balances.

2. Cumulative amounts of indemnification payments that have been made on guarantees extended that are outstanding at the reporting date.

3. Amounts expected to be recovered from indemnification payments that have been made through the reporting date.

Original Issuer of the Obligation

A government that has outstanding obligations that have been guaranteed by another entity should disclose the following information for each guarantee:

- The name of the entity providing the guarantee.
- The amount of the guarantee.
- The length of time of the guarantee.
- The amount paid, if any, by the guarantor during the current reporting period.
- The cumulative amount paid by the guarantor.
- A description of requirements to repay the guarantor.
- The outstanding amounts, if any, required to be repaid to the guarantor.

If a government has issued a guaranteed obligation for which payments have been made by the guarantor and the obligation is no longer outstanding, it should disclose:

- The amount paid by the guarantor on obligations during the current reporting period.
- The cumulative amount paid by the guarantor.
- A description of requirements to repay the guarantor.
- The outstanding amounts, if any, required to be repaid to the guarantor.

For a detailed discussion of the financial guarantees see BARS Manual3.4.12, *Financial Guarantees* and GASB Statement 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*.

Note X – Going Concern

Note X – Going Concern

Use the following disclosure in circumstances where substantial doubt is alleviated by management's plans:

(Describe conditions or events giving rise to a substantial doubt about the government's ability to continue as a going concern for a reasonable period of time) **[1]**

(Describe management's plan) **[2]** These planned actions are expected to enable the government to continue operating and meeting its obligations as they come due.

Use the following disclosure in circumstances where substantial doubt is NOT alleviated by management's plans:

The financial statements have been prepared on a going concern basis, which assumes the (city/county/district) will be able to realize its assets and settle its liabilities in the normal course of business for the foreseeable future. (Describe conditions or events giving rise to a substantial doubt about the government's ability to continue as a going concern for a reasonable period of time) **[1]**

These conditions raise substantial doubt about the (city/county/district)'s ability to continue operating as it has in the past. (Describe management's plan) **[2]** The ability to continue as a going concern is dependent upon (describe conditions needed, such as a favorable outcome to litigation, ability to secure permanent financing, continuing to receive outside assistance with deficits, reduction of certain expenditures or increase in certain revenues, success of management's plans as described above, etc.)

Instructions to preparer:

Management's evaluation of the government's ability to continue as a going concern for a reasonable period of time involves making a judgement, at a particular point in time, about inherently uncertain future outcomes of conditions or events. The following factors are relevant to that judgment:

- The degree of uncertainty associated with the outcome of a condition or event increases significantly the further into the future a condition or event or the outcome occurs. For that reason, most financial reporting frameworks require an explicit management evaluation specific to the period, for which management is required to take into account all available information.

- The size and complexity of the government, the nature and condition of its business, and the degree to which it is affected by external factors affect the judgment regarding the outcome of the condition or events.
- Any judgment about the future is based on conditions or events that are known and reasonably knowable at the date that the financial statements are issued (or at the date that the financial statements are available to be issued, when applicable). Subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made.

[1] If conditions or events raise a substantial doubt about a government's ability to continue as a going concern for a reasonable period of time (fifteen months beyond the date of the financial statements), the notes to the financial statements should include disclosure of the following, as appropriate:

- Relevant conditions and events giving rise to the assessment of substantial doubt
- The possible effects of such conditions and events , including possible discontinuance or severe reduction of operations, if applicable
- Government officials' evaluation of the significance of those conditions and events and any mitigating factors,
- Government officials' plans, including relevant prospective financial information or subsequent events
- Information about the recoverability or classification of recorded asset amounts or the amounts or classification of liabilities that may be affected by the events or conditions.

[2] The following list includes examples of plans that management may implement to mitigate conditions or events and specific considerations regarding information to disclose about those plans (examples are not all inclusive). For all plans, consider disclosure of estimated time frame for action, whether the planned action has been approved by the governing body or is just being considered, and possible direct or indirect effects of disposal on operations or levels of service.

- Discontinuing or outsourcing certain activities or operations. Consider disclosing estimated transition costs and future cost savings (if known) and any restrictions, whether services are expected to be assumed by other governments, and any encumbrances or uncertainties related to the discontinuance, such as the need to negotiate with service providers or contractors.
- Selling an asset. Consider disclosing any conditions, restrictions, encumbrances or uncertainties related to the sale or marketability of the asset.
- Borrowing money or restructuring debt. Consider disclosing availability and terms of planned financing and any expected need for collateral or third-party guarantees.
- Reducing or delaying expenditures. Consider disclosing whether reductions are planned to be temporary or permanent and any restrictions, encumbrances or uncertainties related to the reduction, such as the need to negotiate with unions, vendors or other parties.
- Raising revenues. Consider disclosing any conditions or uncertainties such as the outcome of a vote or grant application.

Note X – Government Combinations

Note X – Government Combinations

Government Combinations: Mergers, Transfers of Operations, Acquisitions, Disposals of Operations

A template for this note is not available. See "Instructions to preparer:" for various disclosures that may be required.

Instructions to preparer:

Adjust the title appropriately to the government's combination. The following disclosure applies to any combination:

- Brief description of combination,

- Date of combination, and
- Brief description of the primary reason for the combination.

Government Mergers and Transfers of Operations

The new/continuing government should disclose:

1. Amounts recognized for each financial element in the statement of net position of the merged entity:

- Within total assets, distinguishing: current assets, capital assets, and other assets
- Within total liabilities, distinguishing: current amount from long-term amounts
- Deferred outflows and inflows

2. Brief description of significant adjustment, and

3. Initial amounts recognized by the new/continuing government if different from those previously recognized by the merged entity (because of adjustments).

Government Acquisitions

For government acquisition, the acquiring government should disclose:

- Brief description of the consideration provided,
- Total amount of net position acquired, and
- Brief description of contingent consideration arrangements.

Disposals of Operations

- A government disposing of operations should disclose:
- Identification of operations that were transferred or sold,
- Description of the facts and circumstances leading to the disposal,
- Total expenses (distinguishing between operating and nonoperating),
- Total revenues (distinguishing between operating and nonoperating), and
- Total governmental fund revenues and expenditures.

For a detailed discussion of the governmental combinations seeGASB Statement 69, *Government Combinations and Disposals of Government Operations*

Note X – Interfund Balances and Transfers

Note X – Interfund Balances and Transfers

A. Interfund Balances **[1]**

Interfund balances at December 31, 20__ were as follows:

		Due From					
Due To		General Fund				All Others	Total
	General Fund	$					$
	Total	$					$

B. Interfund Transfers **[2]**

Interfund transfers at December 31, 20__ were as follows:

		Transfer From					
Transfer To		General Fund				All Others	Total
	General Fund	$					$
	Total	$					$

Instructions to preparer:

List all major funds (governmental and enterprise). List other funds (non-major governmental, non-major enterprise, and internal service funds) in aggregate for each category. Some of these transfers may be immaterial so aggregate them into a single column or row titled *All Others*.

[1] Also, explain the purpose for the interfund balance and disclose which interfund balances are not expected to be repaid within one year from the date of financial statements.

[2] Provide a general description of the principal purpose of the government's interfund transfers. Provide a detail description of the purpose for significant transfers. A transfer is considered significant if it meets either or both of the following criteria:

1. Does not occur on a routine basis, and/or
2. It is inconsistent with the activities of the fund making the transfer.

Note X – Joint Ventures

Note X – Joint Ventures

A template for this note is not available. See "Instructions to preparer:" for various disclosures that may be required.

Instructions to preparer:

The definition of ***joint ventures*** and accounting methods are discussed in BARS Manual3.2.8, *Joint Ventures*. The requirements listed below are necessary regardless of whether or not there is an equity interest.

The note should provide the following information:

1. General description of the joint venture including:

a. Information about ongoing financial interest or ongoing financial responsibility,
b. If applicable, information about equity interest,
c. Information regarding the performance of the joint venture to help users evaluate if the joint venture may cause additional benefit or burden to the participating entity in the future.

2. Information about availability of separate financial statements of the joint ventures (addresses).

The participating entity should also disclose information regarding related party transactions.

Due to the uniqueness of each joint venture we are not able to provide notes for every possible situation. The following sample note depicts all requirements for the joint venture disclosure and should be used as guidance.

The Sample County and Example City operate jointly the Consolidated Computer Center (CCC). The CCC provides data processing services for the county and city. The Center is governed by a four-member board composed of two appointees from the county and two from the city.

The Sample County and the Example City are obligated to remit $150,000 annually to supplement the CCC's operating revenues. Each participant is entitled to one-half of the CCC's annual operating income. On dissolution of the joint venture, the assets will be shared equally between the county and city.

The Sample County's equity interest in the CCC was $1,200,000 on December 31, 20XX.

In 20XX the CCC reported $600,000 in operating income and remitted $300,000 to the Sample County. The county's net investment and its share of operating results are reported in county's

computer systems fund (an enterprise fund).

Complete financial statements for the CCC can be obtained from the CCC's administrative office at (address) or from the county clerk's office at the courthouse.

If the city/county/district participates in a jointly governed organization, the notes should provide any relevant information or related party transactions.

Note X – Leases (Lessees)

Note X – Leases (Lessees)

A template for this note is not available. See "Instructions to preparer:" for disclosures that may be required.

Instructions to preparer:

Per GASB 87, *Leases*, a **lessee** should disclose the following about its lease activities (which may be grouped for purposes of disclosure), other than short-term leases:

(1) A general description of its leasing arrangements, including (1) the basis, terms, and conditions on which variable payments not included in the measurement of the lease liability are determined and (2) the existence, terms, and conditions of residual value guarantees provided by the lessee not included in the measurement of the lease liability.

(2) The total amount of lease assets, and the related accumulated amortization, disclosed separately from other capital assets *(see sample table below).*

(3) The amount of lease assets by major classes of underlying assets, disclosed separately from other capital assets *(see sample table below).*

Example:

	Beg. Bal.	Increases	Decreases	End. Bal.
Leased Land				
Leased Bldgs.				
Leased Equip.				
Total				
Accum. Amor. Leased Land				
Accum. Amor. Leased Bldgs.				
Accum. Amor. Leased Equip.				
Total				

(4) The amount of outflows of resources recognized in the reporting period for variable payments not previously included in the measurement of the lease liability.

(5) The amount of outflows of resources recognized in the reporting period for other payments, such as residual value guarantees or termination penalties, not previously included in the measurement of the lease liability.

(6) Principal and interest requirements to maturity, presented separately, for the lease liability for each of the five subsequent fiscal years and in five-year increments thereafter.

Example:

As of December 31, 2020, the principal and interest requirements to maturity are as follows:

Year ended December 31	Principal	Interest	Total
2021	$	$	$
2022	$	$	$
2023	$	$	$
2024	$	$	$

2025	$	$	$
2026-2030	$	$	$
2031-2035	$	$	$
Total	$	$	$

(7) Commitments under leases before the commencement of the lease term.

(8) The components of any loss associated with an impairment (the impairment loss and any related change in the lease liability, as discussed in paragraph 34).

(9) A lessee also should provide relevant disclosures for the following transactions, if applicable:

a. Sublease transactions (see paragraph 81)
b. Sale-leaseback transactions (see paragraph 85)
c. Lease-leaseback transactions (see paragraph 87).

(10) A lessee is not required to disclose collateral pledged as a security for a lease (under paragraph 113 of Statement 62) if that collateral is solely the asset underlying the lease.

Note X – Leases (Lessors)

Note X – Leases (Lessors)

A template for this note is not available. See "Instructions to preparer:" for disclosures that may be required.

Instructions to preparer:

Per GASB 87, *Leases*, a **lessor** should disclose the following about its lease activities (which may be grouped for purposes of disclosure), other than short-term leases and certain regulated leases:

1. A general description of its leasing arrangements, including the basis, terms, and conditions on which any variable payments not included in the measurement of the lease receivable are determined.

2. The total amount of inflows of resources (for example, lease revenue, interest revenue, and any other lease-related inflows) recognized in the reporting period from leases, if that amount cannot be determined based on the amounts displayed on the face of the financial statements.

3. The amount of inflows of resources recognized in the reporting period for variable and other payments not previously included in the measurement of the lease receivable, including inflows of resources related to residual value guarantees and termination penalties.

4. The existence, terms, and conditions of options by the lessee to terminate the lease or abate payments if the lessor government has issued debt for which the principal and interest payments are secured by the lease payments.

5. A lessor also should provide relevant disclosures for the following transactions, if applicable:

1. Leases of assets that are investments (see paragraph 41)
2. Certain regulated leases (see paragraph 60)
3. Sublease transactions (see paragraph 81)
4. Sale-leaseback transactions (see paragraph 85)
5. Lease-leaseback transactions (see paragraph 87).

6. In addition to the disclosures above, if a lessor's principal ongoing operations consist of leasing assets to other entities, the government should disclose a schedule of future payments that are included in the measurement of the lease receivable, showing principal and interest separately, for each of the five subsequent fiscal years and in five-year increments thereafter.

Example:

As of December 31, 2020, future lease receivable principal and interest payments are as follows:

Year ended December 31	Principal	Interest	Total
2021	$	$	$
2022	$	$	$
2023	$	$	$
2024	$	$	$
2025	$	$	$
2026-2030	$	$	$
2031-2035	$	$	$
Total	$	$	$

7. A lessor with one or more regulated leases, as described in paragraphs 42 and 43, should disclose the following about those lease activities (which may be grouped for purposes of disclosure), other than short-term leases:

a. A general description of its agreements.

b. The extent to which capital assets are subject to preferential or exclusive use by counterparties under agreements, by major class of assets and by major counterparty.

c. The total amount of inflows of resources (for example, lease revenue, interest revenue, and any other lease-related inflows) recognized in the reporting period from these agreements, if that amount cannot be deter- mined based on the amounts displayed on the face of the financial statements.

d. A schedule of expected future minimum payments under these agreements for each of the subsequent five years and in five-year increments thereafter.

e. The amount of inflows of resources recognized in the reporting period for variable payments not included in expected future minimum payments.

Note X – Long-Term Debt

Note X – Long-Term Debt

A. Long-Term Debt

The (city/county/district) issues general obligation and revenue bonds to finance the purchase of _____ and the acquisition or construction of _____. Bonded indebtedness has also been entered into (currently and in prior years) to advance refund several general obligation and revenue bonds. General obligation bonds have been issued for both general government and business-type activities and are being repaid from the applicable resources. The revenue bonds are being repaid by proprietary fund revenues. The (city/county/district) is also liable for notes that were entered into for the purchase of _____. These notes are considered obligations of the general government and are being repaid with general governmental revenue sources.

General obligation bonds currently outstanding are as follows:[1]

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installment
			$	$
			$	$

The annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
20__	$	$	$	$
20__				
20__				
20__				
20__				
20__ - 20__ [2]				
Total	$	$	$	$

Also see Footnote 2

The annual debt service requirements to maturity for debt from direct borrowings and direct placement are as follows:

Year Ending December 31	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
20__	$	$	$	$
20__				
20__				
20__				
20__				
20__ - 20__ [2]				
Total	$	$	$	$

Also see Footnote 2

The revenue bonds currently outstanding are as follows:**[1]**

Purpose	Maturity Range	Interest Rate	Original Amount	Amount of Installment
			$	$
			$	$

Revenue bond debt service requirements to maturity are as follows:

Year Ending December 31	Principal	Interest
20__	$	$
20__		
20__		
20__		
20__		
20__ - 20__ [2]		
Total	$	$

Also see Footnote 2

In proprietary funds, unamortized debt issue costs for insurance are recorded as an asset and bonds are displayed net of premium or discount; annual interest expense is decreased by amortization of debt premium and increased by the amortization of debt issue costs and discount. **[3]**

At December 31, 20__, the (city/county/district) has $_____ available in debt service funds to service the general bonded debt. Restricted assets in proprietary funds contain $_____ in sinking funds and reserves as required by bond indentures.

The (city/county/district) has pledged future (identify pledged revenue) revenue, net of (e.g., specified operating expenses, etc.), to repay $ in revenue bonds issued in , 20__. Proceeds from the bonds provided financing for (describe the purpose). The bonds are payable solely from (identify pledged revenue) revenue and are payable through 20__. Annual principal and interest payments on the bonds are expected to require less than percent of net revenues. The total principal and interest remaining to be paid on the bonds is $. Principal and interest paid for the current year and total (identify pledged revenue) were $ and $, respectively.**[4]**

B. Refunded Debt **[5]**

The (city/county/district) issued $_____ of general obligation refunding bonds to provide resources to purchase U.S. Government and State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on $_____ of refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net position. This advance refunding was undertaken to reduce total debt service payments over the next _____ years by $_____ and resulted in an economic gain of $_____.

Debt service requirements to maturity that would result if the take-out agreement were exercised

C. Conduit Debt **[6]**

D. Special Assessments **[7]**

E. Demand Bonds **[8]**

F. Unused Lines of Credit

The (city/county/district) also has an outstanding line of credit in the amount of $_____.

G. Other **[9]**

Instructions to preparer:

If conduit (no-commitment) debt is reported on the balance sheet, it needs to be included in all long-term disclosures.

Include ***all*** of the Schedule of Liabilities (Schedule 09), except debt of special purpose districts accounted for by counties.

If the city/county/district is authorized to issue debt that has not yet been issued, the notes should disclose this fact.

[1] The interest for variable-rate debt should be computed using rate effective at year end. The government should also disclose the terms by which interest rates for variable-debt change.

This disclosure is recommended. Also, it's recommended to disclose applicability of federal arbitrage regulations.

[2] Use five-year increments thereafter.

[3] If the government displays general long-term or special assessment debt net of premium or discount, you need to modify this paragraph to disclose the government's policy. You need to make a similar disclosure if the government capitalizes debt issue costs (rather than showing them as a current expenditure when paid, or netting proceeds of long-term debt) for general debt.

[4] For more details see Governmental Accounting Standards Board (GASB) Statement 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues*, paragraph 21.

The disclosures in this paragraph are not required for legally separate entities that report as stand-alone business-type activities whose operations are financed primarily by a single major revenue source.

If a specific revenue stream is pledged as security for multiple debt issuances, the required disclosures may be combined in a single note.

For this disclosure, pledged revenues recognized during the period may be presented net of specified operating expenses, based on the provisions of the pledged agreement; however, the amounts should not be netted in the financial statements.

[5] The city/county/district that issues debt to defease or otherwise extinguish existing obligations should provide this disclosure in the year of transaction. In the periods following an advance refunding in which the old debt is still outstanding the city/county/district would make the following disclosure:

In prior years the (city/county/district) defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on

the old bonds. Accordingly, the trust account assets and the liability for defeased bonds are not included in the (city/county/district's) financial statements. At December 31, 20___, $_____ (*) of bonds outstanding are considered defeased.

(*) The amount should include debt refunded with resources other than refunding debt (GASB Statement 86, *Certain Debt Extinguishment Issues*).

The economic gain or loss on a refunding transaction is calculated in the following manner:

- The present value of the debt service payments related to the refunding debt is calculated using the following formula:

Face amount of bonds
+ Premium (or - original issue discount)
+ Accrued interest
- Costs not recoverable through escrow earnings
+ Remaining prepaid insurance

Present value of debt service payments on refunding debt

- A calculation is made to determine what effective interest rate applied to the debt service payments on the *refunding* bonds would result in the present value determined in the previous calculation;
- The effective interest rate calculated for the refunding bonds is then applied to the debt service on the *refunded* bonds to calculate the present value of debt service on the latter;
- The difference between the present value of the two debt service streams (refunding debt and refunded debt) constitutes the economic gain or loss on the transaction.

If the government is using ***only existing resources***, the note should include a general description of the transaction (e.g., amount of debt, amount of cash and other monetary assets acquired with existing resources placed with the escrow agent, the reasons for defeasance, the cash flows required to service the defeased debt, etc.).

The government should also disclose, if applicable, a lack of a prohibition in substituting essentially risk-free monetary assets with monetary assets that are not essentially risk-free. In the following periods, the amounts outstanding for which there is no prohibition in a substitution should be reported separately. (GASB Statement 86, *Certain Debt Extinguishment Issues*)

The city/county/district should disclose: amounts of debt defeased *in substance*, but still outstanding as of the end of each fiscal year, should be disclosed in the notes. The amount should include debt refunded with resources other than refunding debt (GASB Statement 86, *Certain Debt Extinguishment Issues*)

[6] See BARS Manual 3.4.12, Financial Guarantees and Conduit Debt for information on conduit debt.

The city/county/district should disclose:

- A general description of their conduit debt obligations
- A general description of their limited commitments
- A general description of their voluntary commitments (if any)
- A general description of their additional commitments (if any), including:
    - The legal authority and limits for extending the commitments
    - The length of time of the commitments
    - Arrangements, if any, for recovering payments from the third-party obligors
- The aggregate outstanding principal amount of all conduit debt obligations that share the same type of commitment at the end of the reporting period.

If the city/county/district recognized a liability related to conduit debt they should disclose:

- A brief description of the timing of recognition and measurement of the liability and information about the changes in the recognized liability, including:

    - Beginning of period balances
    - Increases, including payments made and adjustments increasing estimates
    - Decreases, including payments made and adjustments decreasing estimates
    - End of period balances
- Cumulative amounts of payments that have been made on the recognized liability at the reporting date (if any)
- Amounts expected to be recovered from those payments (if any).

Additionally, there may be instances in which an issuer's additional commitment for each individual conduit debt obligation does not meet the recognition criteria, but when all such commitments are considered in the aggregate, it becomes more likely than not that some additional commitment will be honored. In those situations, the issuer may need to consider the disclosure requirements in paragraph 107 of Statement 62, as amended, when no liability is recognized for a loss contingency.

[7] If the city/county district issued a special assessment for which is ***obligated*** in some manner, the note should discuss this debt. The note should disclose the nature of the city/county/district's obligation. It should identify and describe any guarantee, reserve or sinking fund established to cover defaults by property owners. If not discernible on the face of the financial statements, the note should disclose the amount of delinquent special assessments receivable.

If the city/county/district issued a special assessment for which is ***not obligated*** in any manner, the note should disclose this debt, amount and the fact that the city/county/district is acting only as an agent and is not liable for debt.

[8] The notes should disclose all of the following information regarding demand bonds:

- The terms of any letters of credit or other liquidity facilities outstanding,
- Commitment fees to obtain the letters of credit and any amounts drawn on them outstanding as of the end of the fiscal year,
- The take-out agreement including its expiration date, commitment fees to obtain that agreement, and the terms of any new obligation incurred or expected to be incurred as a result of the take-out agreement.

[9] Examples:

- Loans with forgiveness clauses. Include parties in contract, property secured, terms to convert the loan to a grant, amount to be repaid if forgiveness conditions are not met.
- Grants with recoverable clauses. Include: parties in contract, terms removing recoverable clause, the asset the grantor has an interest in, the amount the grantor can require to be returned, and the conditions that trigger return of the grantor interest.
- Assets pledged as collateral for debt. Include type and amount of debt which is subject of the collateral (GASB Statement 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*).
- Terms specified in debt agreements related to significant (1) events of default with finance-related consequences, (2) termination events with finance-related consequences, and (3) subjective acceleration clauses. (GASB Statement 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*)

Note X – Major Component Units

Note X – Major Component Units

A template for this note is not available. See "Instructions to preparer:" for various disclosures that may be required.

Instructions to preparer:

The determination that the component unit is a major should be based on the nature and significance of its relationship with to the primary government. The determination generally would

be based on any of the following factors: (1) the services provided by the component unit to the citizenry are such that separate reporting as a major component unit is considered to be essential to financial statement users, (2) there are significant transactions with the primary government, or (3) there is a significant benefit or burden relationship with the primary government. Governmental Accounting Standards Board (GASB) Statement 14 and GASB Statement 61.

The major component units can be presented in the following ways:

1. Separate columns in the government wide financial statements,
2. Combining statements included in basic financial statements, or
3. Condensed financial statements within the notes to the financial statements.

If combining statements are used for presentation they are required to show the major component units (each in a separate column), the aggregate of all non-major component units in one column, and a total column.

If note disclosure is used to report major component units the city/county/district is required to present condensed financial statements. The following information should be displayed.

a. Condensed statement of net position:

1. Total assets distinguishing between capital assets and other assets. Amounts receivable from the primary government should be reported separately;
2. Total deferred outflows of resources;
3. Total liabilities distinguishing between long-term debt and other liabilities. Amounts payable to the primary government should be reported separately;
4. Total deferred inflows of resources;
5. Total net position distinguishing among restricted (separately reporting expendable and nonexpendable components); unrestricted; and amounts of net investment in capital assets.

b. Condensed statement of activities (for units engaged in***governmental*** activities):

1. Expenses by major function (and unallocated depreciation if reported in a separate line);
2. Program revenues by type;
3. Net program (expense) revenue;
4. Tax revenues;
5. Other nontax general revenues;
6. Contributions to endowments and permanent funds principal;
7. Special and extraordinary items;
8. Change in net position;
9. Beginning net position; and
10. Ending net position.

c. Condensed statement of revenues, expenses, and changes in net position (for units engaged in ***business-type*** activities):

1. Operating revenue (by major source);
2. Operating expenses (depreciation/amortization should be identified separately);
3. Operating income (loss);
4. Nonoperating revenues (expenses) by major items;
5. Capital contributions and additions to permanent and term endowments;
6. Special and extraordinary items;

7. Transfers;
8. Change in net position;
9. Beginning net position; and
10. Ending net position.

Condensed statement of cash flows is **not** required.

If the city/county/district has major component units separate information may also need to be presented in the notes for investments, capital assets, and long-term debt, if that information is significant to the government. This information may be displayed in the same note (i.e., long-term debt, etc.); however, it should be shown separately from the city/county/district's information.

Note X – OPEB Defined Benefit Plan - No Qualifying Trust

Note X – OPEB Defined Benefit Plan – No Qualifying Trust

A template for this note is not available. See "Instructions to preparer:" for disclosures that may be required.

Instructions to preparer:

The instructions below assume the plan is **not** administered through a qualifying trust and there is no special funding situation. See Governmental Accounting Standard Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards* (Cod.) Section (Sec.) "Postemployment Benefits Other Than Pensions – Reporting for Benefits Not Provided through Trusts That Meet Specified Criteria – Defined Benefit."

If applicable, the notes should separately identify amounts for the primary government (including blended component units) from amounts for discretely presented component units.

Aggregate OPEB Amounts

There should be one table that reports the aggregate amounts for all plans, regardless of the type of OPEB plan and whether or not it is administered through a qualifying trust. OPEB assets would be relevant only for plans that are administered through a qualifying trust.

Example:

The following table represents the aggregate OPEB amounts for all plans for the year 20XX:

Aggregate OPEB Amounts – All Plans	
OPEB liabilities	*$*
OPEB assets	*$*
Deferred outflows of resources	*$*
Deferred inflows of resources	*$*
OPEB expenses/expenditures	*$*

The remaining required disclosures should be made for ***each*** OPEB plan in which the employer participates. Disclosures related to more than one OPEB plan should be combined in a manner that avoids unnecessary duplication.

OPEB Plan Description

a. The name of the OPEB plan, identification of the entity that administers the OPEB plan, and identification of the OPEB plan as a single-employer or multiple-employer defined benefit plan.

b. A brief description of the benefit terms, including (1) the classes of employees covered; (2) the types of benefits; (3) the key elements of the OPEB formulas; (4) the terms or policies, if any, with respect to automatic postemployment benefit changes, including automatic COLAs, and ad hoc postemployment benefit changes, including ad hoc COLAs, and the sharing of benefit-related costs with inactive employees; and (5) the authority under which benefit terms are established or may be amended. If the OPEB plan is closed to new entrants, that fact should be disclosed.

c. The number of employees covered by the benefit terms, separately identifying numbers of the

following: (1) Inactive employees currently receiving benefit payments (2) Inactive employees entitled to but not yet receiving benefit payment [1] (3) Active employees. Note: “inactive employee” = retiree.

Example:

Employees covered by benefit terms: *At December 31, 20XX, the following employees were covered by the benefit terms:*

Inactive employees or beneficiaries currently receiving benefits	*1,000*
Inactive employees entitled to but not yet receiving benefits	*100* [1]
Active employees	*10,000*
Total	*11,100*

d. The fact that there are no assets accumulated in a qualifying trust.Each of the 3 qualifying criterion that the plan does not meet should be disclosed.

Example:

The plan is funded on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust.
or
The plan is administered through a trust that does not meet the requirements of a qualifying trust (Then describe each criterion that the trust does not meet).

e. Identification of the authority under which requirements for the employer and nonemployer contributing entities, if any, to pay OPEB as the benefits come due are established or may be amended. Also, the amount paid by the employer for OPEB as the benefits came due during the reporting period, if not otherwise disclosed.

Assumptions and other inputs

Significant assumptions and other inputs used to measure the total OPEB liability, including assumptions about inflation, healthcare cost trend rates, salary changes, ad hoc postemployment benefit changes (including ad hoc COLAs), and the sharing of benefit-related costs with inactive employees, should be disclosed, as applicable. With regard to the sharing of benefit-related costs, if projections are based on an established pattern of practice, that fact should be disclosed. With regard to mortality assumptions, the source of the assumptions (for example, the published tables on which the assumptions are based or that the assumptions are based on a study of the experience of the covered group) should be disclosed. The dates of experience studies on which significant assumptions are based also should be disclosed. For all significant assumptions, if different rates are assumed for different periods, information should be disclosed about what rates are applied to the different periods of the measurement. With regard to the discount rate, the rate applied in the measurement and the source of that rate should be disclosed.

In addition, if the alternative measurement method is used to measure the total OPEB liability, the source of or basis for all significant assumptions should be disclosed.

Measures of the total OPEB liability calculated using each of the following rates, should be disclosed:

a. ***If applicable***, a healthcare cost trend rate that is 1-percentage-point higher than the assumed healthcare cost trend rate, and a healthcare cost trend rate that is 1-percentage-point lower than the assumed healthcare cost trend rate. Note: This information should come from your actuarial valuation.

Example:

The following presents the total OPEB liability of the(city/county/district) calculated using the current healthcare cost trend rate of 6.8 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.8 percent) or 1-percentage point higher (7.8 percent) that the current rate.

	1% Decrease (5.8%)	*Current Healthcare Cost Trend Rate (6.8%)*	*1% Increase (7.8%)*
Total OPEB Liability	*$1,500,000*	*$3,000,000*	*$5,000,000*

b. A discount rate that is 1-percentage-point higher than the current rate, and a discount rate that is 1-percentage-point lower than the current rate.
Note: This information should come from your actuarial valuation.

Example:

The following presents the total OPEB liability of the(city/county/district) calculated using the discount rate of 3.5 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.5 percent) or 1-percentage point higher (4.5 percent) that the current rate.

	1% Decrease (2.5%)	*Current Discount Rate (3.5%)*	*1% Increase (4.5%)*
Total OPEB Liability	*$6,000,000*	*$3,000,000*	*$2,000,000*

Changes in the Total OPEB Liability

For the current reporting period, a schedule of changes in the total OPEB liability should be presented.

Note: This information should come from your actuarial valuation.

Plan Name
Total OPEB Liability at 01/01/20XX_ *$*
Service cost
Interest
Changes of benefit terms
**Differences between expected and actual experience*
**Changes of assumptions*
Benefit payments
***Other changes*
Total OPEB Liability at 12/31/20XX *$*

* If the ***alternative*** measurement method was used, you may combine the amounts for differences between expected and actual experience and changes of assumptions.

** Identify other changes separately if individually significant

In addition to the information required above, the following information should be disclosed, if applicable:

a. The measurement date of the total OPEB liability; the date of the actuarial valuation or alternative measurement method calculation on which the total OPEB liability is based; and, if applicable, the fact that update procedures were used to roll forward the total OPEB liability to the measurement date. If the alternative measurement method is used to measure the total OPEB liability, the fact that this alternative method was used in place of an actuarial valuation also should be disclosed.

b. If the employer has a special funding situation, the employer's proportion (percentage) of the total OPEB liability, the basis on which its proportion was determined, and the change in its proportion since the prior measurement date

c. A brief description of changes of assumptions or other inputs that affected measurement of the total OPEB liability since the prior measurement date.

d. A brief description of changes of benefit terms that affected measurement of the total OPEB liability since the prior measurement date.

e. The amount of benefit payments in the measurement period attributable to the purchase of allocated insurance contracts, a brief description of the benefits for which allocated insurance contracts were purchased in the measurement period, and the fact that the obligation for the payment of benefits covered by allocated insurance contracts has been transferred from the employer to one or more insurance companies.

f. A brief description of the nature of changes between the measurement date of the total OPEB liability and the employer's reporting date that are expected to have a significant effect on the total OPEB liability and the amount of the expected resultant change in the total OPEB liability, if

known.

g. The amount of OPEB expense recognized by the employer in the reporting period.

h. The employer's balances of deferred outflows of resources and deferred inflows of resources related to OPEB, as applicable:

Note: This information should come from your actuarial valuation. Under the alternative measurement method, deferred outflows and inflows ***are not*** calculated for anything other than payments subsequent to the measurement date.

Example:

At December 31, 20XX, the (city/county/district) reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	*Deferred Inflows of Resources*
Differences between expected and actual experience	*$*	*$*
Changes of assumptions	*$*	*$*
Payments subsequent to the measurement date	*$*	*$*
*TOTAL**	*$*	*$*

* Total should agree to amounts presented in the financial statements.

i. A schedule for each of the subsequent five years, and in the aggregate thereafter, the net amount of the employer's balances of deferred outflows of resources and deferred inflows of resources in the table above that will be recognized in the employer's OPEB expense.

For each of the subsequent five years, and in the aggregate thereafter, the net amount of the employer's balances of deferred outflows of resources and deferred inflows of resources in the table above that will be recognized in the employer's OPEB expense.

Prepare a separate table for each plan.

Example:

Deferred outflows of resources of $_____ resulting from payments subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended December 31, 20XX **[2]**. *Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:*

Year ended December 31:	
20XX	*$*
20XX	*$*
20XX	*$*
20XX	*$*
20XX	*$*
Thereafter	*$*

j. The amount of revenue recognized for the support provided by nonemployer contributing entities, if any.

Required Supplementary Information

See RSI requirements at RSI Other Postemployment Benefit (OPEB) Plan Schedules.

Instructions to Preparer:

[1] For PEBB plans (or other group plans not administered by the government), if you are unable to determine the number of inactive employees entitled to but not yet receiving benefits, disclose that fact.

Example:

Inactive employees or beneficiaries currently receiving benefits	*1,000*
Inactive employees entitled to but not yet receiving benefits	*
Active employees	*10,000*
Total	*11,000*

**It is not possible to determine the number of employees entitled to but not yet receiving benefit payments. Retiring employees apply for benefits at their discretion, may be otherwise working and not eligible for benefits or be deceased. This data is not monitored by the (city/county/district), Health Care Authority or the state of Washington.*

[2] This should always be the fiscal year immediately following the year that is reported in the financial statements.

Note X – OPEB Defined Benefit Plan - Qualifying Trust

Note X – OPEB Defined Benefit Plan - Qualifying Trust

A template for this note is not available. See "Instructions to preparer:" for various disclosures that may be required.

Instructions to preparer:

The instructions below assume the plan ***is*** administered through a qualifying trust and there is ***no special funding situation***. See Governmental Accounting Standard Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards* (Cod.) Section (Sec.) P50 "Postemployment Benefits Other Than Pensions – Reporting for Benefits Provided through Trusts That Meet Specified Criteria – Defined Benefit."

If applicable, the notes should separately identify amounts for the primary government (including blended component units) from amounts for discretely presented component units.

Aggregate OPEB Amounts

There should be one table that reports the aggregate amounts for all plans, regardless of the type of OPEB plan and whether or not it is administered through a qualifying trust. OPEB assets would be relevant only for plans that are administered through a qualifying trust.

Example:

The following table represents the aggregate OPEB amounts for all plans for the year 20XX:

Aggregate OPEB Amounts – All Plans	
OPEB liabilities	*$*
OPEB assets	*$*
Deferred outflows of resources	*$*
Deferred inflows of resources	*$*
OPEB expense/expenditures	*$*

The remaining required disclosures should be made for ***each*** OPEB plan in which the employer participates. Disclosures related to more than one OPEB plan should be combined in a manner that avoids unnecessary duplication.

OPEB Plan Description

a. The name of the OPEB plan, identification of the entity that administers the OPEB plan, and identification of the OPEB plan as a single-employer or agent OPEB plan. The number of participating employers (if an agent or cost-sharing plan). Information regarding the OPEB plan's board and its composition.

b. A brief description of the benefit terms, including (1) the classes of employees covered; (2) the types of benefits; (3) the key elements of the OPEB formulas; (4) the terms or policies, if any, with respect to automatic postemployment benefit changes, including automatic COLAs, ad hoc postemployment benefit changes, including ad hoc COLAs, and the sharing of benefit-related costs with inactive employees; and (5) the authority under which benefit terms are established or may be amended. If the OPEB plan is closed to new entrants, that fact should be disclosed.

c. The number of employees covered by the benefit terms, separately identifying numbers of the following: (1) Inactive employees currently receiving benefit payments (2) Inactive employees entitled to but not yet receiving benefit payments **[1]** (3) Active employees. Note: “inactive employee” = retiree.

Example:

Employees covered by benefit terms:*At December 31, 20XX, the following employees were covered by the benefit terms:*

Inactive employees or beneficiaries currently receiving benefits	*1,000*
Inactive employees entitled to but not yet receiving benefits	*100* **[1]**
Active employees	*10,000*
Total	*11,100*

d. A brief description of contribution requirements, including (1) the basis for determining the employer’s contributions to the OPEB plan (for example, statute, contract, an actuarial basis, or some other manner); (2) identification of the authority under which contribution requirements of the employer, nonemployer contributing entities, if any, and employees are established or may be amended; (3) legal or contractual maximum contribution rates, if applicable; and (4) the contribution rates (in dollars or as a percentage of covered payroll) of the employer, nonemployer contributing entities, if any, and employees for the reporting period. Also, the amount of contributions recognized by the OPEB plan from the employer during the reporting period, excluding amounts resulting from contributions recognized by the OPEB plan as noncurrent receivables, if not otherwise disclosed.

e. Whether the OPEB plan issues a stand-alone financial report (or the OPEB plan is included in the report of another government) that is available to the public and, if so, how to obtain the report (for example, a link to the OPEB plan report on the employer’s website).

Assumptions and Other Inputs

Significant assumptions and other inputs used to measure the total OPEB liability, including assumptions about inflation, healthcare cost trend rates, salary changes, ad hoc postemployment benefit changes (including ad hoc COLAs), and the sharing of benefit-related costs with inactive employees, should be disclosed, as applicable. For all significant assumptions, if different rates are assumed for different periods, information should be disclosed about what rates are applied to the different periods of the measurement.

In addition, the following information related to assumptions and other inputs should be disclosed, as applicable:

a. The fact that projections of the sharing of benefit-related costs are based on an established pattern of practice.

b. The source of the mortality assumptions (for example, the published tables on which the assumptions are based or that the assumptions are based on a study of the experience of the covered group).

c. The dates of experience studies on which significant assumptions are based.

d. If the alternative measurement method is used to measure the total OPEB liability, the source of or basis for all significant assumptions selected.

e. ***If applicable***, measures of the net OPEB liability calculated using (1) a healthcare cost trend rate that is 1-percentage-point higher than the assumed healthcare cost trend rate and (2) a healthcare cost trend rate that is 1-percentage-point lower than the assumed healthcare cost trend rate. Note: this information should come from your actuarial valuation.

Example:

The following presents the net OPEB liability of the(city/county/district) calculated using the

current healthcare cost trend rate of 6.8 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (5.8 percent) or 1-percentage point higher (7.8 percent) that the current rate.

	1% Decrease (5.8%)	*Current Healthcare Cost Trend Rate (6.8%)*	*1% Increase (7.8%)*
Net OPEB Liability	*$1,500,000*	*$3,000,000*	*$5,000,000*

The following information should be disclosed about the **discount rate**:

a. The discount rate applied in the measurement of the total OPEB liability and the change in the discount rate since the prior measurement date, if any

b. Assumptions made about projected cash flows into and out of the OPEB plan, such as contributions from the employer, nonemployer contributing entities, and employees

c. The long-term expected rate of return on OPEB plan investments and a brief description of how it was determined, including significant methods and assumptions used for that purpose

d. If the discount rate incorporates a municipal bond rate, the municipal bond rate used and the source of that rate

e. The periods of projected benefit payments to which the long-term expected rate of return and, if used, the municipal bond rate are applied in determining the discount rate

f. The assumed asset allocation of the OPEB plan's portfolio, the long-term expected real rate of return for each major asset class, and whether the expected rates of return are presented as arithmetic or geometric means, if not otherwise disclosed

g. Measures of the net OPEB liability calculated using (1) a discount rate that is 1-percentage-point higher than current rate and (2) a discount rate that is 1-percentage-point lower than the current rate.

Note: This information should come from your actuarial valuation.

Example:

The following presents the net OPEB liability of the(city/county/district) calculated using the discount rate of 3.5 percent, as well as what the OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.5 percent) or 1-percentage point higher (4.5 percent) that the current rate.

	1% Decrease (2.5%)	*Current Discount Rate (3.5%)*	*1% Increase (4.5%)*
Net OPEB Liability	*$6,000,000*	*$3,000,000*	*$2,000,000*

Changes in the Net OPEB Liability

For the current reporting period, a schedule of changes in the net OPEB liability should be presented.
Note: This information should come from your actuarial valuation.

Example:

Plan Name	*Total OPEB Liability (a)*	*Plan Fiduciary Net Position (b)*	*Net OPEB Liability (a)–(b)*
Balances at 1/1/20XX	*$*	*$*	*$*
Changes for the year:			
Service cost			
Interest			
Changes of benefit terms			
**Differences between expected and actual experience*			
**Changes of assumptions*			
Contributions – employer			

Contributions – employees

Net investment income

Benefit payments, including refunds of contributions

Administrative expense

***Other changes*

Net changes

*Balances at 12/31/20XX_*

***** If the ***alternative*** measurement method was used, you may combine the amounts for differences between expected and actual experience and changes of assumptions.

****** Identify other changes separately if individually significant

In addition to the information required above, the following information should be disclosed, if applicable:

a. The measurement date of the net OPEB liability; the date of the actuarial valuation or alternative measurement method calculation on which the total OPEB liability is based; and, if applicable, the fact that update procedures were used to roll forward the total OPEB liability to the measurement date. If the alternative measurement method is used to measure the total OPEB liability, the fact that this alternative method was used in place of an actuarial valuation also should be disclosed.

b. If the employer has a special funding situation, the employer's proportion (percentage) of the collective net OPEB liability, the basis on which its proportion was determined, and the change in its proportion since the prior measurement date.

c. A brief description of changes of assumptions or other inputs that affected measurement of the total OPEB liability since the prior measurement date.

d. A brief description of changes of benefit terms that affected measurement of the total OPEB liability since the prior measurement date.

e. The amount of benefit payments in the measurement period attributable to the purchase of allocated insurance contracts, a brief description of the benefits for which allocated insurance contracts were purchased in the measurement period, and the fact that the obligation for the payment of benefits covered by allocated insurance contracts has been transferred from the employer to one or more insurance companies.

f. A brief description of the nature of changes between the measurement date of the net OPEB liability and the employer's reporting date that are expected to have a significant effect on the net OPEB liability, and the amount of the expected resultant change in the net OPEB liability, if known.

g. The amount of OPEB expense recognized by the employer in the reporting period.

h. The employer's balances of deferred outflows of resources and deferred inflows of resources related to OPEB, if applicable:

Note: This information should come from your actuarial valuation. Under the alternative measurement method, deferred outflows and inflows are not calculated for anything other than payments subsequent to the measurement date.

Example:

At December 31, 20XX, the (city/county/district) reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	*Deferred Inflows of Resources*
Differences between expected and actual experience	*$*	*$*
Changes of assumptions	*$*	*$*
Net difference between projected and actual investment earnings on OPEB plan investments	*$*	*$*
Contributions subsequent to the measurement date	*$*	*$*
*TOTAL**	*$*	*$*

* Total should agree to amounts presented in the financial statements.

i. A schedule for each of the subsequent five years, and in the aggregate thereafter, the net amount of the employer's balances of deferred outflows of resources and deferred inflows of resources in the table above that will be recognized in the employer's OPEB expense.

Example:

Deferred outflows of resources of $_____ resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended December 31, 20XX [2]*. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:*

Year ended December 31:	*Plan Name*
20XX	*$*
20XX	*$*
20XX	*$*
20XX	*$*
20XX	*$*
Thereafter	*$*

j. The amount of revenue recognized for the support provided by nonemployer contributing entities, if any

For plans that do not issue a separate, stand-alone financial report for the OPEB plan, governments must also include the following:

The OPEB Plan's Fiduciary Net Position

The components of the liability of the employers and nonemployer contributing entities to plan members for benefits provided through the OPEB plan (net OPEB liability):

Example:

Total OPEB Liability	*$100,000*
Plan Fiduciary Net Position	*$90,000*
Net OPEB Liability (Asset)	***$10,000***
Plan Fiduciary Net Position as a % of Total OPEB Liability	*90%*

OPEB Plan Investments

(1) Investment policies, including:

a. Procedures and authority for establishing and amending investment policy decisions.

b. Policies pertaining to asset allocation.

c. Description of significant investment policy changes during the reporting period.

(2) Identification of investments (other than those issued or explicitly guaranteed by the U.S. government) in any one organization that represents 5 percent or more of the OPEB plan's fiduciary net position.

(3) The annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense, and an explanation that a money-weighted rate of return expresses investment performance, net of OPEB plan investment expense, adjusted for the changing amounts actually invested. OPEB plan investment expense should be measured on the accrual basis of accounting. Inputs to the internal rate of return calculation should be determined at least monthly. The use of more frequently determined inputs is encouraged.

Receivables

The terms of any long-term contracts for contributions to the OPEB plan between an employer or nonemployer contributing entity and the OPEB plan, and the balances outstanding on any such long-term contracts at the end of the OPEB plan's reporting period.

Allocated insurance contracts excluded from OPEB plan assets:

(1) The amount reported in benefit payments in the current period that is attributable to the purchase of allocated insurance contracts

(2) A brief description of the OPEB for which allocated insurance contracts were purchased in the current period

(3) The fact that the obligation for the payment of benefits covered by allocated insurance contracts has been transferred to one or more insurance companies.

Reserves

In circumstances in which there is a policy of setting aside, for purposes such as benefit increases or reduced employer contributions, a portion of the OPEB plan's fiduciary net position that otherwise would be available for existing OPEB or for OPEB plan administration:

(1) A description of the policy related to such reserves

(2) The authority under which the policy was established and may be amended

(3) The purposes for and conditions under which the reserves are required or permitted to be used

(4) The balances of the reserves.

Required Supplementary Information

See RSI requirements at RSI Other Postemployment Benefit (OPEB) Plan Schedules.

Instructions to preparer:

[1] For plans administered by the government, if you are unable to determine the number of inactive employees entitled to but not yet receiving benefits, disclose that fact.

Example:

Inactive employees or beneficiaries currently receiving benefits	*1,000*
Inactive employees entitled to but not yet receiving benefits	*
Active employees	*10,000*
Total	*11,000*

**It is not possible to determine the number of employees entitled to but not yet receiving benefit payments. Retiring employees apply for benefits at their discretion, may be otherwise working and not eligible for benefits or be deceased.*

[2] This should always be the fiscal year immediately following the year that is reported in the financial statements.

Note X – Paid Family Medical Leave Act Self-Insurance

Note X – Paid Family Medical Leave Act Self-Insurance

The (city/county/district) administers a voluntary plan for paid family (and/or) medical leave benefits for its employees. Voluntary plans are approved by the Employment Security Department and are available for employers who wish to opt out of the State of Washington's Paid Family & Medical Leave Program for either family leave benefit, medical leave benefit, or both, and instead administer their own internal plan. Employers with voluntary plans are required to offer benefits that are equal to or exceed the benefits offered by the State's program and must report employee hours, wages, premiums deducted from employee pay, and other information to the Employment Security Department on a quarterly basis.

The (city/county/district) paid $____ in claims during 20___ and held $____ of employee premiums at fiscal year-end.

Note X – Pension and/or OPEB Plans - Defined Contribution

Note X – Pension and/or OPEB Plans - Defined Contribution

A template for this note is not available. See "Instructions to preparer:" for various disclosures that may be required.

Instructions to preparer:

These requirements are only applicable to plans if the employer contributions. Governments can choose to disclose plans that only employees contribute to but must make it clear that the employer does not contribute.

The following information should be disclosed in notes to financial statements about each defined contribution pension and/or OPEB plan to which the ***employer contributes***:

- The name of the plan, identification of the entity that administers the plan, and identification of the plan as a defined contribution pension or OPEB plan,
- A brief description of the benefit terms (including terms, if any, related to vesting and forfeitures and the policy related to the use of forfeited amounts) and the authority under which benefit terms are established or may be amended,
- If the plan is administered through a qualifying trust, the contribution (or crediting) rates (in dollars or as a percentage of salary) for employees, the employer, and non-employer contributing entities, if any, and the authority under which those rates are established or may be amended,
- If the plan is not administered through a qualifying trust:
- The fact that there are no assets accumulated in a qualifying trust, and each criterion that the trust does not meet, should be disclosed.
- Identification of the authority under which requirements for the employer to pay pensions or OPEB as the benefits come due are established or may be amended. Also, the amount paid by the employer for pensions or OPEB as the benefits came due during the reporting period, if not otherwise disclosed.
- The amount of pension or OPEB expense recognized by the employer in the reporting period,
- The amount of forfeitures reflected in pension or OPEB expense recognized by the employer in the reporting period,
- The amount of the employer's liability outstanding at the end of the period, if any.

Note X – Pension and/or OPEB Plans -

Nongovernmental Plans

Note X – Pension and/or OPEB Plans - Nongovernmental Plans (Pensions and/or OPEB Provided Through Certain Multiple-Employer Defined Benefit Pension Plans)

A template for this note is not available. See "Instructions to preparer:" for various disclosures that may be required.

Note that this guidance applies only to defined benefit plans; not defined contribution plans. See also, Note X, *Pension and/or OPEB Plans-Defined Contribution*

Instructions to preparer:

- Name of each pension and/or OPEB plan, identification of the entity that administers the plan, and identification of the plan as a cost-sharing plan.
    - is not a state or local governmental pension plan
    - is used to provide defined benefit pensions to both state/local government employees and non-state/local government employees
    - has no predominate state/local governmental employer (either individually or collectively)
- Whether the pension and/or OPEB plan issues a publicly available financial report and, if so, how to obtain the report.
- A brief description of the benefit terms, including:
    - The number of the government's employees covered,
    - The types of benefits provided,
    - The authority under which benefit terms are established or may be amended.
- A brief description of contribution requirements, including:
    - The basis for determining the employer's contributions to the plan (for example, pursuant to a collective-bargaining agreement),
    - Identification of the authority under which contribution requirements of the employer and its employees are established or may be amended,
    - The required contribution rates of the employer and its employees for the reporting period,
    - The amount, in dollars, of the employer's required contributions for the reporting period,
    - The expiration date(s) of the collective-bargaining agreement(s) requiring contributions to the plan, if any,
    - A description of any minimum contributions required for future periods by the collective-bargaining agreement(s), statutory obligations, or other contractual obligations, if applicable,
    - Whether the employer is subject to any provisions regarding withdrawal from the plan.
- The following information about the employer's payables, if any:
    - If not otherwise identifiable, the balance of payables,
    - Significant terms related to the payables,
    - A description of what gave rise to the payables (for example, required contributions to the plan or a contractual arrangement for contributions to the plan related to past service upon entrance into the arrangement).

Note X – Pensions - Defined Benefit Plans – No

Qualifying Trust

Note X – Pensions - Defined Benefit Plans – No Qualifying Trust

A template for this note is not available. See "Instructions to preparer:" for various disclosures that may be required.

Instructions to preparer:

The instructions below assume the plan is **not** administered through a qualifying trust. See Governmental Accounting Standard Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards* (Cod.) Section (Sec.) P22 "Pension Activities – Reporting for Benefits Not Provided through Trusts That Meet Specified Criteria – Defined Benefit."

If applicable, the notes should separately identify amounts for the primary government (including blended component units) from amounts for discretely presented component units.

Aggregate Pension Amounts

There should be one table that reports the aggregate amounts for all plans, regardless of the type of pension plan (whether provided through single employer, agent, or cost-sharing pension plans).

Example:

The following table represents the aggregate pension amounts for all plans for the year 20XX:

Aggregate Pension Amounts – All Plans	
Pension liabilities	*$*
Pension assets	*$*
Deferred outflows of resources	*$*
Deferred inflows of resources	*$*
Pension expense/expenditures	*$*

The information identified in the following paragraphs should be disclosed for benefits provided through ***each*** single-employer pension plan in which the employer participates. Disclosures related to more than one pension plan should be combined in a manner that avoids unnecessary duplication.

Pension Plan Description

a. The name of the pension plan, identification of the public employee retirement system or other entity that administers the pension plan, and identification of the pension plan as a single-employer pension plan.

b. A brief description of the benefit terms, including (1) the classes of employees covered; (2) the types of benefits; (3) the key elements of the pension formulas; (4) the terms or policies, if any, with respect to automatic postemployment benefit changes, including automatic COLAs, and ad hoc postemployment benefit changes, including ad hoc COLAs; and (5) the authority under which benefit terms are established or may be amended. If the pension plan is closed to new entrants, that fact should be disclosed.

c. The number of employees covered by the benefit terms, separately identifying numbers of the following:

(1) Inactive employees (or their beneficiaries) currently receiving benefits

(2) Inactive employees entitled to but not yet receiving benefits

(3) Active employees.

d. The fact that there are no assets accumulated in a qualifying trust. Each of the 3 qualifying criterion that the plan does not meet should be disclosed.

Example:

The plan is funded on a pay-as-you-go basis and there are no assets accumulated in a qualifying trust.
Or
The plan is administered through a trust that does not meet the requirements of a qualifying trust (Then describe each criterion that the trust does not meet).

e. Identification of the authority under which requirements for the employer to pay pensions as the benefits come due are established or may be amended. Also, the amount paid by the employer for pensions as the benefits came due during the reporting period, if not otherwise disclosed.

Note to Preparer:
Firefighters' Pension Fund (RCW 41.16.050) – The state contributes 25% of taxes on fire insurance premiums to these plans and is considered a non-employer contributing entity. The amount of these contributions received (BARS account 3360691) should be disclosed. This is not considered a special funding situation.

Assumptions and Other Inputs

Significant assumptions and other inputs used to measure the total pension liability, including assumptions about inflation, salary changes, and ad hoc postemployment benefit changes (including ad hoc COLAs) should be disclosed. With regard to mortality assumptions, the source of the assumptions (for example, the published tables on which the assumption is based or that the assumptions are based on a study of the experience of the covered group) should be disclosed. The dates of experience studies on which significant assumptions are based also should be disclosed. If different rates are assumed for different periods, information should be disclosed about what rates are applied to the different periods of the measurement.

With regard to the discount rate, the rate applied in the measurement and the source of that rate should be disclosed. Measures of the total pension liability calculated using (1) a discount rate that is 1-percentage-point higher than the current discount rate and (2) a discount rate that is 1-percentage-point lower than the current discount rate.

Example:

	1% decrease (3%)	*Current Disc. Rate (4%)*	*1% Increase (5%)*
Total Pension Liability	*825,000*	*750,000*	*660,000*

Changes in the Total Pension Liability

For the current reporting period, a schedule of changes in the total pension liability should be presented. The schedule should separately include the information in the table below.

Example:

Changes in the Total Pension Liability

Plan Name	*Total Pension Liability*
Balances at 1/1/20XX	*$*

Changes for the year:

Service Cost

Interest

Changes in benefit terms

Differences between expected and actual experience

Changes of assumptions

Benefit payments

*Other changes**

Net changes

Balance at 12/31/20XX

*Identify other changes separately if individually significant

In addition to the information required above, the following information should be disclosed, if applicable:

a. The measurement date of the total pension liability, the date of the actuarial valuation on which the total pension liability is based, and, if applicable, the fact that update procedures were used to roll forward the total pension liability to the measurement date

b. If the employer has a special funding situation, the employer's proportion (percentage) of the total pension liability, the basis on which its proportion was determined, and the change in its proportion since the prior measurement date

c. A brief description of changes of assumptions or other inputs that affected measurement of the total pension liability since the prior measurement date

d. A brief description of changes of benefit terms that affected measurement of the total pension liability since the prior measurement date

e. The amount of benefit payments in the measurement period attributable to the purchase of allocated insurance contracts, a brief description of the benefits for which allocated insurance contracts were purchased in the measurement period, and the fact that the obligation for the payment of benefits covered by allocated insurance contracts has been transferred from the employer to one or more insurance companies

f. A brief description of the nature of changes between the measurement date of the total pension liability and the employer's reporting date that are expected to have a significant effect on the total pension liability, and the amount of the expected resultant change in the total pension liability, if known

g. The amount of pension expense recognized by the employer in the reporting period

h. The employer's balances of deferred outflows of resources and deferred inflows of resources related to pensions, classified as shown in the table below:

Example:

At December 31, 20XX, the (city/county/district) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Plan Name	*Deferred Outflows of Resources*	*Deferred Inflows of Resources*
Differences between expected and actual experience	*$*	*$*
Changes of assumptions	*$*	*$*
Payments subsequent to the measurement date	*$*	*$*
*TOTAL**	*$*	*$*

** Total should agree to amounts presented in the financial statements.*

i. A schedule for each of the subsequent five years, and in the aggregate thereafter, the net amount of the employer's balances of deferred outflows of resources and deferred inflows of resources in the table above that will be recognized in the employer's pension expense.

Example:

Deferred outflows of resources related to pensions resulting from the(city/county/district's) payments subsequent to the measurement date will be recognized as a reduction of the total pension liability in the year ended December 31, 20XX **[1]**. *Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:*

Year ended December 31:	*Plan Name*
20X1	*$*
20X2	*$*
20X3	*$*
20X4	*$*
20X5	*$*
Thereafter	*$*

j. The amount of revenue recognized for the support provided by nonemployer contributing entities, if any

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Footnote:

[1] This should always be the fiscal year immediately following the year that is reported in the financial statements.

Note X – Pensions - Defined Benefit Plans - Qualifying Trust

Note X – Pensions - Defined Benefit Plans - Qualifying Trust

A template for this note is not available. See "Instructions to preparer:" for various disclosures that may be required.

Instructions to preparer:

The instructions below assume the plan ***is*** administered through a qualifying trust and that the plan does not issue a separate stand-alone financial report. These instructions assume that the employer includes the pension plan in its financial reporting entity as a pension trust fund or as a fiduciary component unit. See Governmental Accounting Standard Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards* (Cod.) Section (Sec.) P20 "Pension Activities – Reporting for Benefits Provided through Trusts That Meet Specified Criteria."

If applicable, the notes should separately identify amounts for the primary government (including blended component units) from amounts for discretely presented component units.

Aggregate Pension Amounts

There should be one table that reports the aggregate amounts for all plans, regardless of the type of pension plan (whether provided through single employer, agent, or cost-sharing pension plans).

Example:

The following table represents the aggregate pension amounts for all plans for the year 20XX:

Aggregate Pension Amounts – All Plans	
Pension liabilities	*$*
Pension assets	*$*
Deferred outflows of resources	*$*
Deferred inflows of resources	*$*
Pension expense/expenditures	*$*

The remaining required disclosures should be made for ***each*** single-employer pension plan in which the employer participates. Disclosures related to more than one pension plan should be combined in a manner that avoids unnecessary duplication.

Pension Plan Description

a. The name of the pension plan, identification of the public employee retirement system or other entity that administers the pension plan, and identification of the pension plan as a single-employer pension plan. Information regarding the pension plan's board and its composition (for example, the number of trustees by source of selection or the types of constituency or credentials applicable to selection).

b. A brief description of the benefit terms, including (1) the classes of employees covered; (2) the types of benefits; (3) the key elements of the pension formulas; (4) the terms or policies, if any, with respect to automatic postemployment benefit changes, including automatic COLAs, and ad hoc postemployment benefit changes, including ad hoc COLAs; and (5) the authority under which benefit terms are established or may be amended. If the pension plan is closed to new entrants, that fact should be disclosed.

c. The number of employees covered by the benefit terms, separately identifying numbers of the following:

(1) Inactive employees (or their beneficiaries) currently receiving benefits

(2) Inactive employees entitled to but not yet receiving benefits

(3) Active employees

d. A brief description of contribution requirements, including (1) the basis for determining the employer's contributions to the pension plan (for example, statute, contract, an actuarial basis, or some other manner); (2) identification of the authority under which contribution requirements of the employer, non-employer contributing entities, if any, and employees are established or may be amended; and (3) the contribution rates (in dollars or as a percentage of covered payroll) of those entities for the reporting period. Also, the amount of contributions recognized by the pension plan from the employer during the reporting period (measured as the total of amounts recognized as additions to the pension plan's fiduciary net position resulting from actual contributions and from contributions recognized by the pension plan as current receivables), if not otherwise disclosed.

Note to Preparer:
Firefighters' Pension Fund (RCW 41.16.050) – The state contributes 25% of taxes on fire insurance premiums to these plans and is considered a non-employer contributing entity. The amount of these contributions received (BARS account 3360691) should be disclosed. This is not considered a special funding situation.

e. Whether the pension plan issues a stand-alone financial report (or the pension plan is included in the report of a public employee retirement system or another government) that is available to the public and, if so, how to obtain the report (for example, a link to the report on the public employee retirement system's website).

Assumptions and Other Inputs

Significant assumptions and other inputs used to measure the total pension liability, including assumptions about inflation, salary changes, and ad hoc postemployment benefit changes (including ad hoc COLAs) should be disclosed. With regard to mortality assumptions, the source of the assumptions (for example, the published tables on which the assumption is based or that the assumptions are based on a study of the experience of the covered group) should be disclosed. The dates of experience studies on which significant assumptions are based also should be disclosed. If different rates are assumed for different periods, information should be disclosed about what rates are applied to the different periods of the measurement.

The following information should be disclosed about the discount rate:

a. The discount rate applied in the measurement of the total pension liability and the change in the discount rate since the prior measurement date, if any

b. Assumptions made about projected cash flows into and out of the pension plan, such as contributions from the employer, nonemployer contributing entities, and employees

c. The long-term expected rate of return on pension plan investments and a brief description of how it was determined, including significant methods and assumptions used for that purpose

d. If the discount rate incorporates a municipal bond rate, the municipal bond rate used and the source of that rate

e. The periods of projected benefit payments to which the long-term expected rate of return and, if used, the municipal bond rate applied to determine the discount rate

f. The assumed asset allocation of the pension plan's portfolio, the long-term expected**real rate of return** for each major asset class, and whether the expected rates of return are presented as arithmetic or geometric means, if not otherwise disclosed

g. Measures of the net pension liability calculated using (1) a discount rate that is 1-percentage-point higher than the current discount rate and (2) a discount rate that is 1-percentage-point lower than the current discount rate.

Example:

	1% decrease (6%)	*Current Disc. Rate (7%)*	*1% increase (8%)*
Net Pension Liability (Asset)	*825,000*	*750,000*	*660,000*

Changes in the Net Pension Liability

For the current reporting period, a schedule of changes in the net pension liability should be presented. The schedule should separately include the information indicated in the table below. If the employer has a special funding situation, the information should be presented for the collective net pension liability.

If the employer has a special funding situation, also include:

(1) The nonemployer contributing entities' total proportionate share of the collective net pension liability,

(2) The employer's proportionate share of the collective net pension liability.

Example:

Plan Name	*Total Pension Liability* *(a)*	*Plan Fiduciary Net Position* *(b)*	*Net Pension Liability* *(a) – (b)*
Balances at 1/1/20XX	*$*	*$*	*$*
Changes for the year:			
Service Cost			
Interest			
Changes in benefit terms			
Differences between expected and actual experience			
Changes of assumptions			
Contributions – employer			
Contributions – employees			
Net investment income			
Benefit payments, including refunds of contributions			
Administrative expense			
**Other changes*			
Net changes			
Balance at 12/31/20XX			

*Identify other changes separately if individually significant

In addition to the information required above, the following information should be disclosed, if applicable:

a. The measurement date of the net pension liability, the date of the actuarial valuation on which the total pension liability is based, and, if applicable, the fact that update procedures were used to roll forward the total pension liability to the measurement date

b. If the employer has a special funding situation, the employer's proportion (percentage) of the collective net pension liability, the basis on which its proportion was determined, and the change in its proportion since the prior measurement date

c. A brief description of changes of assumptions or other inputs that affected measurement of the total pension liability since the prior measurement date

d. A brief description of changes of benefit terms that affected measurement of the total pension liability since the prior measurement date

e. The amount of benefit payments in the measurement period attributable to the purchase of allocated insurance contracts, a brief description of the benefits for which allocated insurance contracts were purchased in the measurement period, and the fact that the obligation for the payment of benefits covered by allocated insurance contracts has been transferred from the employer to one or more insurance companies

f. A brief description of the nature of changes between the measurement date of the net pension liability and the employer's reporting date that are expected to have a significant effect on the net pension liability, and the amount of the expected resultant change in the net pension liability, if known

g. The amount of pension expense recognized by the employer in the reporting period

h. The employer's balances of deferred outflows of resources and deferred inflows of resources related to pensions, classified as shown in the example table below:

Example:

At December 31, 20XX, the (city/county/district) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Plan Name	*Deferred Outflows of Resources*	*Deferred Inflows of Resources*
Differences between expected and actual experience	*$*	*$*
Net difference between projected and actual investment earnings on pension plan investments	*$*	*$*
Changes of assumptions	*$*	*$*
Changes in proportion and differences between contributions and proportionate share of contributions	*$*	*$*
Contributions subsequent to the measurement date	*$*	*$*
*TOTAL**	*$*	*$*

* Total should agree to amounts presented in the financial statements.

i. A schedule for each of the subsequent five years, and in the aggregate thereafter, the net amount of the employer's balances of deferred outflows of resources and deferred inflows of resources in the table above that will be recognized in the employer's pension expense.

Example:

Deferred outflows of resources related to pensions resulting from the(city/county/district's) contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 20XY **[1]**. *Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:*

Year ended December 31:	*Plan Name*
20X1	*$*
20X2	*$*
20X3	*$*
20X4	*$*
20X5	*$*
Thereafter	*$*

j. The amount of revenue recognized for the support provided by nonemployer contributing entities, if any.

The following information is required for employers who do ***not*** issue a separate stand-alone financial report for the plan.

The Pension Plan's Fiduciary Net Position

The components of the liability of the employers and nonemployer contributing entities to plan members for benefits provided through the pension plan (net pension liability).

Example:

Total Pension Liability	*$100,000*
Plan Fiduciary Net Position	*$ 90,000*
Net Pension Liability (Asset)	***$ 10,000***
Plan Fiduciary Net Position as a % of Total Pension Liability	*90%*

The Pension Plan Investments

(1) Investment policies, including:

(a) Procedures and authority for establishing and amending investment policy decisions,

(b) Policies pertaining to asset allocation,

(c) Description of significant investment policy changes during the reporting period.

(2) A brief description of how the fair value of investments is determined, including the methods

and significant assumptions used to estimate the fair value of investments if that fair value is based on other than quoted market prices.

(3) Identification of investments (other than those issued or explicitly guaranteed by the U.S. government) in any one organization that represent five percent or more of the pension plan's fiduciary net position.

(4) The annual money-weighted rate of return on pension plan investments calculated as the internal rate of return on pension plan investments, net of pension plan investment expense, and an explanation that a money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested. Pension plan investment expense should be measured on the accrual basis of accounting. Inputs to the internal rate of return calculation should be determined at least monthly. The use of more frequently determined inputs is encouraged.

Receivables

The terms of any long-term contracts for contributions to the pension plan between:

(1) An employer or nonemployer contributing entity, ***and***

(2) The pension plan, and the balances outstanding on any such long-term contracts at the end of the pension plan's reporting period.

Allocated Insurance Contracts Excluded from Pension Plan Assets

The amount reported in benefit payments in the current period that is attributable to the purchase of allocated insurance contracts.

(1) A brief description of the pensions for which allocated insurance contracts were purchased in the current period.

(2) The fact that the obligation for the payment of benefits covered by allocated insurance contracts has been transferred to one or more insurance companies.

Reserves

In circumstances in which there is a policy of setting aside, for purposes such as benefit increases or reduced employer contributions, a portion of the pension plan's fiduciary net position that otherwise would be available for existing pensions or for pension plan administration:

(1) A description of the policy related to such reserves,

(2) The authority under which the policy was established and may be amended,

(3) The purposes for and conditions under which the reserves are required or permitted to be used,

(4) The balances of the reserves.

Deferred Retirement Option Program (DROP) Balances

If a pension plan includes terms that permit a plan member to be credited for benefit payments into an individual member account within the pension plan while continuing to provide services to the employer and to be paid a salary:

(1) A description of the DROP terms,

(2) The balance of the amounts held by the pension plan pursuant to the DROP.

Instructions to preparer:

[1] This should always be the fiscal year immediately following the year that is reported in the financial statements.

Note X – Pensions – State Sponsored (DRS) Plans

Note X – Pensions – State Sponsored (DRS) Plans

The following table represents the aggregate pension amounts for all plans for the year 20XX:

Aggregate Pension Amounts – All Plans	
Pension liabilities	$
Pension assets	$
Deferred outflows of resources	$
Deferred inflows of resources	$
Pension expense/expenditures	$

State Sponsored Pension Plans

Substantially all (city/county/district's) full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing, multiple-employer public employee defined benefit and defined contribution retirement plans. The state Legislature establishes, and amends, laws pertaining to the creation and administration of all public retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available annual comprehensive financial report (ACFR) that includes financial statements and required supplementary information for each plan.

The DRS ACFR may be downloaded from the DRS website atwww.drs.wa.gov.

Public Employees' Retirement System (PERS)

PERS members include elected officials; state employees; employees of local governments; and higher education employees not participating in higher education retirement programs.

PERS is composed of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3 and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although employees can be a member of only Plan 2 or Plan 3, the defined benefits of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of Plan 2/3 may legally be used to pay the defined benefits of any Plan 2 or Plan 3 members or beneficiaries.

PERS Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the member's average final compensation (AFC) times the member's years of service. The AFC is the average of the member's 24 highest consecutive service months. Members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with at least 25 years of service, or at age 60 with at least five years of service. PERS Plan 1 retirement benefits are actuarially reduced if a survivor benefit is chosen. Members retiring from active status prior to the age of 65 may also receive actuarially reduced benefits. Other benefits include an optional cost-of-living adjustment (COLA). PERS 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

PERS Plan 2/3 provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the member's AFC times the member's years of service for Plan 2 and 1% of AFC for Plan 3. The AFC is the average of the member's 60 highest-paid consecutive service months. Members are eligible for retirement with a full benefit at 65 with at least five years of service credit. Retirement before age 65 is considered an early retirement. PERS Plan 2/3 members who have at least 20 years of service credit and are 55 years of age or older, are eligible for early retirement with a benefit that is reduced by a factor that varies according to age for each year before age 65. PERS Plan 2/3 retirement benefits are actuarially reduced if a survivor benefit is chosen. Other PERS Plan 2/3 benefits include a COLA based on the CPI, capped at 3% annually. PERS 2 members are vested after completing five years of eligible service. Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service if 12 months of that service are earned after age 44.

PERS Plan 3 defined contribution benefits are totally dependent on employee contributions and investment earnings on those contributions. Members are eligible to withdraw their defined contributions upon separation. Members have multiple withdrawal options, including purchase of an annuity. PERS Plan 3 members are immediately vested in the defined contribution portion of their plan.

PERS Contributions

The PERS Plan 1 member contribution rate is established by State statute at 6%. The PERS 1 employer and PERS 2/3 employer and employee contribution rates are developed by the Office of the State Actuary, adopted by the Pension Funding Council and is subject to change by the legislature. The PERS **Plan 2/3** employer rate includes a component to address the PERS Plan 1 Unfunded Actuarial Accrued Liability (UAAL).

As established by Chapter 41.34 RCW, Plan 3 defined contribution rates are set at a minimum of 5% and a maximum of 15%. PERS Plan 3 members choose their contribution rate from six options when joining membership and can change rates only when changing employers. Employers do not contribute to the defined contribution benefits.

The PERS Plans defined benefit required contribution rates (expressed as a percentage of covered payroll) for the fiscal year were as follows:

Employer Contribution Rates

[1] Timeframe	Contribution Rate	PERS 1 UAAL	Admin Fee	Total Employer
January - June	6.36%	2.97%	0.20%	9.53%
July - August	6.36%	2.47%	0.20%	9.03%
September - December	6.36%	2.55%	0.20%	9.11%

Plan	Employee Contribution Rate
PERS 1	6.00%
PERS 2	6.36%
PERS 3	Varies: 5% - 15%

[2] Judicial Benefit Multiplier (JBM) Program: The JBM Program provides judicial members of the Public Employees' Retirement System (PERS) with an increased retirement benefit multiplier. It also requires employees to pay a higher contribution rate.

Plan	JBM Employee Contribution Rate
PERS 1	12.26%

PERS 2	15.90 %
PERS 3	7.50% minimum

The (city/county/district's) actual PERS plan contributions were $_____ to PERS Plan 1 and $_____ to PERS Plan 2/3 for the year ended December 31, 20XX.

Public Safety Employees' Retirement System (PSERS)

PSERS Plan 2 was created by the 2004 Legislature and became effective July 1, 2006.

PSERS membership includes certain public employees whose jobs contain a high degree of physical risk to their own personal safety. In addition to meeting strict statutory work requirements, membership is further restricted to specific employers including:

- Washington State Counties,
- Washington State Cities (except for Seattle, Spokane, and Tacoma),
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act
- A limited number of state agencies

PSERS Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the AFC times the member's years of service. The AFC is based on the member's 60 consecutive highest creditable months of service. Members are eligible for retirement at the age of 65 with five years of service; or at the age of 60 with at least ten years of PSERS service credit; or at age 53 with 20 years of service. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years). There is no cap on years of service credit. Retirement before age 60 is considered an early retirement. PSERS members who retire before turning 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3% per year reduction for each year between the age at retirement and age 60 applies. PSERS Plan 2 retirement benefits are actuarially reduced if a survivor benefit is chosen. Other benefits include a COLA, capped at 3% annually. PSERS Plan 2 members are vested after completing five years of eligible service.

Contributions

The **PSERS Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The rates are adopted by the Pension Funding Council and are subject to change by the Legislature. The Plan 2 employer rates include components to address the PERS Plan 1 UAAL.

The PSERS Plan 2 required contribution rates (expressed as a percentage of current-year covered payroll) for the fiscal year were as follows:

Employer Contribution Rates

[1] Timeframe	Contribution Rate	PERS 1 UAAL	Admin Fee	Total Employer
January - June	6.73%	2.97%	0.20%	9.90%
July - August	6.73%	2.47%	0.20%	9.40%
September - December	6.76%	2.55%	0.20%	9.51%

The employee contribution rate was 6.73%.

The (city/county/district's) actual plan contributions were $_____ to PSERS Plan 2 and $_____ to PERS Plan 1 for the year ended December 31, 20XX.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

LEOFF was established in 1970, and its retirement benefit provisions are contained in Chapter 41.26 RCW. LEOFF membership includes all of the state's full-time, fully compensated, local law enforcement commissioned officers, fire fighters and, as of July 24, 2005, emergency medical technicians.

LEOFF is a cost-sharing, multiple-employer retirement system composed of two separate pension plans for both membership and accounting purposes. Both LEOFF plans are defined benefit plans.

LEOFF Plan 1 provides retirement, disability and death benefits. Retirement benefits are determined per year of service calculated as a percent of final average salary (FAS) as follows:

- 20+ years of service – 2.0% of FAS
- 10-19 years of service – 1.5% of FAS
- 5-9 years of service – 1% of FAS

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest-paid consecutive 24 months' salary within the last ten years of service. Members are eligible for retirement with five years of service at the age of 50. Other benefits include a COLA. LEOFF 1 members were vested after the completion of five years of eligible service. The plan was closed to new entrants on September 30, 1977.

Contributions

Starting on July 1, 2000, LEOFF Plan 1 employers and employees contribute 0%, as long as the plan remains fully funded. The LEOFF Plan I had no required employer or employee contributions for fiscal year 2024. Employers paid only the administrative expense of 0.20% of covered payroll.

LEOFF Plan 2 provides retirement, disability and death benefits. Retirement benefits are determined as 2% of the FAS per year of service (the FAS is based on the highest-paid consecutive 60 months). Members are eligible for retirement with a full benefit at 53 with at least five years of service credit. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50 – 52, the reduction is 3% for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. LEOFF 2 retirement benefits are also actuarially reduced to reflect the choice of a survivor benefit. Other benefits include a COLA (based on the CPI), capped at 3% annually. LEOFF 2 members are vested after the completion of five years of eligible service.

Contributions

The **LEOFF Plan 2** employer and employee contribution rates are developed by the Office of the State Actuary to fully fund Plan 2. The rates are adopted by the LEOFF Plan 2 Retirement Board and are subject to change by the Legislature.

Effective July 1, 2017, when a LEOFF employer charges a fee or recovers costs for services rendered by a LEOFF 2 member to a non-LEOFF employer, the LEOFF employer must cover both the employer and state contributions on the LEOFF 2 basic salary earned for those services. The state contribution rate (expressed as a percentage of covered payroll) was 3.41%.

The LEOFF Plan 2 required contribution rates (expressed as a percentage of covered payroll) for the fiscal year were as follows:

Employer Contribution Rates

Employer Type	[1] Timeframe	Contribution Rate	Admin Fee	Total Employer
State & Local Governments	January - December	5.12%	0.20%	5.32%

Ports & Universities	January - December	8.53%	0.20%	8.73%

The employee contribution rate was 8.53%.

The (city/county/district's) actual contributions to the plan were $_____ for the year ended December 31, 20XX.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Office of the State Actuary and the LEOFF Plan 2 Retirement Board. This special funding situation is not mandated by the state constitution and could be changed by statute. For the state fiscal year ending June 30, 2024, the state contributed $96,422,231 to LEOFF Plan 2. The amount recognized by the (city/county/district) as its proportionate share of this amount is $_____.

Actuarial Assumptions

The total pension liability (TPL) for each of the DRS plans was determined using the most recent actuarial valuation completed in 2024 with a valuation date of June 30, 2023. The actuarial assumptions used in the valuation were based on the results of the Office of the State Actuary's (OSA) 2013-2018 Demographic Experience Study and the 2023 Economic Experience Study.

Additional assumptions for subsequent events and law changes are current as of the 2023 actuarial valuation report. The TPL was calculated as of the valuation date and rolled forward to the measurement date of June 30, 2024. Plan liabilities were rolled forward from June 30, 2023, to June 30, 2024, reflecting each plan's normal cost (using the entry-age cost method), assumed interest and actual benefit payments.

- **Inflation:** 2.75% total economic inflation; 3.25% salary inflation
- **Salary increases**: In addition to the base 3.25% salary inflation assumption, salaries are also expected to grow by service-based salary increase.
- **Investment rate of return:** 7.00%

Mortality rates were developed using the Society of Actuaries' Pub. H-2010 mortality rates, which vary by member status (e.g. active, retiree, or survivor), as the base table. OSA applied age offsets for each system, as appropriate, to better tailor the mortality rates to the demographics of each plan. OSA applied the long-term MP-2017 generational improvement scale, also developed by the Society of Actuaries, to project mortality rates for every year after the 2010 base table. Mortality rates are applied on a generational basis; meaning, each member is assumed to receive additional mortality improvements in each future year throughout their lifetime.

Assumptions did not change from the prior contribution rate setting June 30, 2022 Actuarial Valuation Report (AVR). OSA adjusted their methods for calculating UAAL contribution rates in PERS 1 to reflect the delay between the measurement date of calculated Plan 1 rates and when the rates are collected. OSA made an adjustment to their model to reflect past inflation experience when modeling future COLAs for current annuitants in all plans except PERS1.

Discount Rate

The discount rate used to measure the total pension liability for all DRS plans was 7.0%.

To determine that rate, an asset sufficiency test was completed to test whether each pension plan's fiduciary net position was sufficient to make all projected future benefit payments for current plan members. Based on OSA's assumptions, the pension plans' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 7.0% was used to determine the total liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on the DRS pension plan investments of 7.0% was determined using a building-block-method. In selecting this assumption, OSA reviewed the historical experience data, considered the historical conditions that produced past annual investment returns, and considered Capital Market Assumptions (CMAs) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMA's and their target asset allocation to simulate future investment returns at various future times.

Estimated Rates of Return by Asset Class

The table below summarizes the best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2024. The inflation component used to create the table is 2.5% and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	19%	2.1%
Tangible Assets	8%	4.5%
Real Estate	18%	4.8%
Global Equity	30%	5.6%
Private Equity	25%	8.6%
	100%	

Sensitivity of the Net Pension Liability/(Asset)

The table below presents the (city/county/district's) proportionate share* of the net pension liability calculated using the discount rate of 7%, as well as what the (city/county/district's) proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6%) or 1-percentage point higher (8%) than the current rate.

[3] **Plan**	**1% Decrease (6%)**	**Current Discount Rate (7%)**	**1% Increase (8%)**
PERS 1	$	$	$
PERS 2/3			
SERS 2/3			
PSERS 2			
LEOFF 1			
LEOFF 2			

Pension Plan Fiduciary Net Position

Detailed information about the State's pension plans' fiduciary net position is available in the separately issued DRS financial report.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2024, the (city/county/district) reported its proportionate share of the net pension liabilities and assets as follows:

Plan	Liability (or Asset)
PERS 1	$
PERS 2/3	
SERS 2/3	
PSERS 2	
LEOFF 1	
LEOFF 2	

The amount of the asset reported above for LEOFF Plans 1 and 2 reflects a reduction for State pension support provided to the (city/county/district). The amount recognized by the (city/county/district) as its proportionate share of the net pension asset, the related State support, and the total portion of the net pension asset that was associated with the (city/county/district) were as follows:

	LEOFF 1 Asset	LEOFF 2 Asset
Employer's proportionate share		
State's proportionate share of the net pension asset associated with the employer		
TOTAL		

At June 30, the (city/county/district's) proportionate share of the collective net pension liabilities was as follows:

Plan	Proportionate Share 6/30/24	Proportionate Share 6/30/23	Change in Proportion
PERS 1	%	%	%
PERS 2/3			
SERS 2/3			
PSERS 2			

LEOFF 1	
LEOFF 2	

Employer contribution transmittals received and processed by the DRS for the fiscal year ended June 30, 2024 are used as the basis for determining each employer's proportionate share of the collective pension amounts reported by the DRS in the Schedules of Employer and Nonemployer Allocations for all plans except LEOFF 1.

LEOFF Plan 1 allocation percentages are based on the total historical employer contributions to LEOFF 1 from 1971 through 2000 and the retirement benefit payments in fiscal year 2024. Historical data was obtained from a 2011 study by the Office of the State Actuary (OSA). The state of Washington contributed 87.12% of LEOFF 1 employer contributions and all other employers contributed the remaining 12.88% of employer contributions. LEOFF 1 is fully funded and no further employer contributions have been required since June 2000. If the plan becomes underfunded, funding of the remaining liability will require new legislation. The allocation method the plan chose reflects the projected long-term contribution effort based on historical data.

In fiscal year 2024, the state of Washington contributed 39% of LEOFF 2 employer contributions pursuant to RCW 41.26.725 and all other employers contributed the remaining 61% of employer contributions.

Pension Expense

For the year ended December 31, 20XX, the(city/county/district) recognized pension expense as follows:

Plan	**Pension Expense**
PERS 1	$
PERS 2/3	
SERS 2/3	
PSERS 2	
LEOFF 1	
LEOFF 2	
TOTAL	

Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 20XX, the (city/county/district) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following:

[4] (Plan Name)	**Deferred Outflows of Resources**	**Deferred Inflows of Resources**
Differences between expected and actual experience	$	$

Net difference between projected and actual investment earnings on pension plan investments	$	$
Changes of assumptions	$	$
Changes in proportion and differences between contributions and proportionate share of contributions	$	$
Contributions subsequent to the measurement date	$	$
TOTAL	$	$

Deferred outflows of resources related to pensions resulting from the(city/county/district's) contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended December 31, 20XY **[5]**. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	**[4] (Plan Name)**
20X1	$
20X2	$
20X3	$
20X4	$
20X5	$
Thereafter	$

[6] Volunteer Firefighters' Relief and Pension Fund (VFFRPF) and Reserve Officers' Relief and Pension Fund (RORPF)

VFFRPF and RORPF are cost-sharing, multiple-employer defined benefit plans administered by the State Board for Volunteer Fire Fighters and Reserve Officers. The Board is appointed by the Governor and is comprised of five members of fire departments covered by Chapter 41.24 RCW. Administration costs are funded through legislative appropriation. Approximately 362 local governments, consisting of fire departments, emergency medical service districts and law enforcement agencies, contribute to the plan. In addition, the state, a nonemployer contributing entity, contributes 40 percent of the fire insurance premium tax. Retirement benefits are established in Chapter 41.24 RCW and may be amended only the Legislature.

The VFFRPF and RORPF plans do not issue a stand-alone financial report, but is included in the annual comprehensive financial report (ACFR) of the State of Washington. The State ACFR may be downloaded from the Office of Financial Management (OFM) website at www.ofm.wa.gov.

Membership in the VFFRPF includes volunteer firefighters and emergency medical technicians. Membership in RPRPF includes commissioned reserve law enforcement officers. Since retirement benefits cover volunteer service, benefits are paid based on years of service, not salary. Normal retirement is available at the age of 65 with at least 25 years of service. The monthly plan benefit formula is $100 plus $10 for each month for each year the member made pension contributions. Reduced pensions are available for members beginning at the age of 65 with less than 25 years of service and for members at the age of 60 with at least 25 years of service.

Members are vested after 10 years of service. Members earn no interest on contributions and may elect to withdraw their contributions upon termination. Death and active duty disability benefits are provided at no cost to the member. Death benefits in the line of duty consist of a lump sum of $214,000 and funeral and burial expenses of $2,000. Members receiving disability benefits at the time of death shall be paid $500.

Contributions

Contribution rates for emergency medical service districts (EMSD) and law enforcement agencies are set each year by the Board based on the actual cost of participation as determined by the OSA. All other contribution rates are set by the Legislature. Municipalities may opt to pay the member's fee on their behalf.

The contribution rates for 20XX were as follows:

VFFRPF

	Firefighters	EMSD and Reserve Officers
Municipality fee	$30	$110
Member fee	$30	$30

The (city/county/district's) actual contributions to VFFRPF were $_____ and contribution to RORPF were $_____ for the year ended December 31, 20XX. If applicable: The (city/county/district) has opted to pay members' fees on their behalf. Contributions on behalf of members were $_____ for the year ended December 31, 20XX.

In accordance with Chapter 41.24 RCW, the state contributes 40% of the fire insurance premium tax to the plan. For fiscal year 2024, the state's fire insurance premium tax contribution was $14.8 million. The (city/county/district) received $_____ of this amount.

Actuarial Assumptions

The total pension asset was determined by an actuarial valuation by the OSA based on a measurement date of June 30, 2022, using the following actuarial assumptions:

- **Inflation:** 2.25%
- **Salary increases**: N/A
- **Investment rate of return:** 6.00%

The actuarial assumptions used in the valuation were based on the results of the OSA's *2021 Report on Financial Condition and Economic Experience Study,* the *2021 Pension Experience Study*, and the *2018 Relief Experience Study*.

Mortality assumptions used for this plan are consistent with assumptions used for Public Employees' Retirement System.

Discount Rate

The discount rate used to measure the total VFFRPF pension liability was 6%. To determine that rate, an asset sufficiency test was completed to test whether the pension plan's fiduciary net position was sufficient to make all projected future benefit payments of current plan members. Based on OSA's assumptions the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return of 6% on plan investments was applied to determine the total pension liability.

Long-Term Expected Rate of Return

The long-term expected rate of return of 6% was determined using a building-block-method. In selecting this assumption, OSA reviewed the historical experience data, considered the historical

conditions that produced past annual investment returns, and considered capital market assumptions (CMAs) and simulated expected investment returns provided by the Washington State Investment Board (WSIB). The WSIB uses the CMAs and their target asset allocation to simulate future investment returns over various time horizons.

Estimated Rates of Return by Asset Class

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2024, are summarized in the table below. The inflation component used to create the table is 2.25% and represents the WSIB's most recent long-term estimate of broad economic inflation.

Asset Class	Target Allocation	% Long-Term Expected Real Rate of Return Arithmetic
Fixed Income	70%	8.1%
Global/Public Equity	30%	3.5%
	100%	

Sensitivity of the Net Pension Asset

The following presents the (city/county/district's) proportionate share of the VFFRPF net pension asset calculated using the discount rate of 6%, as well as what the (city/county/district's) proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1-percentage point lower (5%) or 1-percentage point higher (7%) than the current rate.

	1% Decrease (5%)	Current Discount Rate (6%)	1% Increase (7%)
VFFRPF	$	$	$
RORPF			

Pension Plan Fiduciary Net Position

Detailed information about the plans' fiduciary net position is available in the separately issued State of Washington ACFR.

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The (city/county/district's) proportion of the net pension asset was based on actual contributions to the plan relative to total contributions of all participating municipalities.

	Net Pension Asset	Proportionate Share	Pension Expense
VFFRPF	$	%	$
RORPF			

Deferred outflows of resources and deferred inflows of resources are not material to the VFFRPF plan.

Instructions to preparer:

[1] This note template assumes a FYE of 12/31. Governments with different fiscal year ends should update these contribution rate tables to disclose the contribution rates during the fiscal year (i.e., a 6/30 FYE government should disclose the rates from July 1 through June 30 of the reporting year). The rates can be found in DRS's employer handbook, chapter 6.

[2] Only governments with employees that participate in the JBM program should include this information.

[3] See Note 4.C of the DRS Participating Employer Financial Information report for the year ended June 30. Multiply the total net pension liability amounts for each applicable plan by your proportionate share for that plan.

[4] Prepare a separate table for each plan. It is optional to prepare a "total" table that includes all plans.

[5] This should be the next fiscal year (not the current fiscal year).

[6] The VFFRPF and RORPF plans are not administered by DRS. Individual municipalities' proportionate share of the net pension liability/(asset) is available at www.bvff.wa.gov.

Note X – Pledges and Sales of Future Revenues

Note X – Pledges and Sales of Future Revenues

A template for this note is not available. See "Instructions to preparer:" for various disclosures that may be required.

Instructions to preparer:

For required disclosures please refer to the Governmental Accounting Standard Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards* (Cod.) Section (Sec.) S20 "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues" paragraphs 121 and 122.

Note X – Pollution Remediation Obligations

Note X – Pollution Remediation Obligations

A template for this note is not available. See "Instructions to preparer" for various disclosures that may be required.

Instructions to preparer:

These note disclosures are required by GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

Required note disclosures:

1. For recognized pollution remediation liabilities and recoveries of pollution remediation outlays, governments should disclose the following:

a. The nature and source of pollution remediation obligations (e.g., federal, state, or local laws or regulations).

b. The amount of the estimated liability (if not apparent from the financial statements), the methods and assumptions used for the estimate, and the potential for changes due to, for example, price increases or reductions, technology, or applicable laws or regulations.

c. Estimated recoveries reducing the liability.

2. For pollution remediation liabilities that are not yet recognized because they are not reasonably estimable, governments should disclose a general description of the nature of the pollution remediation activities.

3. If the government has environmental credits or allowances, a disclosure should be made about the credits. Include information on if the government has any plans to sell the credits and that the

credits currently hold no value and will not have value until the time of sale.

Note X – Prior Period Adjustments

Note X – Prior Period Adjustment

This note has been replaced by Note X – Accounting Changes and Error Corrections.

Note X – Property Tax

Note X – Property Tax

The county treasurer acts as an agent to collect property tax levied in the county for all taxing authorities.

Property Tax Calendar

January 1	Tax is levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100 percent of market value.
October 31	Second installment is due.

Property tax is recorded as a receivable and revenue when levied.**[1]** Property tax collected in advance of the fiscal year to which it applies is recorded as a deferred inflow and recognized as revenue of the period to which it applies. **[2]** No allowance for uncollectible tax is established because delinquent taxes are considered fully collectible. Prior year tax levies were recorded using the same principal, and delinquent taxes are evaluated annually.

The (city/county/district) may levy up to $_____ per $1,000 of assessed valuation for general governmental services.

The (city/county/district's) regular levy for (year) was $_____ per $1,000 on an assessed valuation of $_____ (million) for a total regular levy of $_____. **[3]** **[4]** **[5]**

Washington State Constitution and Washington State law, RCW84.55.010, limit the rate.

Instructions to preparer:

[1] Cities must recognize property taxes already in the hands of the county treasurer. If December taxes have been distributed by December 31, and you do not accrue estimated collections for January and February, use the following sentence.

Property tax revenues are recognized when cash is collected. The amount of taxes receivable at year-end that would be collected soon enough to be available to pay liabilities of the current period is immaterial.
Return to Reference 1

[2] Counties should add the following sentence in front of the sentence that begins:
No allowance for _____

The balance of taxes receivable includes related interest and penalties.

If the city/county/district estimates uncollectible taxes, use the following paragraph instead:

Property tax receivables are reduced by an allowance for uncollectible taxes which is estimated at

__ percent of (total/personal) property taxes receivable at year-end.

Cities with firemen's pension funds should add the following paragraph, if the levy is restricted to the firemen's pension fund.

The city is also authorized to levy $.45 per $1,000 of assessed valuation for the firemen's pension fund. See (Pension Note No.__). This levy is subject to the same limitations as the levy for general government services. The city's firemen's pension levy for (year) was $_____ per $1,000 for a total levy of $_____.
Return to Reference 2

[3] Property tax road levy shifts – road diversion

Counties should add the following paragraph to supplement the note with disclosure of any *diverted road levy*. The note should specifically identify amounts diverted for non-road purposes.

The county is also authorized to levy $2.25 per $1,000 of assessed valuation in unincorporated areas for road construction and maintenance. This levy is subject to the same limitations as the levy for general government services. The county's road levy for (year) was $_____ per $1,000 on an assessed valuation of $_____ (million) for a total road levy of $_____. The diverted county road levy for (year) was $_____ per $1,000 on an assessed valuation of $_____ (million) for a total diverted road levy of $_____.
Return to Reference 3

[4] If the government has any special levies, they should be disclosed separately.

Special levies approved by the voters are not subject to the limitations listed above. In(year), the (city/county/district) levied an additional $_____ per $1,000 for(give purpose) for a total additional levy of $_____.
Return to Reference 4

[5] If the city/county/district has several special levies or wishes to disclose the distribution of its tax levies, the following note format may be used instead of the last paragraph of the sample text:

For (year), the (city/county/district) levied the following property taxes on an assessed value of $_____ (million). (The special levies identified in the table were approved by the voters and are not subject to the limitations listed above.)

Purpose of Levy	**Levy Rate per $1,000**	**Total Levy Amount**
General Government	$	$
Road Levy (on the assessed value of unincorporated areas totaling $____ million)		
Special Medic One Levy		
Special G.O. Bond Levy		
Totals	$	$

Return to Reference 5

Note X – Public-Private and Public-Public Partnerships (Operator)

Note X – Public-Private and Public-Public Partnerships (Operator)

A template for this note is not available. See "Instructions to preparer:" for disclosures that may be

required.

Instructions to preparer:

A government operator should disclose in notes to financial statements the following information about its Public-Public or Public-Private Partnerships (PPP) (which may be grouped for purposes of disclosure):

1. A general description of its PPP arrangements, including the status of projects during the construction period, if applicable, and the basis, terms, and conditions on which any variable payments not included in the measurement of the liability for installment payments are determined
2. The nature and amounts of assets, liabilities, and deferred outflows of resources related to PPPs that are recognized in the financial statements
3. The discount rate or rates applied to the measurement of the liability for installment payments, if any
4. Principal and interest requirements to maturity, presented separately, for the liability for installment payments for each of the five subsequent fiscal years and in five-year increments thereafter

Example:

As of December 31, 20XX, the principal and interest requirements to maturity are as follows:

Year ended December 31	Principal	Interest	Total
20XX	$	$	$
20XX	$	$	$
20XX	$	$	$
20XX	$	$	$
20XX	$	$	$
20XX-20XX	$	$	$
20XX-20XX	$	$	$
Total	$	$	$

5. The amount of outflows of resources recognized in the reporting period for variable payments not previously included in the measurement of the liability for installment payments
6. The nature and extent of rights granted to the operator or retained by the transferor under PPP arrangements
7. The components of any loss associated with an impairment (the impairment loss and any related change in the liability)

Note X – Public-Private and Public-Public Partnerships (Transferor)

Note X – Public-Private and Public-Public Partnerships (Transferor)

Note X – Public-Private and Public-Public Partnerships (Transferor)

A template for this note is not available. See "Instructions to preparer:" for disclosures that may be required.

Instructions to preparer:

A government transferor should disclose in notes to financial statements the following information about its Public-Public or Public-Private Partnerships (PPP) (which may be grouped for purposes of disclosure):

1. A general description of its PPP arrangements, including the status of projects during the construction period, if applicable, and the basis, terms, and conditions on which any variable payments not included in the measurement of the receivable for installment payments are determined
2. The nature and amounts of assets and deferred inflows of resources related to PPPs that are recognized in the financial statements
3. The discount rate or rates applied to the measurement of the receivable for installment payments, if any
4. The amount of inflows of resources recognized in the reporting period for variable and other payments not previously included in the measurement of the receivable for installment payments, including inflows of resources related to residual value guarantees and termination penalties
5. The nature and extent of rights retained by the transferor or granted to the operator under the PPP arrangements

Note X – Receivable and Payable Balances

Note X – Receivable and Payable Balances

A. Receivables [1]

Receivables at December 31, 20__ were as follows:

	Accounts	Taxes	Special Assessments	Due to Other Government	Other	Total
Governmental Activities:						
Total Governmental Activities						
Amounts not scheduled for collection during the subsequent year						
Business-Type Activities:						
Total Business-Type Activities						

B. Payables [2]

Payables at December 31, 20__ were as follows:

	Vendors	Salaries and Benefits				Total
Governmental Activities:						
Reconciliation of balances in fund financial statements to government-wide financial statements						
Total Governmental Activities						
Business-Type Activities:						
Total Business-Type Activities						

Instructions to preparer:

[1] Provide these details only if the significant components of receivables have been obscured by aggregations.

The city/county/district should disclose if significant balances of receivables are not expected to be collected within one year of the end of the fiscal period.
Return to Reference 1

[2] Provide these details only if the significant components of payables have been obscured by aggregations.
Return to Reference 2

Note X – Reconciliation of Government-Wide and Fund Financial Statements

Note X – Reconciliation of Government-Wide and Fund Financial Statements

A. Explanation of Certain Differences Between the Governmental Funds Balance Sheet and the Government-Wide Statement of Net Position

The governmental funds' balance sheet includes reconciliation between fund balance – total governmental funds and net position – governmental activities as reported in the government-wide statement of net position. **[1]**

B. Explanation of Certain Differences Between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental funds' statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. **[2]**

Instructions to preparer:

This note is required only if the reconciliation on the face of financial statements does not provide sufficient details about reconciling items (Governmental Accounting Standards Board (GASB) Statement 34, paragraph 77).

[1] List all the elements from the reconciliation provided in/or after the city/county/district governmental funds' balance sheet and provide details for each reconciling item.

[2] List all the elements from the reconciliation provided in/after the city/county/district governmental funds' statement of revenues, expenditures, and changes in fund balance and provide details for each reconciling item.

Note X – Related Party Transactions

Note X – Related Party Transactions

A template for this note is not available. See "Instructions to preparer:" for various disclosures that may be required.

Instructions to preparer:

These disclosures are required for any transactions with related parties, other than normal transactions conducted in the ordinary course of operations (such as compensation of employees or licensing or permitting for other governments). When evaluating the necessity of a disclosure, governments should consider both the form and substance of the transaction.

As defined in GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, related parties include:

- A government's related organizations, joint ventures, and jointly governed organizations
- Elected and appointed officials of the government, executive management and immediate family members of officials and executive managers
- Other parties that the government can significantly influence
- Other parties that can significantly influence the government
- Other parties that are under the influence of a related party to the government

Disclosure should include:

- The nature of the relationship(s) involved.
- A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which financial statements are presented, and such other information deemed necessary to gain an understanding of the effects of the transactions on the financial statements.
- The dollar amounts of transactions for each of the periods for which financial statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period.
- Amounts due from or to related parties as of the date of each statement of net position presented and, if not otherwise apparent, the terms and manner of settlement.

This disclosure could be appropriately combined with other information in other notes, such as a joint venture note or reporting entity note. These disclosures are also required should the government transact business with its own officials or employees beyond the limited amounts permitted in Chapter 42.23 RCW.

Also disclose complex transactions with other parties not discussed in other notes. These disclosures include:

- Loans with forgiveness clauses, parties in contract, property secured, terms to convert the loan to a grant, amount to be repaid if forgiveness conditions are not met.
- Grants with recoverable clauses, parties in contract, terms removing recoverable clause, the asset the grantor has an interest in, the amount the grantor can require to be returned, and the conditions that trigger return of the grantor interest.
- Reporting an asset for an Investment in Tax Credit Partnership when using discrete presentation of a component unit. The disclosure should include the method used to calculate the investment, classification of the TCP as a component unit with joint venture characteristics using GAAP criteria, GASB Statement 14, paragraphs 72 and 78.
- Formation and use of not-for-profit corporation by the authority, listing the not for profit corporation, other parties, and function the not-for-profit corporation performs for the authority.

REAC has indicated it will be performing an expanded note disclosure review on the above items.

Note X – Restricted Component of Net Position

Note X – Restricted Component of Net Position

The government-wide statement of net position reports $_____ of restricted component of net position, of which $_____ is restricted by enabling legislation.

Instructions to preparer:

The governments should evaluate the legal enforceability of the enabling legal restrictions on an annual basis.

If the restrictions were determined to be replaced by new ones, the net position should be reported as *restricted* for the new purpose from the period of change forward.

If the restrictions were determined not to be legally enforceable, then they should be reported as *unrestricted* from the time of such determination forward.

If the net position is used for purposes not specified by enabling legislation, the reporting will vary depending if such restrictions are enforceable or not. If the restrictions are determined to be legally enforceable, the net position should continue to be reported as *restricted*; otherwise, as *unrestricted*.

For more details see the GASB Statement 46, *Net Assets Restricted by Enabling Legislation*.

Note X – Risk Management

Note X – Risk Management

A template for this note is not available. See "Instructions to preparer:" for various disclosures that may be required.

Instructions to preparer:

A city/county/district should disclose:

- a description of the types of risk the city/county/district faces and how it is handling those risks; and
- any significant reduction in insurance coverage from the previous year (by risk category); and
- an indication whether the total amount of settlements exceeded insurance coverage for each of the past three fiscal years.

If the city/county/district ***participates in a risk pool***, it should describe that arrangement. The description should specifically address the rights and responsibilities of the government and the pool.

If a city/county/district ***retains some risk*** of loss, it should make the following disclosures:

1. a description of what the liability for unpaid claims represents and how it is calculated (this discussion should mention whether non-incremental claims adjustment expenses have been included as part of the liability for claims and judgments);

2. if the city/county/district exercises its option to discount claims liabilities or has entered into any structured settlements, the nondiscounted carrying amount of any liabilities reported at a discounted value and the range for interest rates used for discounting;

3. claims defeased through annuity contracts (unless beneficiaries have signed an agreement releasing the government from all further obligation, and the likelihood of further payments is remote); and

4. a tabular reconciliation of the claims liability for ***both the current fiscal year and the prior fiscal year***, using the following format:

- claims liability (beginning of year)
- claims incurred during the year

- changes in the estimate for claims of prior periods
- payments on claims
- other (for example, change in the methodology used to estimate claims)
- claims liability (end of year).

For more information refer to the GASB Statement 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*.

Note X – Risk Management (for participating member of pool)

Note X – Risk Management *(for participating member of pool)*

or

Note 1 – General *(for public entity risk pool)*

The (city/county/district) is a member of the (pool) (Pool). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The Pool was formed on (date) when (city/county/district) in the state of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. (Number of participating members) (city/county/district) have joined the Pool.

The Pool allows members to (state purposes: i.e., jointly purchase insurance coverage, establish a plan of self-insurance, and provide related services, such as risk management, etc.). (State type of policy coverage: i.e., coverage for public official liability is on a “claims made basis.” All other coverages are on an “occurrence” basis.) The Pool provides the following forms of group purchased insurance coverage for its members: list by type of policy: i.e., property, liability, vehicle, other mobile equipment, electronic data processing equipment, bonds of various types, excess liability, public official liability, and machinery breakdown, etc.

Members make an annual contribution to fund the Pool. The Pool acquires insurance from unrelated underwriters that are subject to a per-occurrence deductible of $_____. Members are responsible for the first $_____ of the deductible amount of each claim, while the Pool is responsible for the remaining $_____. Insurance carriers cover all losses over $_____ to the maximum limits of each policy. Since the Pool is a cooperative program, there is a joint liability among the participating members.

Each new member pays the Pool an admittance fee. This amount covers the member’s share of organizational expenses and the cost of analyzing their loss data and risk profile. Members contract to remain in the Pool for a minimum of (number) year(s), and must give notice (number) year(s) before terminating participation. The Interlocal Governmental Agreement is renewed automatically each year after the initial (number) year period. Even after termination, a member is still responsible for contributions to the Pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the interlocal governmental agreement.
The Pool is fully funded by its member participants. Claims are filed by members with (name of third party administrator, if appropriate) which has been contracted to perform claims adjustment, loss prevention, and property appraisal services for the Pool. Fees paid to the third party administrator under this arrangement for the year ended _____, 20___ were $_____, which included fees for appraisal services. For ____ **[1]**, the Pool has contracted with the third party administrator to perform claims adjustment and loss prevention services for $_____.

The Pool is governed by a board of directors which is comprised of one designated representative from each participating member. An executive committee is elected at the annual meeting, and is responsible for conducting the business affairs of the Pool.

Instructions to preparer:

[1] Insert next reporting year.

Note X – Risk Pools – Excess Insurance Contracts/Reinsurance

Note X – Risk Pools – Excess Insurance Contracts/Reinsurance [1]

This guidance applies to stand-alone risk pools and governments that manage risk pools.

The Pool maintains excess insurance contracts with several insurance carriers[2] which provide various limits of coverage over the Pool's self-insured retention limits. The limits provided by these excess insurance contracts are as follows:

Excess Insurance Contracts	20__
General Liability	$_____
Automobile Liability	_____
Public Officials Liability	_____
Police Professional Liability	_____
Gas Liability	_____
Workers' Compensation Liability	_____
Property	100% Replacement Cost Per Location
Crime	_____
All Lines Aggregate	_____
Workers' Compensation Aggregate	_____
Excess Liability Aggregate	_____

Per-occurrence coverage limits provided by the Pool, including the excess insurance limits combined with the Pool's self-insured retention limits are as follows:

Excess Insurance Contracts	20__
General Liability	$_____
Automobile Liability	_____
Public Officials Liability	_____
Police Professional Liability	_____
Gas Liability	_____
Workers' Compensation Liability	_____
Property	100% Replacement Cost Per Location
Crime	_____

Reinsurance transactions related to the pool were:

Reinsurance premiums ceded during the year were _____. The estimated amounts that are recoverable from excess and reinsurers that reduced the liabilities on the balance sheet were _____.

Instructions to preparer:

[1] Disclose:

- Information regarding solvency of reinsurer,
- Information regarding policy years of pool,
- Information on exposure regarding changes in excess limits,
- Details describing policies as occurrence based, claims paid or claims made.

[2] State the specific carriers used.

Note X – Risk Pools – Members' Supplemental Assessments and Credits

Note X – Risk Pools – Members' Supplemental Assessments and Credits

This guidance applies to stand-alone risk pools and governments that manage risk pools.

The interlocal governmental agreement provides for supplemental assessments to members based on actual claim experience. (During fiscal year 20__, the Pool did not make a supplemental assessment.) (In 20__, the Pool recorded supplemental assessments of $_____, pursuant to this provision.) (In addition, during 20__, prior year supplemental assessments were reduced by $_____.)

The interlocal governmental agreement provides that surplus members' fund balance be used to credit future annual assessments. For the year ended , 20__, member assessments are presented net of such credits of $_____. The board of directors has designated $_____ of members' fund balance for this purpose for the fiscal year ending _____ , 20__.

Note X – Risk Pools – Risk Financing Limits

Note X – Risk Pools – Risk Financing Limits

This guidance applies to stand-alone risk pools and governments that manage risk pools.

The following table reflects the risk financing limits on coverage policies issued and retained by (pool) at _____ __, 20__.[1]

TYPE OF COVERAGE	MEMBER DEDUCTIBLES	SELF INSURED RETENTION	EXCESS LIMITS
Property Loss:			
Buildings and Content			
Flood			
Earthquake			
Terrorism			
Comprehensive General Liability, including:			
Professional Liability			
Terrorism Liability			
Auto Liability			
Public Officials Errors and Omissions			
Employment Practices Liability			
Blanket Employee Dishonesty, Named Position			
Boiler and Machinery			
Auto Physical Damage			

Instructions to preparer:

[1] Additional information should be provided for the following:

- Discuss the details of minimum deductibles for applicable types of coverage as needed in footnotes to the tables.
- Disclose any requirements for participant co-pays after deductibles are met.
- If options exist for participants to elect for higher deductibles they should be discussed.

Note X – Risk Pools – Solvency

Note X – Risk Pools – Solvency

This guidance applies to stand-alone risk pools and governments that manage risk pools.

A. Financial Solvency Property and Liability Pool (Joint Pools)

Washington Administrative Code (WAC) 200-100 requires (Pool) to maintain certain levels of primary and secondary assets to meet solvency standards. As defined in WAC 200-100-03001 total primary assets, cash and cash equivalents less non-claim liabilities, must be at least equal to the unpaid claims estimate at the expected level as determined by the actuary. Additionally, total primary and secondary assets must be at least equal to the unpaid claims estimate at the 80 percent confidence level as determined by the actuary. Secondary assets are defined as insurance receivables, real estate or other assets (less any non-claim liabilities) the value of which can be independently verified by the state risk manager.

Solvency test for program:

Primary Asset Test	
Cash and cash equivalents	
Investments	
Total	
Less: Non-claims liabilities Accounts payable/Tax liability	
Less: Unearned member contributions in excess of member contribution receivables	
Total Primary Assets	
compared to:	
Claim liabilities at expected level per actuary (sum of all claims liabilities)	
Test #1 - Primary Asset Test	**MET/NOT MET**

Secondary Asset Test	
Cash and cash equivalents	
Investments	
Receivables, member contributions	
Capital Assets	
Less: Non-claims liabilities Accounts payable/Tax liability	
Less: Unearned member contributions	
Total Secondary Assets	
compared to:	
Claim liabilities at 80 percent confidence level per actuary (from actuarial study)	
Test #2 - Secondary Asset Test	**MET/NOT MET**

B. For Health and Welfare Pools (Joint Pools)**[1]**

Washington Administrative Code (WAC) 200-110-040 requires all joint health and welfare programs self-insuring medical benefit programs to establish program reserves (monies set aside to pay expenses) in an amount equal to 16 weeks of program expenses. The WAC requires vision, dental and prescription drug benefit programs or any combination of programs to establish program reserves in an amount not less than eight weeks of program expenses for each program offered. An additional contingency reserve for vision, dental or prescription drug programs is also recommended, but not required.

The following note would only be included if applicable:

In lieu of the above mentioned requirements, all joint health and welfare self-insurance providing either medical, vision, dental or prescription drug benefits or any combination thereof must obtain an independent actuarial study of estimated outstanding program liabilities and maintain funds equal to or greater than the actuarially determined program liability at fiscal year-end.

Solvency test for program:

FOR MEDICAL PROGRAM EXPENSES - 16 WEEK RESERVE IS REQUIRED UNLESS ESTIMATED BY ACTUARY		
Medical 16 weeks claims test		
Program expenses		
Medical Claims Paid		-
Other Operating Expenses related to medical claims (would include admin fees)		-
Other Operating Expenses other than related to medical		-
TOTAL		-
Minimum Program Reserves		
Total Program Expenses		-
Divided by 52		-
x 16		-
Total expected program reserves		-
Actual Program reserves		
		-
16 weeks claims test	**NOT MET**	

FOR VISION, DENTAL OR PRESCRIPTION PROGRAM EXPENSES - 8 WEEK RESERVE IS REQUIRED UNLESS ESTIMATED BY ACTUARY			
8 weeks claims test		**Additional contingency reserve**	
Program expenses		Program expenses	
Dental/Vision or Rx claims	-	Dental/Vision or Rx claims	-
Other Operating Expenses *related to medical claims*	-	Other Operating Expenses *related to medical claims*	
Other Operating Expenses other than related to claims	-	Other Operating Expenses other than related to claims	-
TOTAL	-	***TOTAL***	-
Minimum Program Reserves		Minimum Program Reserves	
Total Program Expenses	-	Total Program Expenses	-
Divided by 52	-	Divided by 52	-
x 8	-	x 8	-
Total expected program reserves	-	***Total expected program reserves***	-
Actual Program reserves		Reserves, after meeting 8 week test	
	-		-
8 weeks claims test	**NOT MET**	**Additional contingency reserve**	**NOT MET**

Instructions to preparer:

[1] This note should be customized specifically to the risk pool's circumstances particularly if programs in existence less than one year have established reserves according to the initial plan submitted and approved by the state risk manager, if different than the required eight week reserve, OR if reserve is determined by obtaining an independent actuary estimate.
Return to Reference 1

Note X – Segment Information

Note X – Segment Information

A template for this note is not available. See "Instructions to preparer:" for various disclosures that may be required.

Instructions to preparer:

The city/county/district that reports enterprise funds or that uses proprietary fund accounting and reporting standards to report their activities may be required to present segment information for those activities. This note is not required when the information is displayed in financial statements. For purposes of this disclosure, a segment is an identifiable activity reported as or within an enterprise fund or other stand-alone. Segment disclosure is required for activities that meet all three of the following criteria:

1. The activity must be identifiable. An activity is identifiable if it has a specific revenue stream and related expenses and gains and losses that are accounted for separately.

2. The activity must have revenue-supported debt outstanding. As of the end of the fiscal period, the activity must have one or more bonds or other debt instruments (e.g., certificates of participation) outstanding with a revenue pledged in support of that debt. (Conduit debt is not a consideration for this purpose.)

3. The activity must be externally required to maintain separate accounts. An external party (e.g., pursuant to bond indenture) must require separate accounting of all of the following items related to the activity: revenues, expenses, gains, losses, assets, and liabilities.

Segment disclosure requirements should be met by providing condensed financial statement in the notes:

a. Type of goods or services provided by the segment.

b. Condensed statement of net position:

1. Total assets distinguishing between current assets, capital assets, and other assets. Amounts receivable from other funds or component units should be reported separately.

2. Total deferred outflows of resources.

3. Total liabilities distinguishing between current and long-term amounts. Amounts payable to other funds or component units should be reported separately.

4. Total deferred inflows of resources.

5. Total net position distinguishing among restricted (separately reporting expendable and nonexpendable components); unrestricted; and amounts of net investment in capital assets.

c. Condensed statement of revenues, expenses, and changes in net position:

1. Operating revenues (by major source)
2. Operating expenses. Depreciation (including any amortization) should be identified separately
3.Operating income (loss)
4. Nonoperating revenues (expenses) with separate reporting of major revenues and expenses
5. Capital contributions and additions to permanent and term endowments
6. Special and extraordinary items
7. Transfers
8. Change in net position
9. Beginning net position
10. Ending net position

d. Condensed statement of cash flows:

1. Net cash provided (used) by:

- Operating activities
- Noncapital financing activities
- Capital and related financing activities
- Investing activities

2. Beginning cash and cash equivalent balances.

3. Ending cash and cash equivalent balances.

Note X – Service Concession Arrangements

Note X – Service Concession Arrangements

A template for this note is not available. See "Instructions to preparer:" for various disclosures that may be required.

Instructions to preparer:

A city/county/district should disclose:

- A general description of the arrangement (including management's objectives) and the status of the project during the construction period;
- Nature and amount of related assets, liabilities, and deferred inflows;
- Rights retained and rights granted, and
- Guarantees and commitments.

Disclosures for the service concession arrangements can be aggregated for agreements involving similar facilities and risk.

Note X – Short-Term Debt

Note X – Short-Term Debt

Short-term activities for the year ended December 31, 20__ was as follows:

Debt	Beginning Balance 01/01/20__	Issued	Redeemed	Ending Balance 12/31/20__
_____	$____	$____	$____	$____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

Instructions to preparer:

The city/county/district should provide the information about short-term debt activities (e.g., anticipation notes, use of line of credit and similar loans, etc.) during the year, ***even if short-term debt is not outstanding at the year end***.

The city/county/district should describe the purpose for which the short-term debt was issued.

The city/county/district may also address how it intends to finance the payment of short-term debt outstanding at the end of the fiscal period.

For additional requirements for government-wide and proprietary funds seeGASB Statement, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, paragraph 44.

Note X – Subscription Based Information Technology Arrangements (SBITA)

Note X – Subscription Based Information Technology Arrangements (SBITA)

A template for this note is not available. See "Instructions to preparer:" for disclosures that may be required.

Instructions to preparer:

A government should disclose in notes to financial statements the following information about its SBITAs (which may be grouped for purposes of disclosure) other than short-term SBITAs:

1. A general description of its SBITAs, including the basis, terms, and conditions on which variable payments not included in the measurement of the subscription liability are determined
2. The total amount of subscription assets, and the related accumulated amortization, disclosed separately from other capital assets

Example:

	Beg. Bal.	Increases	Decreases	End. Bal.
Subscription assets				
Accumulated Amortization				
Net subscription asset				

3. The amount of outflows of resources recognized in the reporting period for variable payments not previously included in the measurement of the subscription liability
4. The amount of outflows of resources recognized in the reporting period for other payments, such as termination penalties, not previously included in the measurement of the subscription liability
5. Principal and interest requirements to maturity, presented separately, for the subscription liability for each of the five subsequent fiscal years and in five-year increments thereafter

Example:

As of December 31, 20XX, the principal and interest requirements to maturity are as follows:

Year ended December 31	Principal	Interest	Total
20XX	$	$	$
20XX	$	$	$
20XX	$	$	$
20XX	$	$	$
20XX	$	$	$
20XX-20XX	$	$	$
20XX-20XX	$	$	$
Total	$	$	$

6. Commitments under SBITAs before the commencement of the subscription term
7. The components of any loss associated with an impairment (the impairment loss and any

related change in the subscription liability)

Note X – Subsequent Events

Note X – Subsequent Events

A template for this note is not available. See "Instructions to preparer:" for various disclosures that may be required.

Instructions to preparer:

Certain events that occur between the date of the financial statements and the date they are issued must be disclosed. There are two ways that subsequent events may affect the financial statements: (1) recognized events - they require adjustment to the financial statement; and (2) nonrecognized events - they may require disclosure in the notes to financial statements.

Recognized events are those that existed at the date of the financial statement and provide additional information available prior to the issuance of the financial statements. Financial statements should be adjusted for any changes resulted from that information. For example, the settlement of litigation for an amount different than the liability recorded in financial statements.

Nonrecognized events are those that provide additional information prior to the issuance of the financial statements but did not exist at the date of the financial statement. Examples include losses from fire or flood, the issuance of new debt or its advance retirement, or a change that affects the powers of the government, its scope of services or its revenue structure.

For more details refer to GASB Statement 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*.

For disclosures regarding bankruptcy see Note X – *Bankruptcy*.

Examples:

On February 1, 20__, the county issued $1.4 million in Road Improvement District (RID) bonds to provide moneys that are necessary to pay the cost and expense of constructing improvements within RID No. 85-1. The bonds bear interest rates from 8.75 to 11.125 percent and will be redeemed over the next 18 years with proceeds from RID assessment revenues.

On April 10, 20__, the city transferred all employees, assets, liabilities, and contracts related to the Vanpool Fund to the Golden County Public Transportation Benefit Area. The transfer included $1,370,000 due to the State of Washington for loans to purchase vanpool vehicles.

Beginning on March 1, 20__, the city's sales tax was increased by 0.2 percent to finance the purchase of property dedicated for a downtown park.

On April 5, 20__, the city council approved the sale of 136 acres of land adjacent to the city airport to a private corporation for $1.5 million. The sale is expected to be consummated prior to December 1, 20__. The proceeds will be devoted to capital improvements for the airport.

Note X – Tax Abatement

Note X – Tax Abatement

A template for this note is not available. See "Instructions to preparer:" for various disclosures that may be required.

Instructions to preparer:

The Governmental Accounting Standards Board (GASB) Statement 77, *Tax Abatement Disclosures* is effective for years ended December 31, 2016 and after. This disclosure is required only if the programs and policies affects **taxes** collected by the city/county/district. Any agreements that contribute to economic development or otherwise benefit a city/county/district but do not involve tax reduction are not a subject of this disclosure.

The disclosure is required ***not*** only for the agreements that are entered into by the reporting city/county/district, but also that are entered into by other governments (e.g., state, etc.) and that reduce the reporting city/county/district's tax revenues.

What is a tax abatement?

Governments offer various programs to lower taxes such as tax exemptions, deductions, rebates and abatements. Under the GASB Statement 77, tax abatements have a narrow definition:

Tax abatement is a reduction in tax revenues that results ***from an agreement*** between one or more governments and an individual or entity in which:

a) one or more governments promise to forgo tax revenues to which they are otherwise entitled, and

b) the individual or entity promises ***to take a specific action after*** the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

This definition does not include programs that reduce the tax liabilities of broad classes of taxpayers (such as senior citizen exemptions) or are not the product of individual agreements with each taxpayer. The program label is not important; it's the substance of the agreement that counts. The key is whether it meets the above definition.

The agreement may be in writing, or it may be implicitly understood. But there must be an identifiable agreement between a government and a specific individual or entity.

What needs to be disclosed?

For the complete list of disclosure requirements see paragraphs 5 through 10 theGASB Statement 77, *Tax Abatement Disclosures* and the table below. Also, see appendix C of the Statement for illustrations. The government should report information about its own agreements separately from the agreements of other governments. Governments are not required to present information if they are legally prohibited from doing so, but that fact must be disclosed.

The Department of Revenue has posted tax abatement information applicable to local governments to its website. It is available at the DOR website. This data includes state imposed sales taxes and state and county property taxes. Local governments still need to ensure proper disclosure of any other abatement arrangements as required by the GASB Statement 77.

The following is a brief summary of required disclosures. SeeGASB Statement 77 for more information:

Brief Description of Information:	Government's Own Abatement	Other Governments Abatements
Name of Program	X	
Purpose of Program	X	
Name of Government		X
Tax Being Abated	X	X
Authority to Abate Taxes	X	
Eligibility Criteria	X	
Abatement Mechanism	X	
Recapture Provisions	X	
Types of Recipient Commitments	X	

Dollar Amount of Taxes Abated	X	X
Amounts Received or Receivable from Other Governments Associated with Abated Taxes	X	X
Other Commitments by the Government	X	
Quantitative Threshold for Individual Disclosure	X	X
Information Omitted due to Legal Prohibition **[1]**	X	X

What if tax revenues reduced under a tax abatement agreement are recovered from other tax payers?

In some cases where there is a tax abatement, there is no overall reduction of tax revenues to the government because the tax burden is shifted to other properties to recover it. Governments have questioned whether this is still considered a tax abatement that needs to be reported under GASB Statement 77. Per GASB, the answer is yes. The GASB has added a new Q&A to the 2017 update to the *Comprehensive Implementation Guide* to clarify this.

Q 4.39 – A government enters into an agreement with a manufacturing company in which the company agrees to relocate to the government's jurisdiction and the government agrees to not levy taxes on the manufacturing company's office building for a period of 10 years. The government is subject to a property tax cap that limits the growth of its total property tax levy to 2 percent per year. The full amount allowed under the cap is levied on properties that are not subject to the agreement. Therefore, the government does not expect that overall tax revenues will be reduced. Does this agreement have the characteristic described in paragraph 4 of GASB Statement 77, *Tax Abatement Disclosures*, that tax revenues are reduced as a result of the government promising to forgo tax revenues to which it is otherwise entitled?

A – Yes. As part of the agreement, the government promises to forgo tax revenues in relation to the individual or entity in the agreement. To qualify as a tax abatement agreement that is subject to GASB Statement 77, it is not necessary that the government forgo tax revenue in the aggregate. The fact that the government in this example may effectively recoup the tax revenue associated with the agreement from other taxpayers is not relevant to determining whether the agreement meets the definition of a tax abatement. If the agreement meets the other criteria in the definition of a tax abatement, the tax abatement should be disclosed in accordance with the requirements of GASB Statement 77.

Footnotes:

[1] The government should disclose whatever information is not specifically prohibited by the state law. The government should also disclose what type of information is omitted and cite the state law that prohibits its disclosure.

Note X – Telecommunication Services

Note X – Telecommunication Services

A template for this note is not available. See "Instructions to preparer:" for various disclosures that may be required.

Instructions to preparer:

If a government (county, city, town, port, or PUD) provides any telecommunication services under RCW 54.16.330, the district should:

(1) Describe the type of services provided.
For PUDs: If telecommunication systems were developed prior to fiscal year 2000, the district should briefly describe those activities.

(2) List related revenues and expenses by major categories. Also, disclose its capital investment

in telecommunication services which should include a current and an aggregate (since beginning telecommunication services) amount of the government's capital investment.
For PUDs: The disclosure should include a current and an aggregate (since fiscal year 2000) amount of the district's capital investment.

	Telecommunication Services	Amount
Operating Revenues:	Wholesale Fiber Services to ISP Wholesale Fiber Service to Governments Retail Telecommunication Services Fiber Leasing Installation Charges Equipment Sales Other	
Operating Expenses:	Administration and General Repairs and Maintenance Tower Lease Interconnection Access Other	
Nonoperating Revenue (Expenses)		
Capital Investment:	Current Cumulative since beginning telecommunication services (**PUDs:** since 2000)	

(3) Disclose any assumptions for allocating revenues, expenses, and capital investment costs (including depreciation) between telecommunication and other services.

If the telecommunication activities meet the definition of a segment, the government should follow the requirements listed in Note X – *Segment Information*. Also, it should provide an additional disclosure of the government's cumulative capital investment in the reported segment.

Note X – Termination Benefits

Note X – Termination Benefits

A template for this note is not available. See "Instructions to preparer:" for various disclosures that may be required.

Instructions to preparer:

Termination benefits are benefits provided by employers to employees as an inducement to hasten the termination of services, or through voluntary termination, or a consequence of involuntary termination. These benefits include severance pay, continued health care coverage, career counseling, and outplacement services.

In the period in which an employer becomes obligated for termination benefits the employer should make the following disclosures:

1. A description of the types of benefits provided.
2. The number of employees affected.
3. The time period over which the benefits are expected to be provided.
4. The cost of termination benefits it is not identifiable on the face of the financial statements.
5. Change in actuarial accrued liability for pension and OPEB (if affected).
6. Method (i.e. discounted present value) and assumptions (discount rate, healthcare cost trend rate, etc.) used for calculation of the liability.
7. If the cost of benefits cannot be estimated this should be disclosed.

Measurement and recognition:

When benefits are provided upon termination recognition of the liability and expense also needs to be reported in the financial statements. Employers need to measure the components of healthcare related benefits separately from non health benefits. Health care benefits should be discounted to present value using a projection of benefits, healthcare cost trend data and discount

rate. Generally the cost of non healthcare related benefits are calculated as the discounted present value of expected future benefit payments. For a detailed discussion of the liability and expense measurement and recognition see GASB Statement 47, *Accounting for Termination Benefits*.

Note X – Third Party Contractual Agreements

Note X – Third Party Contractual Agreements

A template for this note is not available. See "Instructions to preparer:" for various disclosures that may be required.

Instructions to preparer:

Describe the agreements applicable to the hospital district.

Note X – Unique and Unusual Transactions

Note X – Unique and Unusual Transactions

A template for this note is not available. See "Instructions to preparer:" for various disclosures that may be required.

Instructions to preparer:

Intergovernmental Assistance Programs

Current authoritative pronouncements do not require disclosure of specifics of intergovernmental assistance programs, but if a participation in such programs is considered a material part of the city/county/district operation, note disclosure is suggested.

In the note provide:

- description of a program,
- amounts of grants, entitlements or shared revenues,
- description of program requirements and provisions (i.e., cost sharing or matching requirements, etc.).

Other

Please refer to GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* for disclosure requirements for **government-wide** and **proprietary funds** financial statements pertaining to:

- Construction-type contracts by governments engaged in the contracting operations (paragraph 116).
- Debt that is extinguished through a troubled debt restructuring (paragraphs 147 and 162).
- Foreign currency transactions (paragraphs 170 and 171).
- Receivables and payables that represent contractual rights to receive money or contractual obligations to pay money on fixed or determinable dates (notes), whether or not there is a stated provision for interest (paragraph 187).
- Nonmonetary transactions (paragraph 280).
- Research and development arrangements (paragraph 384).
- Broadcasters and cable television systems (paragraphs 385-399).
- Insurance entities other than public entity risk pools (paragraph 429).
- Lending activities (paragraphs 431-451).
- Mortgage banking activities (paragraphs 473 and 474).

Please refer to GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* for additional disclosure requirements for **business-type activities** financial statements pertaining to:

- Real estate sales (paragraph 330).
- Regulated operations that met certain criteria in paragraph 476.

Note X – Unpaid Claims Liabilities

Note X – Unpaid Claims Liabilities

As discussed in Note (____), the Pool establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claim adjustment expenses, both allocated and unallocated. The following represents changes in those aggregate liabilities for the Pool during the past two years:

	20_[1]	20_[2]
Unpaid claims and claim adjustment expenses/claims reserves at beginning of year	$____	$____
Incurred claims and claim adjustment expenses:		
Provision for insured events of current year	$____	$____
Increases in provision for insured events of prior years	$____	$____
Total incurred claims and claim adjustment expenses	$____	$____
Payments:		
Claims and claim adjustment expenses attributable to insured events of current year	$____	$____
Claims and claim adjustment expenses attributable to insured events of prior years	$____	$____
Total payments	$____	$____
Total unpaid claims and claim adjustment expenses/claims reserves at end of year	$____	$____
Unallocated loss adjustment expense/claims reserve at end of year	$	$
Total claims reserves at end of year	$____	$____

At year-end 20____ $_____ of unpaid claims and claim adjustment expenses are presented at their net present value of $_____. These claims are discounted at annual rates ranging from ____ to ____ percent. Unpaid claims expenses of $_____ are not reported in the 20____ year-end balances because the Pool has purchased annuities in claimants' names to settle those claims.

Instructions to preparer:

[1] Insert current year information.

[2] Insert previous year information.

Information in the unpaid claims liability note must tie to the*Ten-Year Claims Development Schedule* in Required Supplementary Information (RSI).

Note X – Violation of Finance-Related Legal and Contractual Provisions

Note X – Violation of Finance-Related Legal and Contractual Provisions

A template for this note is not available. See "Instructions to preparer:" for various disclosures that may be required.

Instructions to preparer:

If there was a violation of finance-related legal or contractual provisions the city/county/district should disclose ***both*** the description of the violation(s) and the action(s) taken to address the violation(s).

Example:

At December 31, 20__ the following funds reported deficits in the fund balances or fund net position, which are violations of state statute:

Fund	*Deficit*
	$
	$

The city/county/district took the following action to eliminate the deficits in the fund(s):

Example:

The (city/county/district) was not in compliance with(identify the material violations of finance-related legal or contractual provisions, such as bond covenants or grant terms). The (city/county/district) has (describe actions, agreements, or other steps taken to resolve the issue)

The compliance violations related to appropriated budgets may be disclosed in theNote 1 – Summary of Significant Accounting Policies, *D. Budgetary Information*. Other violations (e.g., violations of grant requirements, bond covenants, regulations governing deposits or investments, etc.) should be disclosed here to avoid duplication.

Required Supplementary Information (RSI)
Required Supplementary Information (RSI)

4 **Reporting**

4.7 **Required Supplementary Information (RSI)**

4.7.10 Governments must present Required Supplementary Information (RSI) to meet the minimum financial reporting requirements. RSI generally includes schedules, statistical data, and other information. If the government prepares comparative financial statements, the RSI should include information for both years with exception of the MD&A which should include three-year data in the condensed financial statements.

4.7.20 ***If applicable***, the following types of RSI are required:

- Management's discussion and analysis (MD&A)
- Budgetary comparisons (governmental funds if budgets are legally required)
- Infrastructure condition and maintenance data (if using the modified approach)
- Pension plan information
- Other postemployment benefit (OPEB) plan schedules
- Revenue and claims development trend data (for public entity risk pools).

Budgetary Comparisons

4 **Reporting**

4.7 **Required Supplementary Information (RSI)**

4.7.2 **Budgetary Comparisons**

4.7.2.10 The budgetary comparison is required to be presented either as a statement in the basic financial statements or as a schedule in the RSI. Budgetary comparisons are required for the general fund and for each major special revenue fund [1] that has a legally adopted budget. The format and content of the budgetary comparisons are the same for either presentation.

4.7.2.20 The budgetary comparison schedules should provide at least three separate types of information.

1. *The original budget* – the first complete legally appropriated budget adjusted for changes occurring before the beginning of fiscal year. The original budget should also include actual appropriation amounts automatically carried over from prior years by law.

- *The final budget* – including all legally authorized changes including those occurring during and after the end of fiscal year.

- *Actual inflows, outflows and balances* – should be reported on the same basis as the legally adopted budget.

4.7.2.30 Notes to the RSI should disclose an explanation of the excesses of expenditures over appropriations in individual funds presented in the budgetary comparison. If budgetary comparison information is included in the basic statements, these disclosures should be in the notes to the financial statements, rather than as notes to the RSI. If the excess of expenditures over appropriations is considered a material violation of legal provisions, the disclosure should be made in the notes to financial statements.

4.7.2.40 Governments may present the budgetary comparison schedule using the same format, terminology, and classification as the budget document, or using the format, terminology, and classifications in a statement of revenues, expenditures, and changes in fund balances. Comparison schedules should be reported at the same level of detail as the adopted budget. (i.e. if the government adopts their budget to the level of salaries/wages, benefits, services, etc., the budget to actual comparison is presented at the same level). Biennial budgets should be reported at the same level of detail as the adopted budget (i.e. if the government adopts their budget presenting two individual budget years or as one single biennial budget, the budget to actual comparison is presented the same). Regardless of the format used, the schedule should be accompanied by information (either in a separate schedule or in notes to the RSI) that reconciles budgetary information to GAAP information.

4.7.2.50 Governments with budgetary perspective differences[2] that result in the government not being able to present budgetary comparisons for the general fund and each major special revenue fund are required to present budgetary comparison schedules as RSI based on the fund, organization or program structure that the government uses for its legally adopted budget [3].

Governments with timing differences that result in significant variances between budgetary practices and GAAP including: continuing appropriations, project appropriations, automatic appropriations and biennial budgeting. Governments that adopt budgets with timing differences should disclose the cause for the significant variance(s) in the notes to the financial statements.

Governments with significant perspective differences, such as sub funds of the general fund must: (1) present budgetary comparison, (2) format the budgetary comparison using the budgetary framework, and (3) present the budgetary comparison as RSI rather than as a basic financial statement.

Annual Budget (single year) presentation

Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 20__
(in thousands)

(Variance column is optional)

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual amounts (Budgetary Basis)	Positive (Negative)
Budgetary Fund Balance, January 1	30	1,063	7,031	
Resources (Inflows):				
Property Tax	10,285	10,285	10,997	
Licenses and Permits	885	885	727	
Fines and Penalties	277	277	248	
Charges for Goods and Services	3,066	3,066	3,090	
Intergovernmental Revenues	542	542	661	
Miscellaneous	454	454	844	
Interest Received				
Transfers from Other Funds				
Amounts Available for Appropriation	15,509	15,509	16,566	
Charges to Appropriations (Outflows)				
General Government:				
Legal	1,004	1,004	875	
Legislative	850	854	790	
Finance and Accounting	925	925	904	
Other	126	126	72	
Public Safety:				
Police	5,000	5,046	4,904	
Fire Department	1,000	1,100	950	
Emergency Services	1,411	1,411	1,382	
Public Work:				
Public Works Administration	850	850	796	
Street Maintenance	1,000	1,026	1,100	
Street Lighting	212	212	38	
Health and Human Services	5	5	5	
Culture and Recreation:				
Library	1,560	1,618	1,579	
Parks and Recreation	817	817	738	
Economic Environment	726	740	714	
Nondepartmental:				
Capital Outlay	53	53	32	
Contingency				
Transfers to Other Funds		785	785	
Total Charges to Appropriations	15,539	16,572	15,664	
Budgetary Fund Balance, December 31			7,933	

See accompanying note to budgetary comparison schedules.

Biennial Budget presentation

Budgetary Comparison Schedule
General Fund
For the Year Ended December 31, 20X2__
(in thousands)

	Budgeted Amounts		20X1 Actual amounts (Budgetary Basis)	*(Variance column is optional)* 20X2 Actual amounts	Total 20X1-20X2 Actuals*	Variance with Final Budget Positive (Negative)
	Original	Final				
Budgetary Fund Balance, January 1	30	1,063	7,031			
Resources (Inflows):						
Property Tax	10,285	10,285	5,997			
Licenses and Permits	885	885	397			
Fines and Penalties	277	277	138			
Charges for Goods and Services	3,066	3,066	1,050			
Intergovernmental Revenues	542	542	271			
Miscellaneous	454	454	204			
Interest Received						
Transfers from Other Funds						
Amounts Available for Appropriation	15,509	15,509	8,057			
Charges to Appropriations (Outflows)						
General Government:						
Legal	1,004	1,004	875			
Legislative	850	854	390			
Finance and Accounting	925	925	425			
Other	126	126	65			
Public Safety:						
Police	5,000	5,046	2,505			
Fire Department	1,000	1,100	550			
Emergency Services	1,411	1,411	725			
Public Work:						
Public Works Administration	850	850	402			
Street Maintenance	1,000	1,026	425			
Street Lighting	212	212	38			
Health and Human Services	5	5	5			
Culture and Recreation:						
Library	1,560	1,618	729			
Parks and Recreation	817	817	400			
Economic Environment	726	740	350			
Nondepartmental:						
Capital Outlay	53	53	27			
Contingency						
Transfers to Other Funds		785	785			
Total Charges to Appropriations	15,539	16,572	8,696			
Budgetary Fund Balance, December 31			6,392			

See accompanying note to budgetary comparison schedules.

*In the first year of a biennial budget, governments should disclose the timing difference in the notes to the financial statements.

Footnotes:

[1] All major special revenue funds, whether designated as major based on the percentage criteria or management's discretion, are subject to this requirement.

[2] The perspective difference may be related to special revenue funds which have their own legally approved budgets, but which do not qualify as special revenue funds per GASB Statement 54 and are included in the general fund for external reporting purposes.

[3] GASB Statement 41, *Budgetary Comparison Schedule – Perspective Differences*.

Infrastructure Condition and Maintenance Data

4 **Reporting**

4.7 **Required Supplementary Information (RSI)**

4.7.6 **Infrastructure Condition and Maintenance Data**

4.7.6.10 Governments that follow the modified approach have to present the following information for all infrastructure reported using that method:

1. The results of the three most recently**[1]** completed condition assessments to demonstrate the assets have been maintained at or above the condition level established.
2. The estimated annual amount needed and actual amount expensed to maintain or preserve infrastructure assets at the level established (presented for each of the past five reporting periods). The estimated annual amount must be determined using the assets management system. It should be calculated at the beginning of the fiscal year and documented providing

an auditor with information necessary for the comparison of estimated and actual amounts.

4.7.6.20 These schedules should be accompanied by the following disclosures as notes to the RSI:

1. The basis for the condition measurement and the measurement scale used to assess and report condition.
2. The condition level at which the government intends to preserve its infrastructure assets (reported using the modified approach).
3. Factors that significantly affect trends in the information reported in the required schedules, including any changes in the measurement scale, the basis for the condition measurement, or the condition assessment methods used during the periods covered by the schedules. If there is a change in the condition level at which the government intends to preserve the eligible infrastructure assets, an estimate of the effect of the change on the estimated annual amount to maintain and preserve those assets for the current period also should be disclosed.

Footnotes:

[1] Disclose the dates.

Management's Discussion and Analysis

4 **Reporting**

4.7 **Required Supplementary Information (RSI)**

4.7.1 **Management's Discussion and Analysis**

The management discussion and analysis (MD&A) should provide the users with an introductory narrative, overview and analysis of the basic financial statements. Although it is required supplementary information, it should be presented first – before the basic financial statements. It introduces the basic financial statements and notes and is meant to guide the readers through those statements and notes.

4.7.40 The MD&A should be written by financial managers, the controllers, finance directors, etc. It should be objective and easily readable. The objectivity is a result of being solely based on the information that comes from the basic financial statements and facts that are currently known **[1]** to the managers. It should discuss both: the positive and negative outcomes of the government's operations. The governments are encouraged to use charts, graphs, and tables to enhance the understandability of the MD&A.

4.7.50 The MD&A should focus on the primary government. The decision whether to address matters related to component units depends on the size of a particular component unit (in comparison with other discretely presented component units) and the nature of its relationship with the primary government. Any discussion in the MD&A involving both the primary government and its discretely presented component units must be distinguishable between the two.

4.7.60 The content includes a required set of information that the government must address. Since the MD&A is a required portion of the RSI, it should not contain additional topics that are not specified here. However, the government is free to provide whatever level of detail it feels is appropriate in addressing each topic.

Quick Links

Discussion of the Basic Financial Statements
Condensed Comparative Financial Data
Overall Analysis of Financial Position and Result of Operations
Fund Analysis
Budget Variances in the General Fund
Capital Asset and Long-Term Debt Activity
Infrastructure
Other Potentially Significant Matters

Discussion of the Basic Financial Statements

4.7.70 The discussion portion of the MD&A should describe the financial statements and the

significant differences in the kinds of information each statement provides. It should focus on the relationship between governmental funds and governmental activities.

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Condensed Comparative Financial Data

4.7.80 The MD&A should provide condensed financial statements derived from the government-wide financial statements for both the current and the prior fiscal period. The following is the requirement of comparative data need for the MD&A:

- Total assets, distinguishing between capital and other assets
- Total deferred outflows of resources
- Total liabilities, distinguishing between long-term liabilities and other liabilities
- Total deferred inflows of resources
- Total net position, distinguishing between amounts of net investment in capital assets, restricted amounts, and unrestricted amounts
- Program revenues, by major source
- General revenues, by major source
- Total revenues
- Program expenses, at minimum by function
- Total expenses
- Excess (deficiency) before contributions to term and permanent endowment or permanent fund principal, special and extraordinary items and transfers
- Contributions
- Special and extraordinary items
- Transfers
- Change in net position
- Ending net position

4.7.90 The above information should be presented in the form of condensed financial statements. The government may use graphs and charts to supplement, or elaborate on those statements, but not in place of them.

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Overall Analysis of Financial Position and Result of Operations

4.7.100 The MD&A should discuss and analyze the government's financial position and results of operations. This discussion and analysis needs to address whether the government's overall financial position has improved or deteriorated. The MD&A should provide *reasons* for the significant changes in financial position, not just changes in their size or percentage of change. The overall analysis discussion needs to address separately the governmental and business-type activities. This discussion should emphasize the current fiscal period.

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Fund Analysis

4.7.110 The fund analysis focuses on the analysis of significant balances and operations of individual major funds. The discussion should emphasize the reasons for significant changes in fund balances (government funds) or fund net position (proprietary funds). Additional information should be provided on any significant limitation on the future use of fund resources.

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Budget Variances in the General Fund

4.7.120 The MD&A should address, on a budgetary basis, the significant differences between:

1. The original budget for the general fund and the final amended budget
2. The final amended budget for the general fund and the actual amounts

4.7.130 The analysis should give reasons for variances if they significantly affect either future services or liquidity.

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Capital Asset and Long-Term Debt Activity

4.7.140 The MD&A should describe significant changes in:

- Capital assets
- Long-term debt
- Commitments for capital expenditures
- Debt limitations that could affect the financing of planned facilities or services

4.7.150 The MD&A is not intended to repeat information provided in the notes, but should be summarized and references made to the more detailed information provided in the notes.

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Infrastructure

4.7.160 Governments that elect the use the modified approach to infrastructure reporting should discuss all of the following in the MD&A:

- Significant changes in the condition levels of infrastructure assets
- How current condition levels compare with target condition levels established by the government
- Significant differences between the amount estimated to be necessary for maintaining and preserving infrastructure assets at target condition levels and the actual amounts of expense incurred for the purpose during the current fiscal period

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Other Potentially Significant Matters

4.7.170 The MD&A should also address any currently known facts, decisions, or conditions that are expected to have a significant effect on financial position. This discussion should be based on events or decisions that have already occurred, or have been enacted, adopted, agreed upon, or contracted. In some instances, issues discussed here will also be disclosed in the notes to financial statements as subsequent events or contingencies. The discussion should also address the effect on governmental and business-type activities separately.

4.7.180 Governmental activities and business-type activities should be discussed separately. Examples of types of situations for such reporting are:

- Award and acceptance of a major grant
- Adjudication of significant lawsuit
- Reassessment of taxable property
- Completion of an agreement to locate a major manufacturing plant in a city
- A flood that caused significant damage to a governments infrastructure
- A renegotiated labor contract with government employees

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Footnotes:

[1] Currently known is interpreted as known by the managers as of the date of the auditor's end of audit fieldwork.

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Other Postemployment Benefit (OPEB) Plan Schedules

4 **Reporting**

4.7 **Required Supplementary Information (RSI)**

4.7.4 **Other Postemployment Benefit (OPEB) Plan Schedules**

4.7.4.10 For information on which standards apply to the government refer to BARS Manual 3.4.17, *Other Postemployment Benefits (OPEB).* Templates for the Pension RSI can be found on the BARS Reporting Templates page.

4.7.4.20 If the financial statements and required schedules of the plan (whether single-employer, agent, or cost sharing) are not publicly available in a stand-alone plan financial report, the employer should report all required schedules for each plan included in the employer's report.

OPEB Schedules and Notes

4.7.4.30 **OPEB plans not administered through a qualifying trust**

The RSI schedules should be presented separately for each OPEB plan. If a primary government and one or more of its component units provide OPEB through the same OPEB plan, required supplementary information in the reporting entity's financial statements should present information for all benefits provided by the reporting entity through the OPEB plan.

4.7.4.31 **A 10-year Schedule of Changes in Total OPEB Liability**(as of the measurement date of the Total OPEB Liability)

a. The beginning balance of the total OPEB liability

b. The effects during the period of the following items, if applicable, on the total OPEB liability:

(1) Service cost,

(2) Interest on the total OPEB liability,

(3) Changes of benefit terms,

(4) Differences between expected and actual experience in the measurement of the total OPEB liability,

(5) Changes of assumptions or other inputs,

(6) Benefit payments,

(7) Other changes, separately identified if individually significant.

c. The ending balances of the total pension liability

d. If the employer has a special funding situation:

(1) The nonemployer contributing entities' total proportionate share of the total OPEB

(2) The employer's proportionate share of the total OPEB liability

4.7.4.32 **A 10-year Schedule of related ratios** (as of the measurement date of the Total OPEB Liability).

If the employer does not have a special funding situation:

a. The total OPEB liability.

b. The covered-employee payroll.
Covered-employee payroll is the payroll of employees that are provided with OPEB through the OPEB plan

c. The total OPEB liability as a percent of covered-employee payroll.

If the employer has a special funding situation

a. The total OPEB liability

b. The nonemployer contributing entities' total proportionate share (amount) of the total OPEB liability

c. The employer's proportionate share (amount) of the total OPEB liability

d. The covered-employee payroll

e. The employer's proportionate share (amount) of the total OPEB liability as a percentage of the covered-employee payroll

The Schedule of Changes in the Total OPEB Liability and Schedule of related ratios can be combined into one schedule (Schedule of Changes in Total OPEB Liability and Related Ratios).

4.7.4.35 **Notes to RSI**

The notes must state that there are no assets accumulated in a trust that meets the criteria of a qualified plan. In addition, information should be presented about factors that significantly affect

trends in the amounts reported – for example, changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions. (The amounts presented for prior years should not be restated for the effects of changes – for example, changes of benefit terms or changes of assumptions – that occurred subsequent to the measurement date of that information.)

4.7.4.40 **OPEB plans administered through a qualifying trust:**

The RSI Schedules should be presented separately for each single-employer and agent OPEB plan. If a primary government and one or more of its component units provide OPEB through the same single employer or agent OPEB plan, required supplementary information in the reporting entity's financial statements should present information for all benefits provided by the reporting entity through the single-employer or agent OPEB plan.

4.7.4.41 **A 10-year Schedule of Changes in Net OPEB Liability**(as of the measurement date of the Net OPEB Liability)

a. The beginning balances of the total OPEB liability, the OPEB plan's fiduciary net position, and the net OPEB liability

b. The effects during the period of the following items, if applicable:

(1) Service cost
(2) Interest on the OPEB liability
(3) Changes of benefit terms
(4) Differences between expected and actual experience in the measurement of the total OPEB liability
(5) Changes of assumptions or other inputs
(6) Contributions from the employer
(7) Contributions from nonemployer contributing entities
(8) Contributions from active employees and inactive employees not yet receiving benefit payments
(9) OPEB Plan net investment income
(10) Benefit payments (including refunds of employee contributions and amounts from employers or nonemployer contributing entities for OPEB as the benefits came due)
(11) OPEB administrative expense
(12) Other chances, separately idenfied if individually significant.

c. The ending balances of the total OPEB liability, the OPEB plan's fiduciary net position, and the net OPEB liability.

d. If the employer has a special funding situation:

(1) The nonemployer contributing entities' total proportionate share of the collective net OPEB liability
(2) The employer's proportionate share of the collective net OPEB liability.

4.7.4.42 **A 10-year Schedule of related ratios** (as of the measurement date of the Total OPEB Liability)

If the employer does not have a special funding situation:

a. The total OPEB liability

b. The OPEB plan's fiduciary net position

c. The net OPEB liability

d. The OPEB plan's fiduciary net position as a percentage of the total OPEB liability

e. The covered payroll if contributions to the OPEB plan are based on payroll, otherwise the employee-covered payroll
Covered payroll is the payroll on which contributions to an OPEB plan are based.
Covered-employee payroll is the payroll of employees that are provided with OPEB through the OPEB plan.

f. The net OPEB liability as a percentage of covered payroll/covered-employee payroll.

If the employer does have a special funding situation:

a. The total OPEB liability

b. The OPEB plan's fiduciary net position

c. The collective net OPEB liability

d. The nonemployer contributing entities' total proportionate share (amount) of the collective net OPEB liability

e. The employer's proportionate share (amount) of the collective net OPEB liability

f. The covered payroll, if contributions to the OPEB plan are based on pay; otherwise, the covered-employee payroll

g. The employer's proportionate share (amount) of the collective net OPEB liability as a percentage of the payroll in subparagraph b(2)(f)

h. The OPEB plan's fiduciary net position as a percentage of the total OPEB liability.

4.7.4.43 **A 10-year Schedule of Employer Contributions** (as of the government's fiscal year end)

If an actuarially determined contribution is calculated:

a. The actuarially determined contribution of the employer.
For purposes of this schedule, actuarially determined contributions should exclude amounts, if any, associated with payables to the OPEB plan that arose in a prior fiscal year and those associated with separately financed specific liabilities of the individual employer to the OPEB plan.

b. The amount of contributions recognized by the OPEB plan in relation to the actuarially determined contribution of the employer.
For purposes of this schedule, contributions should exclude amounts resulting from contributions recognized by the OPEB plan as noncurrent receivables.

c. The difference between the actuarially determined contribution of the employer and the amount of contributions recognized by the OPEB plan in relation to the actuarially determined contribution of the employer.

d. The covered payroll, if contributions to the OPEB plan are based on pay, otherwise the covered-employee payroll.

e. The amount of contributions recognized by the OPEB plan in relation to the actuarially determined contribution of the employer as a percentage of covered payroll/covered-employee payroll.

If an actuarially determined contribution is not calculated and the contribution requirements of the employer are statutorily or contractually established:

a. The statutorily or contractually required employer contribution.
For purposes of this schedule, statutorily or contractually required contributions should exclude amounts, if any, associated with payables to the OPEB plan that arose in a prior fiscal year and those associated with separately financed specific liabilities of the individual employer to the OPEB plan.

b. The amount of contributions recognized by the OPEB plan in relation to the statutorily or contractually required employer contribution.
For purposes of this schedule, contributions should exclude amounts resulting from contributions recognized by the OPEB plan as noncurrent receivables.

c. The difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the OPEB plan in relation to the statutorily or contractually required employer contribution.

d. The covered payroll, if contributions to the OPEB plan are based on pay, otherwise the covered-employee payroll.

e. The amount of contributions recognized by the OPEB plan in relation to the statutorily or contractually required employer contribution as a percentage of covered payroll/covered-employee payroll.

4.7.4.44 **A 10-year Schedule of Investment Returns**

This schedule should present the annual money-weighted rate of return on OPEB plan investments.

4.7.4.45 **Notes to RSI**

The notes should describe factors that significantly affect trends in the amounts reported. These factors include changes in benefit provisions, size or population covered by the plan, or actuarial methods or assumptions used. When changes occur in the factors discussed above the amounts for prior years should not be restated.

Pension Plan Information

4 **Reporting**

4.7 **Required Supplementary Information (RSI)**

4.7.3 **Pension Plan Information**

Templates for the Pension RSI can be found on the BARS Reporting Templates page.

Quick Links

4.7.3.10 Cost sharing multiple-employer defined benefit pension plans
4.7.3.20 Single-employer defined benefit pension plans (no qualifying trust)
4.7.3.30 Single-employer defined benefit pension plans (with qualifying trust)

4.7.3.10 Cost sharing **multiple-employer** defined benefit pension plans that are accounted for in a qualifying trust (such as PERS, SERS, PSERS, TRS, & LEOFF).

4.7.3.11 **A 10-year Schedule of Proportionate Share of the Net Pension Liability** (as of the measurement date of the NPL)

a. The employer's proportion (percentage) of the collective net pension liability

b. The employer's proportionate share (amount) of the collective net pension liability

c. If there is a special funding situation (for example LEOFF plans): The portion of the nonemployer contributing entities' total proportionate share (amount) of the collective net pension liability that is associated with the employer

d. If there is a special funding situation (for example LEOFF plans): the total of (b) and (c)

e. The covered payroll. Covered payroll is the payroll on which contributions to a pension plan are based.

f. The employer’s proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered payroll

g.The pension plan's fiduciary net position as a percentage of the total pension liability.

4.7.3.12 **A 10-year Schedule Employer Contributions** (as of the government’s fiscal year end)

a. The statutorily or contractually required employer contribution.
For purposes of this schedule, statutorily or contractually required contributions should exclude amounts, if any associated with payables to the pension plan that arose in a prior fiscal year and those associated with separately financed specific liabilities of the individual employer to the pension plan.

b. The amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution.
For purposes of this schedule, contributions should include only amounts recognized as additions to the pension plan's fiduciary net position during the employer's fiscal year resulting from actual contributions and from contributions recognized by the pension plan as current receivables.

c. The difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution.

d. The covered payroll. Covered payroll is the payroll on which contributions to a pension plan are based.

e. The amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of covered-payroll.

This schedule should report the amount of contributions recognized by each pension plan. Contributions from PERS 2/3, SERS 2/3, and PSERS 2 that go to PERS 1 should be reported as PERS 1 contributions.

4.7.3.14 **Covered Payroll Differences**

Note that the RSI schedules have two different measures of covered payroll. The Schedule of Proportionate Share of the Net Pension Liability is dated as of the plan's measurement date (6/30 for state plans). The Schedule of Employer Contributions is dated as of the employer's year end. In cases where these two dates are different, the amounts reported for covered payroll will be different.

4.7.3.15 **Notes to the RSI**

The notes should disclose information about factors that significantly affects trends in the amounts reported (e.g., changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions, etc.).

4.7.3.20 **Single-employer** defined benefit pension plans **NOT** provided through a qualifying trust.

The RSI schedules should be presented separately for each pension plan. If a primary government and one or more of its component units provide pensions through the same single employer or agent pension plan, required supplementary information in the reporting entity's financial statements should present information for the reporting entity as a whole.

4.7.3.21 **A 10-year Schedule of Changes in the Total Pension Liability** (as of the measurement date of the TPL)

a. The beginning balance of the total pension liability

b. The effects during the period of the following items, if applicable, on the total pension liability:

(1) Service cost,

(2) Interest on the total pension liability,

(3) Changes of benefit terms,

(4) Differences between expected and actual experience in the measurement of the total pension liability,

(5) Changes of assumptions or other inputs,

(6) Benefit payments,

(7) Other changes, separately identified if individually significant.

c. The ending balances of the total pension liability

d. If the employer has a special funding situation:

(1) The nonemployer contributing entities' total proportionate share of the total pension liability

(2) The employer's proportionate share of the total pension liability

4.7.3.22 **A 10 year Schedule of related ratios** (as of the measurement date of the TPL)

If the employer does not have a special fund situation:

a. The total pension liability,

b. The covered employee payroll,

c. The total pension liability as a percentage of covered payroll.

If the employer does have a special fund situation:

a. The total pension liability

b. The nonemployer contributing entities' total proportionate share (amount) of the total pension liability

c. The employer's proportionate share (amount) of the total pension liability

d. The covered-employee payroll

e. The employer's proportionate share (amount) of the total pension liability as a percentage of covered-employee payroll.

The Schedule of Changes in the Total Pension Liability and Schedule of related ratios can be combined into one schedule (Schedule of Changes in Total Pension Liability and Related Ratios).

4.7.3.25 **Notes to RSI**

The notes must state that there are no assets accumulated in a trust that meets the criteria of a qualified plan. In addition, information should be presented about factors that significantly affect trends in the amounts reported (for example, changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions). The amounts presented for prior years should not be restated for the effects of changes, for example, changes of benefit terms or changes of assumptions that occurred subsequent to the measurement date of that information.

4.7.3.30 **Single-employer** defined benefit pension plans provided through a**qualifying trust**.

The RSI schedules should be presented separately for each pension plan. If a primary government and one or more of its component units provide pensions through the same single employer or agent pension plan, required supplementary information in the reporting entity's financial statements should present information for the reporting entity as a whole.

4.7.3.31 **A 10-year Schedule of Changes in the Net Pension Liability**(as of the measurement date of the NPL)

a. The beginning balances of the total pension liability, the pension plan's fiduciary net position, and the net pension liability.

b. The effects during the period of the following items, if applicable, on the balances in subparagraph (a):

1. Service cost,
2. Interest on the total pension liability,
3. Changes of benefit terms,
4. Differences between expected and actual experience in the measurement of the total pension liability,
5. Changes of assumptions or other inputs,
6. Contributions from the employer,
7. Contributions from nonemployer contributing entities,
8. Contributions from employees,
9. Pension plan net investment income,
10. Benefit payments, including refunds of employee contributions,
11. Pension plan administrative expense,
12. Other changes, separately identified if individually significant.

c. The ending balances of the total pension liability, the pension plan's fiduciary net position, and the net pension liability

d. If the employer has a special funding situation:

(1) The nonemployer contributing entities' total proportionate share of the collective net pension liability,

(2) The employer's proportionate share of the collective net pension liability.

4.7.3.32 **A 10-year Schedule of related ratios** (as of the measurement date of the TPL)

If the employer does not have a special funding situation:

a. The total pension liability,

b. The pension plan's fiduciary net position,

c. The net pension liability,

d. The pension plan's fiduciary net position as a percentage of the total pension liability,

e. The covered payroll,

f. The net pension liability as a percentage of covered payroll.

If the employer has a special funding situation, information about the collective net pension liability:

a. The total pension liability,

b. The pension plan's fiduciary net position,

c. The collective net pension liability,

d. The nonemployer contributing entities' total proportionate share (amount) of the collective net pension liability,

e. The employer's proportionate share (amount) of the collective net pension liability,

f. The covered payroll,

g. The employer's proportionate share (amount) of the collective net pension liability as a percentage of covered payroll,

h. The pension plan's fiduciary net position as a percentage of the total pension liability.

The Schedule of Changes in the Net Pension Liability and Schedule of related ratios can be combined into one schedule (Schedule of Changes in Net Pension Liability and Related Ratios).

4.7.3.33 A 10-year Schedule of Contributions (as of the government's fiscal year end)

If an actuarially determined contribution is calculated:

a. The actuarially determined contribution of the employer.
For purposes of this schedule, actuarially determined contributions should exclude amounts, if any, to separately finance specific liabilities of the individual employer to the pension plan.

b. The amount of contributions recognized by the pension plan in relation to the actuarially determined contribution of the employer.
For purposes of this schedule, contributions should include only amounts recognized as additions to the pension plan's fiduciary net position during the employer's fiscal year resulting from actual contributions and from contributions recognized by the pension plan as current receivables.

c. The difference between the actuarially determined contribution of the employer and the amount of contributions recognized by the pension plan in relation to the actuarially determined contribution of the employer.

d. The covered payroll.

e. The amount of contributions recognized by the pension plan in relation to the actuarially determined contribution of the employer as a percentage of covered payroll.

If an actuarially determined contribution is not calculated and the contribution requirements of the employer are statutorily or contractually established:

a. The statutorily or contractually required employer contribution.
For purposes of this schedule, statutorily or contractually required contributions should exclude amounts, if any, to separately finance specific liabilities of the individual employer to the pension plan.

b. The amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution.
For purposes of this schedule, contributions should include only amounts recognized as additions to the pension plan's fiduciary net position during the employer's fiscal year resulting from actual contributions and from contributions recognized by the pension plan as current receivables.

c. The difference between the statutorily or contractually required employer contribution and the amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution.

d. The covered payroll.

e. The amount of contributions recognized by the pension plan in relation to the statutorily or contractually required employer contribution as a percentage of covered payroll.

4.7.3.34 **A 10-year Schedule of Investment Returns**

This schedule should present the annual money-weighted rate of return on pension plan investments calculated as required by Governmental Accounting Standards Board (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*(Cod.) Section (Sec.) Pe5 "Pension Plans Administered through Trusts that Meet Specified Criteria - Defined Benefit".

4.7.3.35 **Notes to RSI**

The notes should describe significant methods and assumptions used in calculating the actuarially determined contributions. In addition, for each of the schedules, information should be presented about factors that significantly affect trends in the amounts reported (for example, changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions). The amounts presented for prior years should not be restated for the effects of changes, for example, changes of benefit terms or changes of assumptions that occurred subsequent to the measurement date of that information.

Revenue and Claims Development Trend Data (for Public Entity Risk Pools)

4 **Reporting**

4.7 **Required Supplementary Information (RSI)**

4.7.5 **Revenue and Claims Development Trend Data (for Public Entity Risk Pools)[1]**

4.7.5.10 The following information is provided as an example of the required supplementary information (RSI) that is expected for public entity risk pools. Be sure to revise these sample documents to fit the unique circumstances of the pool, to delete disclosures that do not apply to the pool's operations, and to add others that we did not include but which are needed to help a reader understand the financial statements.

4.7.5.20 The following revenue and claims development information should be included as required supplementary information ***immediately after*** the notes to financial statements in the pool's financial reports *for each of the past ten fiscal years including the latest fiscal year*; new risk pools will build the table prospectively.

1. Ten-Year Claims Development Information

The table below illustrates how the pool's earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the pool as of the end of each of the last ten years. The rows of the table are defined as follows:

(1) This line shows the total of each fiscal year gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.

(2) This line shows each fiscal year's other operating costs of the pool including overhead and claims expense not allocable to individual claims.

(3) This line shows the pool's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).

(4) This section of ten rows shows the cumulative net amounts paid as of the end of successive years for each policy year.

(5) This line shows the latest reestimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.

(6) This section of ten rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.)

(7) This line compares the latest reestimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original

estimates and reestimated amounts is commonly used to

Fiscal and Policy Year Ended
(In Thousands)

	20X0	20X1	20X2	20X3	20X4	20X5	20X6	20X7	20X8	20X9
1. Required contribution and investment revenue:										
Earned	$908	$957	$1,357	$1,493	$1,479	$1,595	$1,811	$1,993	$2,192	$2,411
Ceded	366	387	559	615	624	686	754	830	913	1,004
Net earned	542	570	798	878	855	909	1,057	1,163	1,279	1,407
2. Unallocated expenses	64	68	81	91	70	81	92	110	123	131
3. Estimated claims and expenses end of policy year:										
Incurred	287	303	453	503	569	651	780	909	1,092	1,512
Ceded	52	54	96	111	129	148	168	186	210	251
Net incurred	235	249	357	392	440	503	612	723	882	1,261
4. Net paid (cumulative) as of:										
End of policy year	118	124	179	196	220	251	306	361	450	641
One year later	177	186	268	294	330	377	459	542	675	
Two years later	254	268	385	422	474	542	660	779		
Three years later	304	321	461	506	568	649	790			
Four years later	359	379	545	597	671	766				
Five years later	404	427	614	673	756					
Six years later	445	469	674	740						
Seven years later	473	499	717							
Eight years later	473	499								
Nine years later	473									
5. Reestimated ceded claims and expenses	104	109	160	174	184	195	211	217	234	251
6. Reestimated net incurred claims and expenses:										
End of policy year	235	249	357	392	440	503	612	723	900	1,282
One year later	294	311	447	490	550	628	765	903	1,125	
Two years later	338	357	513	563	632	722	879	1,038		
Three years later	380	401	577	632	710	811	988			
Four years later	422	446	641	703	789	902				
Five years later	449	474	682	748	840					
Six years later	468	494	710	779						
Seven years later	473	499	717							
Eight years later	473	499								
Nine years later	473									
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	238	250	360	387	400	399	376	315	225	0

2. Reconciliation of Claims Liabilities by Type of Contract

The schedule below presents the changes in claims liabilities for the past two years for the pool's two types of contracts: property and casualty and employee health and accident benefits.

	Property and Casualty		Employee Health and Accident	
	(In thousands)		(In thousands)	
Unpaid claims and claim adjustment expenses at beginning of the fiscal year				
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current fiscal year				
Increases in provision for insured events of prior fiscal years				
Total incurred claims and claim adjustment expenses				
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current fiscal year				
Claims and claim adjustment expenses attributable to insured events of prior fiscal years				
Total payments				
Total unpaid claims and claim adjustment expenses at end of the fiscal year				

Footnotes:

[1] See the GASB Statement 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, Statement 30, *Risk Financing Omnibus* and Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Supplementary and Other Information
DES Schedule of Expenses – Risk Pools

4 **Reporting**

4.14 **Supplementary and Other Information**

4.14.2 **DES Schedule of Expenses – Risk Pools**

This requirement applies only to risk pools.

DES Schedule of Expenses

_____

(Pool)

For the Fiscal Year Ended , 20__

Insurance Members		$_____
Contracted Services:		
	Third Party Administrator Fees	_____
	Actuarial	_____

	Audit Expenses	_____
	Brokerage Fees	_____
	Legal Fees	_____
	Other Consultant Fees	_____
General Administrative Expenses:		
	Communication	_____
	Supplies	_____
	Dues and Conferences	_____
	Retreat/Board Meetings	_____
	Training	_____
	Depreciation	_____
	Miscellaneous	_____
Other		
		_____
	Total Operating Expenses	**$_____**

List of Participating Members – Risk Pools

4 **Reporting**

4.14 **Supplementary and Other Information**

4.14.1 **List of Participating Members – Risk Pools**

This requirement applies only to risk pools.

List of Participating Members

_____
(Pool)

Instructions to preparer:

List all participating members of the public entity risk pool in alphabetical order. Indicate any other identifying data you feel would be appropriate.

Expenditures of Federal Awards (SEFA/Schedule 16)

4 **Reporting**

4.14 **Supplementary and Other Information**

4.14.5 **Expenditures of Federal Awards (SEFA/Schedule 16)**

Quick Links
Determining Federal Awards Expended
Guidance for Specific Expenditures Types
Valuation of Federal Loans
Reporting Revolving Loans
Preparing the SEFA Template for Upload into the Filing System
Finalized SEFA
Uniform Guidance Requirements for Reporting in the Clearinghouse
Instructions for Preparing the Notes to the SEFA
Characteristics of Subrecipients and Contractors
Tips for Preparing the SEFA
Sample SEFA
Template Notes to the SEFA

4.14.5.10 **The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards 2 CFR 200 (Uniform Guidance), requires auditees to**

prepare a Schedule of Expenditures of Federal Awards (SEFA) for the period covered by the auditee's financial statements. Click here for the Uniform Guidance**.**

If the government expends $750,000 or more in federal awards in a year, and audit is required by Uniform Guidance, 2 CFR 200, Subpart F – Audit Requirements. Governments must contact their local audit team to arrange for the audit and must submit the completed audit reporting package to the federal government within 30 calendar days after receiving the audit report (report issuance date) or within nine months following the end of the audit period, ***whichever is earlier***. Governments that need a single audit must prepare financial statements even if they are not otherwise required to under the BARS Manual, the SEFA must be included as supplementary information. If the government received and spent federal funds under only ***one*** program, and the federal program's statutes, regulations, or the terms and conditions of the federal award do not require a financial statement audit, the auditor may be able to conduct a *program specific* audit.

4.14.5.20 The purpose of this Schedule is to summarize federal award expenditures as a basis for planning and conducting the single audit. It also serves to provide assurance to those agencies that award federal financial assistance that their programs were included in the audit. It is important to prepare this Schedule carefully to ensure that it is accurate and complete. Any program or award expenditures omitted from this Schedule will be considered ***unaudited***.

Determining Federal Awards Expended

4.14.5.30 Include on this Schedule all expenditures of federal awards that were received ***directly*** from a federal agency and ***indirectly*** (pass-through) from a state agency, local government or other nongovernmental entity.

4.14.5.40 Uniform Guidance: (2 CFR §200.510(b)) describes the requirements for preparing the Schedule. The SEFA must be prepared for the same period and reporting entity, and using the same underlying accounting records as the Schedule 01 and (as applicable) financial statements, *except for specific exceptions described below starting at paragraph 4.14.5.70* The Schedule includes amounts **required to be recorded**, if any, during the **statutorily required open period for cash basis cities and towns (20 days) and optional open period for cash basis counties (30 days to receive the invoice with the option to remain open for up to 60 days thereafter (per the county auditor's discretion) to pay claims incurred prior to the close of the year)**.

Example: A calendar year government orders supplies and receives the supplies and invoice in December 2023. The government has an open period of 20 days after yearend. The government pays the invoice on February 5, 2024.

- ***Accrual basis:*** The expenditure is reported in the 2023 SEFA, because the activity, a receipt of goods in this situation, occurred during fiscal year 2023 and the invoice was received before the end of the period. In the financial statements this expenditure would have been reported as an expense with offsetting liability because it was not paid. Since the SEFA is reported on the same basis of accounting as the other financial reports, it too would report the expenditure.
- ***Cash basis:*** The expenditure is reported in the 2024 SEFA, because cash-basis entities report expenditures when paid. However, note that had this invoice been paid **within** the government's open period, a cash-basis city, town or county would report the expenditure on the 2023 SEFA (for more information on open period accounting, please see BARS 3.1.10 Accounting Principles).

Report award-related expenditures in the year they take place, ***even if the government will not be reimbursed by the awarding agency until the following year***. For most programs, do not report amounts on this Schedule based on the date(s) that funds are received from the awarding agency (e.g., the date the government submitted a reimbursement request or received a reimbursement payment). See information on fixed amount awards below.

4.14.5.50 *Federal awards expended* include the following (2 CFR §200.1 Definitions *Expenditures* and §200.502 Basis for determining Federal awards expended):

- Direct costs of expenditure transactions associated with grants, cooperative agreements, direct appropriations, cost-reimbursement contracts under the Federal Acquisition Regulations (FAR), and other federal financial assistance.
- Indirect costs claimed for reimbursement using an indirect cost rate or cost allocation plan.
- Disbursement of federal award funds to subrecipients. (*See additional information below regarding period of reporting.*)
- Use of loan proceeds under loan and loan guarantee programs. (*Refer to loan valuation guidance below.*)
- Receipt of property (e.g., equipment and supplies), including some surplus property.
- Receipt or use of program income. (*Refer to program income guidance below.)*

- Receipt of non-cash assistance such as food commodities and vaccines.
- Disbursement of amounts entitling a non-federal entity to an interest subsidy.
- Insurance contracts in force during the period under audit.

4.14.5.60 **Fixed Amount Awards**

Fixed amount awards are a type of grant or cooperative agreement pursuant to which the Federal agency or pass-through entity provides a specific amount of funding without regard to actual costs incurred under the Federal award. For example, a fixed amount is paid for a specified deliverable met or milestone achieved. This type of Federal award reduces some of the administrative burden and record keeping requirements for both the recipient or subrecipient and the Federal agency or pass-through entity. Accountability is based primarily on performance and results. With fixed amount awards, the amount reported on the SEFA is the amount that was earned (amount to be paid per the terms and conditions) in the period it was earned, for example the deliverable was met or the milestone achieved.

Guidance for Specific Types of Costs

Equipment and supplies (non-cash assistance)

4.14.5.70 The receipt of federally-funded equipment, materials or supplies whether received directly from a federal agency or received indirectly from a pass-through agency is considered a non-cash award that must be reported on the SEFA. The recipient must report the fair market value at the time of receipt or the assessed value provided by the awarding agency of the non-cash items on the SEFA. *Regardless of the basis of accounting used by the recipient, non-cash awards are reported in the fiscal year they are* ***received***.

Other non-cash assistance

4.14.5.80 Food stamps, food commodities, vaccines, donated property (including surplus), and other non-cash assistance should be valued at fair market value at the time of receipt or the assessed value provided by the awarding agency. The notes to the Schedule of expenditures of federal awards should disclose the nature of the amounts reported. *Regardless of the basis of accounting used by the recipient, non-cash awards are reported in the fiscal year they are* ***received***.

Matching/cost sharing

4.14.5.90 The amount of state and/or local funding contributed by the entity in the form of matching funds or in- kind match required by the awarding agency should ***not*** be reported on the SEFA. If program regulations allow a federal award to be used as match, those expenditures would be reported on the SEFA.

Program income

4.14.5.100 Many awardees earn program income while administering federal programs or projects. For most programs, the receipt or use of program income is reported on the SEFA in the period the expenditure occurs in accordance with the basis of accounting. However, federal agencies differ on the treatment of program income on the SEFA. Therefore, it is recommended that the government consults with the awarding agency about how it requires the program income to be reported if not clear in the terms and conditions of the award or awarding agency guidance

A note disclosure regarding the inclusion of expenditures from program income is recommended.

Note: For program specific requirements please see the Program Specific Packet.

Note: If the awardee has received written (documented) approval to use program income as match/cost sharing, it is not reported on the SEFA.

Note: See 4.14.5.140 section for accounting for program income related to revolving loans.

Unless otherwise specified in the awarding documents, interest earned on cash advances or idle award funds are not considered program income. Interest earnings are recorded in the BARS account 361.

Retainage

4.14.5.110 Retainage is an amount withheld from contractor payments until the end of the project when work has been completed to satisfaction. Per 2 CFR §200.305(b)(8), retainage is not an allowable cost that can be charged to the federal award and should not be reported on the SEFA as a federal expenditure until one of the following has been met

a) The retainage is paid to the contractor. *Regardless of the basis of accounting used by the awardee, the retainage payment is reported in the fiscal year it is paid*.

b) The retainage is paid into an escrow/trust account. *Regardless of the basis of accounting used by the awardee, the retainage payment is reported in the fiscal year(s) it is paid into the escrow/trust account*.

Note: If retainage was not paid to the contractor or paid to an escrow/trust account, but was incorrectly reimbursed by the awarding agency, a cash advance has occurred. Contact the awarding agency for instructions on what to do with the funds (such as return to them or move to an escrow/trust account).

Disbursements to subrecipients

4.14.5.120 Per 2 CFR §200.502, "the determination of when a Federal award is expended must be based on when the activity related to the Federal award occurs. Generally, the activity related to the Federal award pertains to events that require the non-Federal entity to comply with Federal statutes, regulations, and the terms and conditions of Federal awards, such as…the disbursement of funds to subrecipients…" *Federal funds are determined to be expended when the pass-through agency becomes obligated to the subrecipient for payment. Generally that is when the pass-through agency has made the determination the costs are allowable, they are charged to the federal award, and the payment is made to (or authorized to be made to) the subrecipient*.

Valuation of Federal Loans

4.14.5.130 Use the following guidelines to calculate the value of*federal awards expended* under loan programs:

1. Amount of new loans made or received during the fiscal year,***plus***
2. ***Beginning of the audit period balance of loans***from previous years for which the federal government imposes *continuing compliance requirements*, ***plus***
3. Any interest subsidy, cash, or administrative cost allowance received.

Question 1: When do I report the loan on my SEFA?

Answer: Uniform Guidance: 2 CFR §200.502(a), and guidance from the AICPA states the loan is considered expended when the loan proceeds are used under loan and loan guarantee programs. *Note exception to the rule for certain programs below.*

- Reimbursement Basis: Most loans are funded on a reimbursement basis where the borrower incurs program-related costs and then makes a request to the lender for the loan proceeds. In this case, report expenditures during the year for which the government will seek loan funding.
- Loan Advances: Some loans are made in advance of any project-related expenditures. Because the federal government is at risk for these loans, *the total proceeds received should be reported on the SEFA the date of receipt,*even if the government has not spent all the funding. Contact the lender to determine if it requires the full amount of proceeds to be reported in the year of receipt.
- Revolving Loans: If the entity receives federal funds and then makes a loan to another party, report the amount of loans the government made during the year. (Refer to additional guidance on revolving loan funds below.)

Question 2: What is a continuing compliance requirement?

Answer: The government is considered to have a*continuing compliance requirement* if the lender continues to impose a requirement over the outstanding loan balance in any one of the following 12 areas in years following receipt of the loan.

1. Activities allowed or *unallowed*
2. Allowable costs/cost principles
3. Cash management
4. Eligibility
5. Equipment and real property management
6. Matching, level of effort, earmarking
7. Period of performance of federal funds
8. Procurement and suspension and debarment
9. Program income
10. Reporting
11. Subrecipient monitoring
12. Award-specific special tests and provisions, including federal wage rate requirements

(David-Bacon Act)

Examples of continuing compliance requirements:

- A housing authority received a federal loan to construct apartments for low income households. As a condition of the loan, the authority is required to make a certain percentage of apartments available to low income households for the next 15 years. The housing authority should report the loan balance on the SEFA for the duration of this requirement. (We recommend consulting with the lender about its expectations for reporting loan balances.)
- A university has established a federal revolving loan fund and makes loans to students to help them pay for school expenses. The federal agency sponsoring the loan program requires the university to comply with continuing requirements such as default prevention, billing and collection, deferments, cancelations, fund liquidity, and borrower exit counseling.
- A city purchased equipment with loan funds and is required to maintain capital asset records and conduct physical inventories of the equipment in the years following the purchase.

Question 3: If my project takes several years to complete, will I have continuing requirements throughout the duration of the project until it is complete?

Answer: Most likely. For example, many lenders will set aside a portion of the funding until all inspections are made and all supporting documentation encompassing the entire project is submitted and approved. **CAUTION: If the lender is waiting to reimburse a portion of costs submitted for reimbursement until the project is approved, be sure to report the expenditures in the year occurred, not when reimbursed.** Consult with the lender about its expectations over reporting loans for projects that span multiple years.

Question 4: How do I determine the amount of any interest subsidy I am receiving?

Answer: The OMB has not issued any official guidance on this topic. Typically, an interest subsidy means the federal government is paying or waiving a portion of the interest cost that would ordinarily have to be paid by the borrower. Consult with the lender to determine if any portion of interest is being subsidized.

Question 5: What if my project is complete and there are no requirements other than to repay the loan?

Answer: If the laws, regulations, and the provisions of contracts or loan agreements pertaining to the loan impose no continuing compliance requirements other than to repay the loan, the loan does not have to be reported on the SEFA.

Question 6: What if our entity makes a loan to another entity or program participant?

Answer: Report the amount of loans made during the year. If the entity administers **a revolving loan program** where federal funds are lent to third parties, repaid, and then lent to again to other parties, the repayment of principal and interest is considered program income (revenues) and loans of such funds to eligible recipients are considered expenditures. For purposes of SEFA presentation, report the amount of loans the government made during the year. This includes all loans that are funded by the original loan and program income. **However, be sure to check the terms of the award and discuss with the awarding agency because some federal agencies have different rules for presenting revolving loans on the SEFA.** For example, the Department of Commerce for its Economic Adjustment Assistance Revolving Loan Fund program (ALN 11.307) requires awardees to report the principle balance of loans outstanding at year-end, instead of the amounts lent. See the Compliance Supplement Part 4 for this program, IV. Other Information for the specific calculation.

Reporting revolving loans

4.14.5.140 Although the repayment of principal is not considered revenue from the GAAP accounting perspective, it has to be considered as such for the purpose of SEFA. The expenditures from the revolving loan should include expenditures from the initial loan and subsequent repayments of the loans, including interest generated by the loan.

Employer Identification Number (EIN) for federal award recipients

4.14.5.150 Recipients of federal funds must arrange to have a single audit in accordance with Uniform Guidance, 2 CFR 200, Subpart F – Audit Requirements if they expend $750,000 or more in federal awards in a year. Most federal agencies define a recipient according to the federal Employer Identification Number (EIN). That is, the awarding agency makes its awards to each recipient based on the EIN, rather than entity name. For example, if a small fire district uses the county's EIN for payroll tax purposes, and also applies for a federal award using the county EIN,

some federal agencies will make the official award to the county. As a result, the awarding agency expects the award to be included in the county's Schedule of Expenditures of Federal Awards (Schedule 16) and thus subject to audit at the county. Further, at the conclusion of a single audit, the fire district's audit will be misfiled with the federal clearinghouse because the county's EIN was listed on the Data Collection Form. This puts the county in a difficult position with the federal government and can cause additional audits. Therefore, it is recommended that all special purpose districts without an EIN make application for this number with the IRS (Form SS-4) and use this number when applying for federal financial assistance as well as IRS tax purposes. The district also should consult with its county auditor and/or treasurer for the protocol concerning payroll taxes.

Preparing the SEFA template for upload into the filing system

4.14.5.160 SEFA information may be manually input into the filing system or uploaded using the template from SAO's website on the BARS Reporting Templates page. Instructions for the template are as follows:

Column A (ALN): Enter the Assistance Listing Number (ALN). If unknown or does not exist, follow detailed instructions below under number 3 included in Section 4.14.5.190.

Column B (COVID-19 Expenditures): Enter "Yes" if these are COVID-19 expenditures. As noted, COVID-19 expenditures must be reported separately by ALN. If these are **not** COVID-19 expenditures, please leave this column blank.

Column C (Federal Agency Name): The filing system will pre-populate the official federal agency name from SAM.gov Assistance Listings based on the ALN entered. However, if the ALN is unknown or doesn't exist, manually add the federal agency name.

Column D (Federal Program Name): The filing system will pre-populate the official federal program name from SAM.gov Assistance Listings based on the ALN entered. However, if the ALN is unknown or doesn't exist, manually add the federal program name.

Column E (Pass-through Agency Name): Enter the name of the pass-through agency for indirect awards. If there is no pass-through agency, leave this field blank.

Column F (Other Award I.D. Number): For indirect awards, add the other award identification number assigned by the pass-through agency (contract/agreement number). Refer to detailed instructions below. If no identification number was provided by the pass-through agency, enter "NA". For direct awards, the other award identification number is optional and may be left blank.

Column G (R&D): Enter "Yes" if this award is research and development (R&D). Otherwise leave this column blank.

Column H (Total): Enter the total federal awards expended. Refer to detailed instructions below for calculating the total.

Column I (Passed Through to Subrecipients): Of the total amount of federal awards expended, report how much of that was passed on to subrecipients.

Column J (Footnote Reference): If applicable, enter the reference number that corresponds with the "Notes to the Schedule of Expenditures of Federal Awards."

Finalized Schedule of Expenditures of Federal Awards

4.14.5.170 Annual reports should be submitted via the filing system on the State Auditor's website at: www.sao.wa.gov. Local governments have the option to import the SEFA data via the template or manually enter the data in the filing system. The example SEFA below is the formatted version that is generated by the filing system after the data is imported or manually entered.

4.14.5.180 Local governments are **required** to update the incorrect financial data submitted on this Schedule. The requirement applies to all errors found prior or during an audit. For questions and/or support e-mail the SAO Client HelpDesk through our Online Services.

Uniform Guidance Requirements for Reporting in the Clearinghouse

4.14.5.190 The following are detailed SEFA requirements found at 2 CFR §200.510(b). An example of a completed Schedule follows the instructions. Instructions for using the annual template are found above at 4.14.5.160.

1. List the name of the federal agency. If the government receives federal funds as a subrecipient, identify the pass-through agency.

2. List individual federal programs by federal agency. Provide the **official name** of the federal award from the Assistance Listings at SAM.gov (avoid nicknames, abbreviations, or acronyms).

As noted in the Program Specific Packet, COVID-19 expenditures must be reported on a separate line by ALN with "COVID-19" as a prefix to the program name, including new COVID-19 only programs, such as the Coronavirus State and Local Fiscal Recovery Fund 21.027.

IMPORTANT NOTE: For federal programs included in a **cluster of programs**, provide the **official cluster name** (e.g., CDBG – Entitlement Grants Cluster) **regardless of whether the expenditures were incurred under only one program or multiple programs within the cluster**, list the **individual federal programs** within the cluster (e.g., 14.218 Community Development Block Grants/Entitlement Grants and 14.225 Community Development Block Grants/Special Purpose Grants/Insular Areas) and provide **a total for the cluster** (see the example SEFA below). For **research and development**, total federal awards expended must be shown by either the individual award or by federal agency and major subdivision within the federal agency. A listing of programs included in a cluster can be found in **Part 5 of the Compliance Supplement**. Note the Compliance Supplement is **updated annually**, including the list of clusters found in Part 5, so it is important to consult the applicable Compliance Supplement (e.g., for audits of fiscal years beginning after June 30, 2023, consult the 2024 Compliance Supplement).

3. List the applicable ALN for each award. This is a five-digit (XX.XXX) identification number assigned by the federal government and published in Assistance Listings at SAM.gov. This number **must** be provided, for all federal awards received either directly from a federal agency or indirectly through a state agency or local government.

Awarding agencies are required to provide the ALN when making an award; however, if one was not provided, the government should make every effort to research the program before the government concludes an ALN does not exist. Steps to take:

- Contact the awarding agency.
- Search for the program on Assistance Listings at (SAM.gov).
- Check with other governments you know that also received the award
- Submit a question to the SAO Client HelpDesk.

If an Assistance Listing Number does not exist or is unknown, governments must use the following formula for the ALN:

Enter the Federal Agency's two-digit prefix (see list of agencies in 4.14.5.190) followed by the letter "U", for unknown, followed by a two-digit sequential number starting with "01".

For example, if the government has two awards from the Department of Defense where the ALN does not exist or is unknown the government should report these awards using "12.U01" and "12.U02" as the ALN.

WARNING ERROR CAUTION: When entering an unknown ALN, you will get a "warning error". That is because the filing system pulls from Assistance Listings at SAM.gov. If the ALN is unknown, it is not going to be in Assistance Listings. Also, if you enter an ALN that has been archived by the Federal Awarding Agency, in other words the program is no longer giving awards but you still have some federal expenditures to report, you will also get a warning error. In both of these cases, it is ok to ignore the warning error; you do not need to contact our Office.

4. For indirect awards or awards with an unknown ALN, list the identifying number assigned by the pass-through agency, such as the contract or agreement number. If an identification number is not available, or one was not provided in the awarding documents, enter "N/A". For direct awards with a known ALN, leave this field blank.

5. Report current year expenditures (determined on the same basis of accounting as the financial statements). See requirements for valuing loans and noncash assistance above.

Expenditures from Pass-Through Awards – Enter the amount of expenditures for federal assistance received as a pass-through award from a state agency, local government, etc. When calculating the amount expended for each program, be sure to include both direct costs and indirect costs. If the government made a subaward to another entity, these amounts should also be reported as expenditures.

Expenditures from Direct Awards – Enter the amount of expenditures for assistance received directly from a federal agency. When calculating the amount expended for each program, be sure

to include both direct costs and indirect costs. If the government made a subaward to another entity, these amounts should also be reported as expenditures.
Note: If the entity receives an award under the same ALN from multiple awarding agencies, the SEFA should have a subtotal for that ALN showing the total amount received from all sources.

Total Expenditures – Enter the combined total of all federal expenditures from pass- through and direct awards by ALN.

6. List the total amount of expenditures provided to subrecipients for each federal award **(2 CFR§200.510(b)(4)**).

7. If applicable, enter the reference number that corresponds with the "Notes to the Schedule of Expenditures of Federal Awards."

Instructions for preparing the Notes to the Schedule of Expenditures of Federal Awards

4.14.5.200 The order of Notes 1-3 corresponds to the Federal Audit Clearinghouse Data Collection Form (SF-SAC). Please follow the same order, as applicable. Order your remaining Notes sequentially.

REQUIRED NOTE 1 (per 2 CFR §200.510(b)(6)) – the notes to the Schedule must disclose the basis of accounting and any other significant accounting policies used in preparing the Schedule. This includes reconciling any difference between the amounts shown on the Schedule and the underlying amounts reflected in the entity's accounting system.

REQUIRED NOTE 2 (per 2 CFR §200.510(b)(6)) – the notes must disclose**whether or not** the auditee elected to use the 10% de minimis cost rate as covered in 2 CFR §200.414 Indirect (F&A) costs. If the de minimis rate was not elected, it is optional to include the indirect cost rates used (see example below).

REQUIRED NOTE 3, IF APPLICABLE (per 2 CFR 200.510(b)(5)) – for loans or loan guarantee programs the notes must identify the balances outstanding at the end of the audit period. This is in addition to including the total federal awards expended for loan or loan guarantee programs reported in the Schedule.

OPTIONAL (BUT RECOMMENDED) – provide any information that may be useful to the reader such as the method used to value commodities or other non-cash assistance such as property or vaccines, and any other information necessary to reconcile the amount reported to the entity's accounting records.

An example of these footnotes is provided below.

Frequently used federal agency two-digit prefixes

4.14.5.210 This list is used for ALNs; if the government does not see the federal agency here, Assistance Listings at SAM.gov.

07 – Office of National Drug Control Policy
10 – Department of Agriculture
11 – Department of Commerce
12 – Department of Defense
14 – Department of Housing and Urban Development
15 – Department of Interior
16 – Department of Justice
17 – Department of Labor
20 – Department of Transportation
21 – Department of Treasury
39 – General Services Administration
43 – National Aeronautics and Space Administration
47 – National Science Foundation
59 – Small Business Administration
64 – Department of Veterans Affairs
66 – Environmental Protection Agency
81 – Department of Energy (includes the Bonneville Power Administration)
84 – Department of Education
93 – Department of Health and Human Services
94 – Corporation for National Service
96 – Social Security Administration
97 – Department of Homeland Security (includes FEMA)

Characteristics of subrecipients and contractors

4.14.5.220 A **subrecipient** is a non-federal entity (typically a local government or non-profit organization) that receives federal assistance from a pass-through agency (such as the state or another local government) to carry out a program or project of the federal government. Subrecipients receive the federal award or loan so that it can meet a public need in the community. The amount paid to the subrecipient to reimburse it for the cost of the project or program should be based on actual, allowable costs incurred - that is, a subrecipient cannot earn a profit from its award. Subrecipients have substantial decision-making responsibility for how the project or program operates. Subrecipients are required to follow all applicable requirements in Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards, 2 CFR 200. Often subrecipients are required to contribute some of their own funds as a matching share to accomplish the program or project.

4.14.5.230 **Contractors (formerly "vendors")** compete with others to provide goods and services needed to operate a project or program. These goods and services are often ancillary to the overall program objectives. Selection of contractors is typically based on the capability to provide the best goods and services at the best price. The scope of work is specified by the awardee and the price is usually based on quotes, formal bids, or requests for proposals. Contractors are often paid a set fee for providing its goods or services where the price allows the contractor to recover its costs and also earn a profit. The Association of Government Accountants (www.agacgfm.org) published a subrecipient versus contractor checklist.

Beneficiaries are not currently defined in the Uniform Guidance, however, abeneficiary is traditionally an individual who is the end user of the assistance (the individual needing the benefit). Examples include recipients of scholarships, Medicaid claims/medical benefits, or housing/food assistance. With certain Treasury COVID-19 programs, businesses, non-profits, and governmental entities may also be beneficiaries of assistance. Treasury's Coronavirus State Local Fiscal Recovery Funds (SLFRF, ALN 21.027) Compliance and Reporting Guidance indicates that "subrecipients do not include individuals and organizations that received SLFRF funds as end users to respond to the negative economic impacts of COVID-19 on these organizations". The organizations would be beneficiaries in this case. The Single Audit Act and 2 CRF Part 200, Subpart F regarding audit requirements do not apply to beneficiaries (no SEFA reporting).

4.14.5.240 **Tips for preparing the Schedule**

- Some projects or programs may be funded by a mix of federal and state money. If possible, identify the different sources and list them on appropriate Schedules (i.e., the federal share on the Schedule of Expenditures of Federal Awards and the state or portion on the Schedule of Expenditures of State Financial Assistance). If the state portion cannot be identified, list the entire amount on the Schedule of Expenditures of Federal Awards and describe the commingled nature of the funds in the notes to the Schedule of Expenditures of Federal Awards.
- Funds received as fee for services, generally should**not** be included on the Schedule 16. For example, if the government is being paid for providing goods or services in a contractor capacity, this contractor payment is not considered federal financial assistance to the entity.
- List all awards from the same federal agency together on the Schedule (for example, group all HUD awards together by ALN).
- If the government chooses to report multiple projects/programs that have the same ALN as separate line items (e.g., WSDOT highway planning and construction projects), provide a subtotal for the ALN.
- It is important to note that the expenditures reported on the SEFA will not necessarily tie to those reported on the operating statement, especially if the federal awards include loans or non-cash awards (property, supplies, etc.). However, all amounts reported should agree or reconcile to records maintained by finance, budget, and treasury departments.
- The SEFA should be prepared using the same basis of accounting as the financial statements. For example, if the government prepares the financial statements using the cash basis of accounting, the government should report expenditures of federal awards using the cash basis. Explain any departure in the footnotes.

4.14.5.250 **Sample Schedule of Expenditures of Federal Awards**

City of Sample
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 20YY

Federal Agency (Pass-Through Agency)	Federal Program	ALN Number	Other Award Number	From Pass-Through Awards	Expen From Aw
CDBG - Entitlement Grants Cluster					
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF	Community Development Block Grants/Entitlement Grants	14.218		-	
ASSISTANT SECRETARY FOR COMMUNITY PLANNING AND DEVELOPMENT, HOUSING AND URBAN DEVELOPMENT, DEPARTMENT OF	Community Development Block Grants/Entitlement Grants	14.218		-	
		Total CDBG - Entitlement Grants Cluster:		-	
U.S. Bureau of Justice Assistance (via City of Sample Drug Enforcement Administration)	N/A -Cooperative Agreement with Drug Enforcement Administration	16.U01	n/a	17,315	
DEPARTMENTAL OFFICES, TREASURY, DEPARTMENT OF THE	COVID 19 - CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS	21.027		-	6,
FEDERAL EMERGENCY MANAGEMENT AGENCY, HOMELAND SECURITY, DEPARTMENT OF (via WA State Military Department)	Hazard Mitigation Grant	97.039	D23-006	185,150	
		Total Federal Awards Expended:		**202,465**	**6,**

4.14.5.260 **Template Notes to the Schedule of Expenditures of Federal Awards**

_____

(City/County/District)

Notes to the Schedule of Expenditures of Federal Awards

for the Year Ended December 31, 20XX

Please be advised the order of Notes 1-3 correspond to the Federal Audit Clearinghouse Data Collection Form (SF-SAC).

Please follow the same order, as applicable. Disclose other notes only if applicable to the government circumstances and in sequential order.

Note 1 – Basis of Accounting (***Required***)

This Schedule is prepared on the same basis of accounting (describe if not the same basis) as the (city/county/district's) financial statements. The (city/county/district) uses the (describe the basis of accounting used by the city/county/district).

Note 2 – Federal Indirect Cost Rate (***Required*** *to state* ***whether or not*** *the de minis indirect cost rate was elected*)

The (city/county/district) has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance. The amount expended includes $_____ claimed as an indirect cost recovery using an approved indirect cost rate of _____ percent.

or

The (city/county/district) has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3 – Federal Loans (***Required*** *if applicable*)

(a) The (city/county/district) was approved by the USDA Rural Utilities Service to receive a loan totaling $____ to build a sewer treatment plant. Interim loan financing was received for the construction period. The amount listed for this loan includes the beginning of the period loan

balance plus proceeds used during the year. The balance owing at the end of the period is $_____.

(b) The (city/county/district) was approved by the EPA and the PWB to receive a loan totaling $____ to improve its drinking water system. The amount listed for this loan includes the beginning of the period loan balance plus proceeds used during the year. The balance owing at the end of the period is $_____.

Both the current and prior year loans are reported on the(city/county/district's) (Schedule of Liabilities [Cash governments] or Schedule of Changes in Long-Term Liabilities [GAAP governments – note disclosure].

Note 4 – Revolving Loan – Program Income (***Recommended*** *if applicable*)

The (city/county/district) has a revolving loan program for low income housing renovation. Under this federal program, repayments to the (city/county/district) are considered program revenues (income) and loans of such funds to eligible recipients are considered expenditures. The amount of loan funds disbursed to program participants for the year was $_____ and is presented in this Schedule. The amount of principal and interest received in loan repayments for the year was $____.

Note 5 – Noncash Awards (***Recommended*** *if applicable*)

The amount of (vaccine/dental items/commodities/surplus property/etc.) reported on the Schedule is the value of (vaccine/dental items/commodities/surplus property/etc.) received by the (city/county/district) during current year and priced as prescribed by _____.

Note 6 – Noncash Awards – Equipment (***Recommended*** *if applicable*)

The (city/county/district) received equipment and supplies that were purchased with federal Homeland Security funds by the state of Washington. The amount reported on the Schedule is the value of the property on the date it was received by the (city/county/district) and priced by the state of Washington.

Note 7 – Program Costs (***Recommended*** *if applicable*)

The amounts shown as current year expenditures represent only the federal award portion of the program costs. Entire program costs, including the (city/county/district's) portion, are more than shown. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

SAO Annual Report Schedules
Revenues, Expenditures and Expenses (Schedule 01)

4 **Reporting**

4.8 **SAO Annual Report Schedules**

4.8.1 **Revenues/Expenditures/Expenses (Schedule 01)**

4.8.1.10 The purpose of this schedule is to report the local government's financial activity for the reporting year including beginning balances, revenues, expenditures, and ending balances. These are reported using BARS codes to identify the specific type of activity. For GAAP governments it is also ***required*** to report a summary of balance sheet transactions for each reported fund which will be reported to the 800 series of BARS codes. This includes assets, liabilities and deferred outflows and inflows.

4.8.1.20 Local governments are ***required*** to update the materially incorrect financial data submitted on this schedule. The requirement applies to all errors found prior or during an audit.

4.8.1.25 Local governments completing the Schedule 01 must ensure the data submitted is

accurate. Each reported fund is required to balance within $1,000. If one or more reported fund(s) do not balance within $1,000, it will result in a required error. The annual report cannot be submitted until all required errors are resolved.

For GAAP Proprietary Funds, local governments are ***required*** to report depreciation expenses using the appropriate depreciation BARS codes (501.XX).

For GAAP Proprietary funds, local governments are required to report memorandum accounts for debt and capital, which are listed in the table below. These accounts are ***not*** included in the filing system calculation for the $1,000 balancing requirement and are ***not*** included in the filing system calculation for total expenditures. The memorandum accounts are used for informational purposes only but are required for comparative statistics.

391 (Debt Issued/Bond Proceeds)	591 (Redemption of Debt)
392 (Premiums on Bonds Issued)	593 (Advance Refunding Escrow)
393 (Refunding Long-Term Debt Issued)	596 (Issuance Discount on Long-Term Debt
	594 (Capital Outlay)
	595 (Capital Outlay – Roads/Streets)

This schedule is submitted as part of the annual report via the filing system on the State Auditor's website at: https://portal.sao.wa.gov/LGCS/. The filing system will only accept an Excel file formatted in the prescribed record layout (see paragraph 4.8.1.50, below). The *Amount* column must be formatted as a number (the system will round to the nearest whole number); *all other columns* must be formatted as text.

4.8.1.30 The Schedule 01 templates can be found on the BARS Reporting Templates page. Templates are updated each year with changes to BARS code so it's important for local governments to use the newest version of the template from the SAO's website. There is no Schedule 01 template for cities/towns and counties because they have access to majority of all BARS accounts. A complete listing of BARS accounts by government type/accounting basis can be run from the BARS Account Export page.

For additional information on reporting requirements, please see:

- BARS Manual 4.1.2, *Reporting Requirements for GAAP Governments*
- Also see, BARS Manual 4.1.7, *GAAP Versus Cash Basis Reporting*
- Also see, BARS Manual 4.1.1, *GAAP Reporting Requirements*

4.8.1.50 The Schedule 01 should be formatted as follows for upload (also see example below):

Note: Blank rows may cause upload errors (the system interprets this as the end of the reported data). If using a template, unused rows should be deleted entirely; alternately, the *Amount* field may be entered as zero ($0). Hiding rows and/or clearing cells will result in upload errors.

Row 1: **Column headers**; this row may be populated but will not be included in the data import (i.e., financial data in the first row of the Excel will be deleted upon import.

Column 1: **MCAG Number;** this column may be left blank but must be included for data import.

Column 2: **Fund number**; provide the three-digit fund number as prescribed in the BARS Manual 3.1.1, *Fund Types and Accounting Principles*. Make sure that the fund number correlates with the correct fund type. If using a template, the fund number is pre-filled out.

Column 3: **Fund name;** the fund name may be no less than 4 characters and is limited to a maximum of 40 characters. The fund name must be consistent for each reported fund number. Multiple fund names for a given fund number will result in a required error, and the annual report cannot be submitted until the error is resolved (e.g., if a line reports the fund number "001" with a fund name "General" and another line reports the fund number "001" with a fund name "Current Expense", a required error will occur. This validation check is identified based on the text, so clerical errors like transposed letters will still generate an error.).

Column 4: **BARS account**; coding must be valid based on the government type and basis of accounting.

- All BARS accounts must be reported as seven digits.
- For a full list of available codes, download your chart of accounts from the BARS Account Export page.
- For special purpose districts, templates are available that include the BARS accounts for your government type and basis of accounting on the BARS Reporting Templates page.

Column 5: **BARS account title**; the *Account Title* can be found in the chart of accounts export, see the BARS Account Export page. If using a template, this is pre-filled out.

Column 6: **Amounts;** please note:

- Activity in BARS accounts should be reported as a positive value (for both revenues and expenditures). There are limited circumstances when a negative revenue or expenditure amount should be reported.
- Schedule 01 data is reported in whole dollars; the system will automatically round amounts including decimals to the nearest dollar upon upload.
- ***Do not*** include rows with totals, sub-totals, notes, etc. Rows should be limited to the above-prescribed data.

4.8.1.60 The Schedule should ***exclude*** the following:

- Clearing and suspense funds. For more information on this topic, seeBARS Manual 3.6.11 Suspense Funds, paragraph 3.6.11.40.
- Managerial funds. Managerial funds should be consolidated for reporting; ***do not*** report managerial funds separately on the Schedule 01. For more information, see BARS Manual 3.1.1, Fund Types and Accounting Principles, paragraphs 3.1.1.40 and 3.1.1.50.

4.8.1.70 Cities/towns and counties are required to include all fiduciary funds on the Schedule 01 ***excluding*** the balance sheet accounts (800 series) from these funds. Counties should include data for all special purpose districts which would be reported in a custodial fund. Counties should ***not*** use functional BARS accounts for the special purpose districts. For more information on reporting fiduciary activity, see *BARS Manual 4.3.7, Determining Fiduciary Activities to be Reported in Custodial Funds*. Detailed guidance on fund coding can be found inBARS Manual 3.1.1, Fund Types and Accounting Principles.

For assistance, submit questions to the SAOHelpDesk through our Online Services.

If you need assistance resolving required or warning errors, please see available annual filing system resources on the BARS & Annual Filing FAQ page, specifically the Error Guide.

MCAG	Fund Number	Fund Name	Account Code	Account Title	Amount
1234	001	General	3083000	Restricted Beginning	301,200
1234	001	General	3084000	Committed Beginning	125,000
1234	001	General	3085000	Assigned Beginning	78,250
1234	001	General	3089000	Unassigned Beginning	575,456
1234	001	General	3111000	Property Tax	250,056
1234	001	General	3174000	Timber Excise Tax	157
1234	001	General	3698000	Cash Adjustments	-15
1234	001	General	5083000	Restricted Ending	259,000
1234	001	General	5084000	Committed Ending	25,000
1234	001	General	5085000	Assigned Ending	35,212
1234	001	General	5089000	Unassigned Ending	120,000

1234	001	General	5111010	Legislative - Salary	56,000
1234	001	General	5111020	Legislative - Benefits	25,000
1234	001	General	5111030	Legislative - Supplies	62,000
1234	001	General	5111040	Legislative - Services	55,000
1234	101	Special Revenue	3083000	Restricted Beginning	12,501
1234	101	Special Revenue	3611000	Investment Interest	27
1234	401	Water	3434000	Water Sales	23,978
1234	401	Water	3611000	Investment Interest	576
1234	401	Water	5340010	Water Operations - Salary	250,000
1234	401	Water	5340020	Water Operations - Benefits	35,000
1234	401	Water	5340030	Water Operations - Supplies	45,000
1234	401	Water	5340040	Water Operations - Services	24,000

Liabilities (Schedule 09)

4 **Reporting**

4.8 **SAO Annual Report Schedules**

4.8.3 **Liabilities (Schedule 09)**

4.8.3.10 The purpose of this schedule is to provide information about the**liabilities** of the local government.

4.8.3.30 Local governments are **required** to update the incorrect financial data submitted on this schedule. The requirement applies to all errors found prior or during an audit.

4.8.3.40 The schedule should be prepared on the same basis of accounting, for the same period and reporting entity, and using the same underlying accounting records as the Schedule 01 and financial statements. The schedule should include ***current*** and ***noncurrent*** liabilities. Local governments should report short-term liabilities even if they are both incurred and fully redeemed during the reporting period.

4.8.3.50 The schedule should ***exclude*** the following:

- Payments due to vendors, employees, or customers that are expected to be paid normally as part of the disbursement cycle. For example, any accounts payable, payroll accruals, retainage payable, or customer deposits.
- Short-term leases or subscriptions where the maximum possible term is 12 months or less. For example, month-to-month contracts.
- Unearned revenues, deferred inflows, or commitments for future expenditures that have not yet been realized.
- Interfund payables and loans (for details regarding interfund loans seeInterfund Loans).
- Liabilities of fiduciary funds or of other entities for which the government is not itself obligated. For example, conduit debt and financial guarantees (to the extent the government does not estimate it will need to make payments as described in Financial Guarantees and

Conduit Debt, assessment debt without commitments. Counties would ***not report liabilities of their special purpose districts***.

4.8.3.71 Proper classification of grant and loan transactions requires the analysis of the underlying documentation. For accounting purposes, the criteria for determining if a funding source is a grant (revenue) or loan (liability) is the existence of a note payable or loan contract. For annual report purposes, the Schedule 09 should report all loans. Federal grant loans will be reported on both the Schedule 09 and 16.

4.8.3.90 All debt should be listed on Schedule 09, regardless of if it is for operating, capital or refunding purposes. Debt should be reported at face value (that is, only the principal amounts of debt should be reported and not any anticipated interest, issuance costs, premiums, or discounts).

Refunding transactions (including advance refunding through legal or in-substance defeasance) should be reported on the schedule as a reduction of the refunded debt and addition of the new debt.

4.8.3.100 All the following types of liabilities should be included in the schedule using the most appropriate identifying number.

Note: There are three categories of liabilities: General Obligation, Revenue and Other, and Assessment. Ensure the correct category is being used.

General obligation debt/liabilities

A general obligation debt or liability is one that is secured by a pledge of the full faith and credit of the government and its taxing power. This means that the government would be obligated to repay the debt using all available means, including raising taxes to the extent allowable by law. General obligation debt and liabilities are subject to constitutional and, for certain government types, statutory debt limits.

I.D. No.	General obligation debt/liabilities
251.11	Non-voted general obligation bonds, excluding those issued for certain purposes listed below
251.12	Voted general obligation bonds, excluding those issued for certain purposes listed below
251.21	Voted general obligation bonds for utility purposes issued by ***cities and towns***
251.22	Voted general obligation bonds debt for open space, parks, and capital facilities issued by ***cities and towns***
251.31	Non-voted general obligation bonds ***for metropolitan municipal corporations*** issued by counties
251.32	Voted general obligation bonds for metropolitan municipal corporations issued by ***counties***
251.41	Non-voted general obligation bonds for construction issued by ***ports***
251.42	Non-voted general obligation bonds for airport improvements issued by ***ports***
251.43	Voted general obligation bonds for airport improvements issued by ***ports***
251.44	Voted general obligation bonds for foreign trade zones issued by ***ports***

I.D. No.	General obligation debt/liabilities
263.51	Installment purchases (formally known as capital leases), installment-purchase agreements (e.g. rent to own), conditional sales and Certificates of Participation (COPS) other than LOCAL program financing.
263.56	Lease (see BARS 3.4.1), (for leases that the government is not purchasing the asset at the end of the lease , Subscription Based IT Arrangement (SBITAs – see BARS 3.4.21) and Public-Private and Public-Public Partnership (PPP – see BARS 3.4.22) liabilities.
263.61	Notes payable (e.g., Bond Anticipation Notes (BANs), Tax Anticipation Notes (TANs), Grant Anticipation Notes (GANs), etc.)
263.81	Loans and other obligations to the federal government or other out-of-state governments
263.83	Loans and other obligations to Washington state agencies (except LOCAL and Public Works Board loans)
263.85	Loans and other obligations to other Washington local governments
263.87	Public Works Board loans from the Washington Department of Commerce.
263.91	Miscellaneous debt - report any formal debt instruments that have a specific general obligation pledge that are not properly categorized to other Debt IDs, such as mortgages, or loans from banks, non-government organizations, or loans from individuals.
239.70	Registered warrants
263.94	Lines of credit with a general obligation pledge, from non-governmental sources. Lines of credit from federal, state, or local governments should be reported in Debt IDs listed above.
263.96	LOCAL program financing see BARS 3.4.11
263.98	Miscellaneous liabilities – report any other liability with a specific general obligation pledge within the scope of the schedule but not properly categorized under any other Debt ID.
239.70	Register warrants

Revenue and other (non G.O.) debt/liabilities

Include in this category all obligations that do ***not*** have a specific general obligation pledge debt ***regardless*** of the fund type that is reporting this debt or liability. This category should include revenue debt, other secured debt (e.g., mortgages, etc.) and unsecured debt (e.g., compensated absences, etc.). Exclude the assessment debt. Revenue debt is secured by a pledge of revenue from a particular activity, such as a water utility. Unsecured debt and liabilities are those that do not specifically pledge an asset as collateral or revenue source for repayment. In cases where a debt or liability is secured by either a revenue or asset *as well as* a specific pledge of the government's full faith and credit, the debt should be classified as *general obligation* using the codes listed above.

I.D. No.	Revenue and other (non G.O.) debt/liabilities

I.D. No.	Revenue and other (non G.O.) debt/liabilities
252.11	Non-voted revenue bonds
252.12	Voted revenue bonds
259.12	Compensated absences
263.12	Claims and judgments determined by legal judgment (such as a court order) or mutual consent. All unpaid judgments should be reported regardless of whether the government intends or is in process of appealing or settling the judgment.
263.13	Self-insurance and risk pool claims liabilities such as open claims, incurred but not reported (IBNR), unallocated loss adjustment expense (UALE). Governments with self-insurance programs should only report a liability on the Schedule 09 if they have an actuarially determined liability.
263.22	Liabilities for landfills closure and post-closure – report balances and changes in the same amount as reported to the Department of Ecology on your financial assurance analysis annual update (as required by WAC 173-351-600, WAC 173-350 and WAC 173-304)
263.40	Revenue warrants issued by cities pursuant to RCW 35.41.050, by ports pursuant to RCW 53.40.135, by municipal airports pursuant to RCW 14.08.118, or by water districts pursuant to RCW 57.20.027.
263.52	Installment purchases (formally known as capital leases), installment-purchase agreements (e.g. rent to own), conditional sales and Certificate of Participation (COPS) other than LOCAL program financing.
263.57	Lease (see BARS 3.4.1), (for leases that the government is not purchasing the asset at the end of the lease, Subscription Based IT Arrangement (SBITAs – see BARS 3.4.21) and Public-Private and Public-Public Partnership (PPP – see BARS 3.4.22) liabilities.
263.62	Notes payable (e.g., promissory notes, Bond Anticipation Notes (BANs), Tax Anticipation Notes (TANs), Grant Anticipation Notes (GANs), etc.)
263.72	Arbitrage rebate see BARS 3.4.6
263.82	Loans and other obligations to the federal government or other out-of-state governments
263.84	Loans and other obligations to Washington state agencies (except LOCAL and Public Works Board loans)
263.86	Loans and other obligations to other Washington local governments
263.88	Public Works Board loans from the Washington State Department of Commerce
263.92	Miscellaneous debt - report any formal debt instruments that do not have a specific general obligation pledge that are not properly categorized to other Debt IDs, such as mortgages, loans from banks, non-government organizations, or loans from individuals.

I.D. No.	Revenue and other (non G.O.) debt/liabilities
263.93	Environmental liabilities (e.g., pollution remediation, certain assets retirement, etc.) – report balances and changes in the portion to be paid by the government based on the cost estimate prepared or approved by the Department of Ecology or other state or federal agencies.
263.95	Lines of credit from non-governmental sources. Lines of credit from federal, state or local governments should be reported in Debt IDs listed above.
263.99	Miscellaneous liabilities – report any other liability within the scope of the schedule but not properly categorized under any other Debt ID (such as liabilities for when the government is more likely than not to make payments on conduit debt or financial guarantees).
264.30	Pension liabilities – report the net pension liability amount in accordance with BARS section 3.4.2.
264.40	OPEB liabilities – report the actuarially determined liability for defined benefit other post-employment benefit plans in accordance with BARS section 3.4.17.

Assessment debt/liabilities (with commitments)

An assessment debt or liability is issued by the government but secured only by revenue from taxes on a certain area, such as a Local Improvement District. Only assessment debt with commitments should be reported on the Schedule 09. If the government is obligated in some manner to assume payments on special assessment debt in the event of default by the property owners, it is assumed the government has a *commitment*. In cases where the debt or liability is also secured by the government's full faith and credit, the debt should be classified as *general obligation* using the codes listed above.

I.D. No.	Assessment debt/liabilities (with commitments)
253.11	Special assessment bonds with commitments
253.13	Road Improvement District (RID) debt
253.15	County Road Improvement District (CRID) debt issued by ***counties***
253.43	Local Improvement District (LID) warrants with commitments
253.63	Local Improvement District (LID) notes payable with commitments
253.98	Miscellaneous assessment debt with commitments

4.8.3.110 **Instructions to preparer**

List each obligation separately and its related details as listed below. All amounts should be reported as positive numbers.

Identifying Number: Include the appropriate Debt ID number from the listing above.

Description: Include the identifying name, number and/or description of the debt or liability. For bonds, notes and other loans, list each debt issue separately providing date of original issuance.

Due Date: Use this column if there is a fixed date for final payment (maturity) of the liability. If there is a payable or liability in which the final payment/due date is amended or re-evaluated annually via a contract or agreement (e.g., DSHS Advances), the beginning contract date of the new contract should be used for the due date. If there is no fixed date for final payment, this column should be left blank.

This column is required all I.D. numbers, except for the following I.D. Numbers:

239.70 Registered Warrants
259.12 Compensated absences
263.12 Claims and judgments
263.13 Self-insurance and risk pool claims liabilities
263.22 Liabilities for landfills closure and postclosure
263.51 Installment purchases (formally known as capital leases), installment-purchase agreements (e.g. rent to own), conditional sales and COPS
263.52 Installment purchases (formally known as capital leases), installment-purchase agreements (e.g. rent to own), conditional sales and COPS
263.56 Lease (see BARS 3.4.1), Subscription Based IT Arrangement (SBITAs – see BARS 3.4.21) and Public-Private and Public-Public Partnership (PPP – see BARS 3.4.22) liabilities.
263.57 Lease (see BARS 3.4.1), Subscription Based IT Arrangement (SBITAs – see BARS 3.4.21) and Public-Private and Public-Public Partnership (PPP – see BARS 3.4.22) liabilities.
263.93 Environmental liabilities (e.g. pollution remediation, certain assets retirement, etc.)
263.94 Lines of credit with a general obligation pledge
263.95 Lines of credit
263.98 Miscellaneous liabilities
263.99 Miscellaneous liabilities
264.30 Pension liabilities
264.40 OPEB liabilities

Beginning Balance: This column should include the amount that was owed at the beginning of this period. **The amount shown should equal the last year ending balance.** If there is a discrepancy, please attach an explanation. Amounts should be rounded to the nearest dollar.

Additions: In this column report the entire amount of any new debt, any additional debt issued (or borrowed) and any increase in liabilities during the current period. For example, if a G.O. bond was authorized in the previous year at $5,000,000, with $4,000,000 issued that year and an additional $500,000 issued in the report year, this column should show $500,000.

Reductions: In this column, report the amount of debt that was paid or reduction of liabilities during reported period. Do NOT include interest paid on the redeemed debt. The total amount of redeemed debt should equal payments reported on Schedule 01 (object code 70). Include here decreases due to triggering a forgiveness clause or otherwise having debt forgiven.

Note: *Additions and reductions can be netted for the following liabilities: 259.12 Compensated absences, 264.30 Pensions, 264.40 OPEB, 263.50 self-insurance and risk pool claims liabilities.*

Ending Balance: In this column, report the amount of debt and other liabilities that were owed at the end of reported period.

Note: **Ending Balance is calculated in the filing system by adding *Beginning Balance* and *Additions* and subtracting *Reductions*.**

4.8.3.120 Local governments have the option to import the Schedule 09 data via template or manually enter the data in the filing system. The Schedule 09 template for the filing system is available on the SAO's website page at BARS Reporting Templates. The following is an example of the system formatted schedule after the data is imported or manually entered.

City of Examp
Schedule of Liab
For the Year Ended Decer

Debt Type	ID. No.	Description	Due Date	Be B
General Obligations				
	263.96	LOCAL program #776-2-1 - Street lights	6/1/2020	
	251.11	UTGO Bond - 2004	9/1/2024	
	251.11	UTGO Bond - 201X Refunding	3/1/2029	
			Total General Obligations:	
Revenue Obligations				
	263.84	DOE L9800024	1/1/2019	
	263.84	DOE L9800025	1/1/2019	
	263.95	Example Bank - Line of Credit		
	252.11	2020 Water Revenue Bonds	6/1/2027	
	263.52	Copy Machine	11/30/2027	
	264.30	Pension - DRS Plans		
	264.40	OPEB - PEBB		
	259.12	Compensated Absences		
			Total Revenue Obligations:	
			Total Liabilities:	

Expenditures of State Financial Assistance (Schedule 15)

4 **Reporting**

4.8 **SAO Annual Report Schedules**

4.8.16 **Expenditures of State Financial Assistance (Schedule 15)**

4.8.16.10 List on this schedule expenditures from grants received directly or indirectly from state agencies (334 and the applicable 374). Expenditures from state shared revenues and entitlements (BARS resource codes 335 and 336) do not need to be included on this schedule. List together all expenditures from grants received from the same state agency.

4.8.16.20 If the government received state-funded equipment, supplies, or real property, report the fair value in the year received.

4.8.16.30 State-funded loans do not need to be reported on this schedule. Be sure that any loans received from state agencies are not actually federal in origin. In such a case, a federal loan passing through a state agency should be reported in the *Schedule of Expenditures of Federal Awards* (i.e., Schedule 16).

4.8.16.40 Any payments that the entity receives as a *fee for services* in a vendor capacity should not be included on the Schedule 15.

Instructions to preparer:

4.8.16.50 Often federal financial assistance received indirectly is a mix of federal or state money.

If possible, identify the different sources and list them on appropriate schedules (i.e., the federal share on the *Schedule of Expenditures of Federal Awards* and the state portion on the *Schedule Expenditures of State Financial Assistance*. If the state portion cannot be identified, list the entire amount on the *Schedule of Expenditures of Federal Awards* and describe the commingled nature of the funds in the notes to the *Schedule of Expenditures of Federal Awards*

4.8.16.60 Local governments are **required** to update the incorrect financial data submitted on this schedule. The requirement applies to all errors found prior or during an audit.

Column 1
Provide the name of the grantor agency. Please clearly distinguish between agencies with similar names or initials.

Column 2
Provide the name of the each program for that agency.

Column 3
Use this column to report the grant, contract or award numbers assigned by state agencies. If a number is not available, write *NA*.

Column 4
Use this column to report current year expenditures (determined on the same basis of accounting as the financial statements).

4.8.16.70 The template for the filing system is available on SAO's website page, BARS Reporting Templates. Local governments have the option to import the Schedule 15 data via the template or manually enter the data in the filing system. The following is an example of the system formatted schedule at the data is imported or manually entered.

Sample County
Schedule of Expenditures of State Financial Assistar
For the Year Ended December 31, 2022

State Agency Name	Program Title	Identif
State Grant from Department of Health	EMS	N/A
State Grant from Parks and Recreation Commission	Park Improvement	G12236
State Grant from Department of Ecology	Municipal Stormwater Capacity Grant	8-5-948
State Grant from Traffic Safety Commission	Standardized Field Sobriety Testing Program	N/A

Total State Gr

Public Works – Cities and Counties (Schedule 17)

4 **Reporting**

4.8 **SAO Annual Report Schedules**

4.8.6 **Public Works – Cities and Counties (Schedule 17)**

Quick Links
Instructions for cities
Instructions for counties

Schedule instructions for cities

4.8.6.10 This Schedule applies to ***first class*** cities (RCW 35.01.010). The purpose of this Schedule is to document compliance with limitations on public works projects performed by public employees as described in RCW 35.22.620(2)(4).

Instructions for individual lines:

1. Record the total current public work construction budget, including any amendments.

2. This amount is 10 percent of line 1. RCW35.22.620(2) sets this limitation on public works projects performed by public employees. The filing system will automatically calculate the amount for the limitation.

3. Subtract the amount, if any, that was in excess of the permitted amount in the prior budget period.

4. The filing system will automatically calculate the amount allowed by statute for public works performed by public employees for the current year (which calculates the difference in line 2 and line 3).

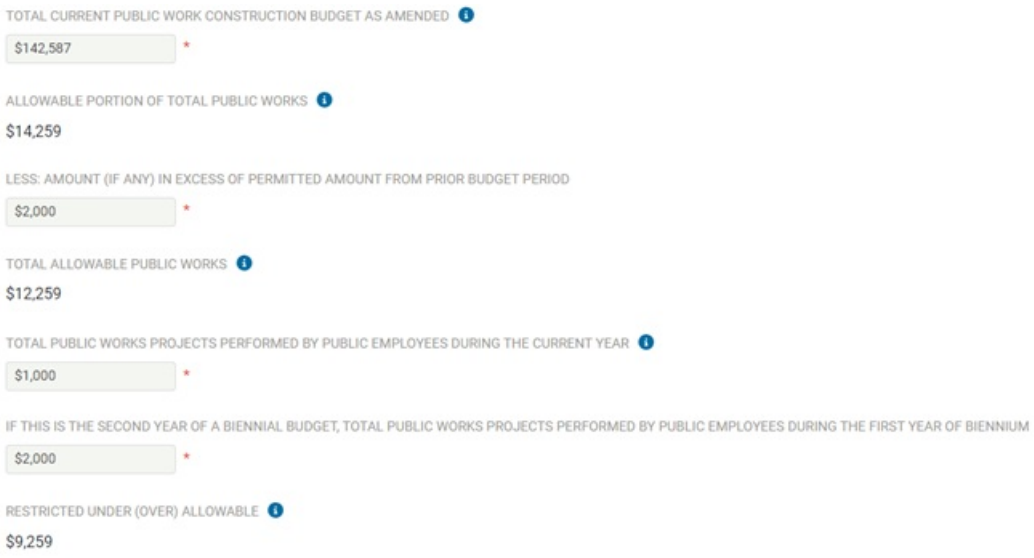
5. Record the total construction costs of public works performed by public employees for the year being reported. Be sure to include work performed for the city by a county.

6. This line is only pertinent to cities that budget on a biennial basis. For those municipalities, record on this line total construction costs of public works performed by public employees for the first year of biennium. If this line does not apply to you, enter “0” into the field.

7. This amount is the difference between the statutory limit computed on line 4 and the amount of public works performed by public employees recorded on lines 5 and 6. A negative number here indicates noncompliance with the limitations and must be carried forward to next budget period report. If this noncompliance is not corrected within two years, 20 percent of the motor vehicle fuel tax will be withheld (RCW 35.22.620(2)). This amount is automatically calculated in the filing system.

4.8.6.11 The Schedule should be prepared on the same basis of accounting, for the same period and reporting entity, and using the same underlying accounting records as the Schedule 01 and financial statements.

4.8.6.15 The Schedule must be completed within the annual filing system. The line items that require a calculation will automatically be calculated within the filing system. The following is an example of the fields required for this Schedule.



NOTE: If the restricted amount is over allowable, this amount must be carried forward to next budget period report.

Schedule instructions for counties

Part 1. Public Works Projects Performed by Public Employees

4.8.6.20 This part applies to counties that established purchasing departments and use public employees to perform public works projects (RCW 36.32.240(1), RCW 36.32.235).

4.8.6.30 The amount reported should include all public work, including county road construction. Public work is defined in RCW 39.04.010. For additional reporting requirements for county road construction projects, see Part 3 below.

4.8.6.40 ***Note:*** For counties with a purchasing department, due to changes removing the population requirement in RCW 36.32.235 effective in fiscal 2019 and possible conflicts with RCW 36.32.240, we would expect the county to consult with their legal counsel regarding the use of day labor and applicable limits. ALL counties are subject to limits for the county roads construction projects (RCW 36.77.065). See Part 3 of this Schedule for reporting requirements.

The template for the annual filing system to upload the information required for Part 1 is available on the SAO's website at BARS Reporting Templates. The following is an example of the template.

	A	B	C	D
1	Project Description/Indentification Number	Total Budget for the Project	Current Year Portion - Actual Amount	Current Year Portion Performed by Own Employees - Actual Amount
2				
3				
4				
5				
6				
7				
8				
9				

Part 2. Limitations on Public Works Projects Performed by Public Employees

4.8.6.50 This part applies only to counties which by resolution established a county purchasing department (RCW 36.32.240(1), RCW 36.32.235(8)).

Part 2 of the Schedule must be completed within the annual filing system. You will need to check the box in the filing system if Part 2 is applicable to your county. The line items that require a calculation will automatically be calculated within the filing system.

Instructions for individual lines:

1. Record the total current public work construction budget, including any amendments, from Part 1.

2. The filing system will automatically calculate the amount forthe allowable portion of public projects performed by public employees. RCW 36.32.235(8) sets this limitation at 10 percent of line 1.

3. Subtract the amount, if any, that was in excess of the permitted amount in the prior budget period.

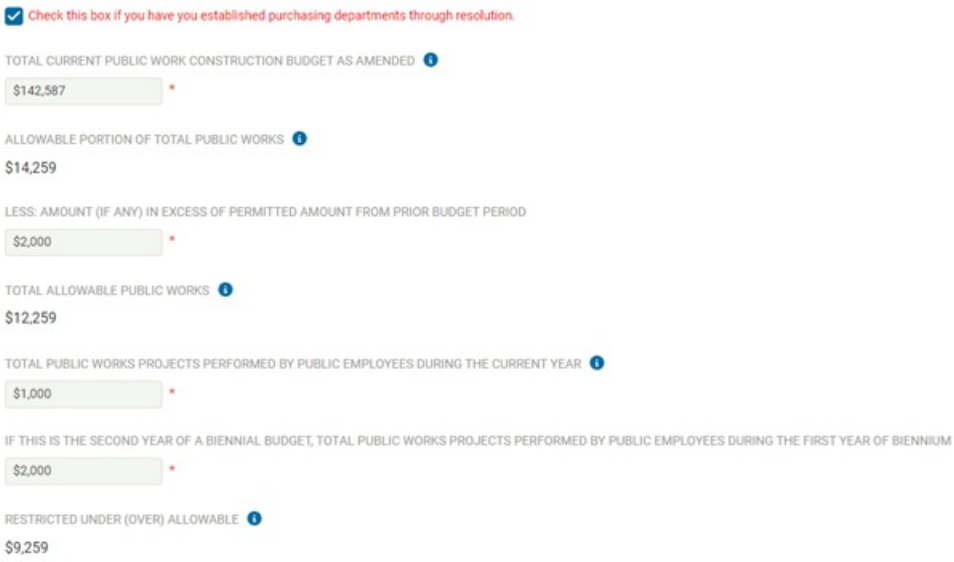
4. The filing system will automatically calculate the amount forthe limitation on public works performed by public employees for the current year (line 2 less line 3).

5. Record the total construction costs of public works performed by public employees for the year being reported, from Part 1.

6. This line is only pertinent to counties that budget on a biennial basis. For those counties, record on this line total construction costs of public works performed by public employees for the first year of biennium. If this line does not apply to you, enter "0" into the field.

7. The filing system will automatically calculate the difference between the statutory limit computed on line 4 and the amount of public works performed by public employees recorded on lines 5 and 6. A negative number here indicates noncompliance with the limitations and must be carried forward to next budget period report. If this noncompliance is not corrected within two years, 10 percent of the motor vehicle fuel tax will be withheld (RCW 36.32.235(10)).

The following is an example of the fields required for this Schedule that is completed within the filing system.



NOTE: If the amount of public works performed by public employees is over allowable, this amount must be carried forward to next budget period report.

Part 3. Limitations on County Roads Construction Projects Performed by Public Employees

4.8.6.60 This part applies to ALL counties (RCW 36.77.065). Counties are required to prepare and have available for an audit the Annual Construction Program and the Annual Construction Report forms, required by the County Road Administration Board, pertaining to the same calendar year.

Access to blank forms is at www.crab.wa.gov.

Sales and Use Tax for Public Facilities – Rural Counties (Schedule 20)

4 **Reporting**

4.8 **SAO Annual Report Schedules**

4.8.8 **Sales and Use Tax for Public Facilities – Rural Counties (Schedule 20)**

4.8.8.10 RCW 82.14.370 authorizes rural counties to impose sales and use tax of no more than 0.09 percent. This tax is credited against the 6.5 percent state sales tax and use tax and is paid by the Department of Revenue to eligible rural counties **[1]**. RCW 82.14.370(3)(b), requires the State Auditor's Office to collect annual information on the use of these tax proceeds. The purpose of this schedule is to summarize use of these funds and demonstrate compliance.

4.8.8.20 The proceeds of this tax are restricted to financing public facilities**[2]** serving economic development purposes **[3]** in rural counties and finance personnel in economic development offices. The public facilities must be listed as an item in the officially adopted county overall economic development plan, or the economic development section of the county's comprehensive plan, or the comprehensive plan of a city or town located within the county for those counties planning under RCW 36.70A.040, or provide affordable workforce housing infrastructure or facilities. For those counties that do not have an adopted overall economic development plan and do not plan under the Growth Management Act, the public facilities must be listed in the county's public facilities plan or the capital facilities plan of a city or town located within the county, or provide affordable workforce housing infrastructure or facilities. No new projects funded with this money may be for justice system facilities.

The county must consult with cities, towns, and port districts located within the county and the associate development organization serving the county to ensure that the expenditure of money collected under the sales and use tax for public facilities RCW meets the goals of creating, attracting, expanding, and retaining businesses, providing family wage jobs, and providing affordable workforce housing infrastructure or facilities and the use of money collected under this section meets the requirements of the law.

4.8.8.30 The counties collecting this tax must file an annual schedule with the State Auditor's Office **150 days after close of their fiscal year,** listing the projects funded by this tax revenue in

the previous fiscal year.

4.8.8.40 The schedule should be prepared on the same basis of accounting, for the same period and reporting entity, and using the same underlying accounting records as the Schedule 01 and financial statements.

4.8.8.50 The template for the filing system is available on SAO's website page atBARS Reporting Templates.

Preparing the preformatted Schedule 20 template to upload into the filing system

Column A: List the name of the public facilities project. The name listed here should be the same as the project name listed in the government's plan containing the project.

Note: Users (legislature, audit, etc.) of the Schedule 20 report information may review the plan document for additional information therefore use of the same project name is important.

Column B: Select from the drop down in the excel template the name of the government's plan where the project is listed (e.g., Capital Facilities Plan, Comprehensive Plan, Economic Development Plan, etc.).

Column C: Name the lead agency for the project (e.g., City of Sample, Port of Sample, Sample County, etc.)

Column D: Provide a brief detailed description of the following: (1) purpose of the project, (2) of what the project expenditures entail (3) how the project meets the requirements of the RCW. *This is limited to 500 characters.*

Example 1: Construct ~20,000 sq.ft. Light industrial building at the Port of Example, costs include payment to construction company and project manager. This project will increase consumer product storage, bringing new shipping and receiving businesses to the area and increased access to consumer goods, increasing economic development and job growth.

Example 2: City of Sample is improving the recreation center, paying expenses for the construction company. This project will increase capacity in the theater area of the community center to bring in new entertainment to the area, increasing and promoting tourism and economic growth.

Example 3: Hired an economic development staff member to focus on increasing tourism to the area over the next three years. Expenses include staff wages, benefits, and required supplies for the employee to start work.

Column E: Select from the dropdown in the excel template the category of the project (e.g., Public Facilities, Economic Development Purposes, Economic Development Office, etc.) which is defined by RCW 82.14.370(C).

Column F: Input the year the project started. Must be inputted as the 4-digit fiscal year to avoid any upload errors.

Column G: Input the year the project is expected to be completed. Must be inputted as the 4-digit fiscal year to avoid any upload errors.

Column H: Input the specific amount of sales and use tax spent on the project in the fiscal year. *Example: Project A spent $10,000 in sales and use tax in FY2022, therefore the total in column H would be $10,000 when reporting to SAO in 2023.*

Column I: Input the accumulative total sales and use tax proceeds expended on the project from prior years up through the current fiscal year for which the government is reporting for. *Example: Project A spent $10,000 in sales and use tax starting FY 2022, therefore the total in column I would be $10,000. Additionally, Project B has spent $25,000 in prior years and spent $25,000 in the current fiscal year, therefore column I would report $50,000.*

Column J: Input the estimated number of businesses created and retained by the project. This number should carry over from year to year and only change if additional businesses are created/retained due to the project. Must be inputted as a number and no alpha characters will be accepted for the upload into the filing system. A number is required in this field and if left blank will result in an error after uploading into the filing system.

Column K: Input the estimated number of jobs created and retained by the project. This number should carry over from year to year and only change when jobs are either removed or added due to the project. Must be inputted as a number and no alpha characters will be accepted for the

upload into the filing system. A number is required in this field and if left blank will result in an error after uploading into the filing system.

Sample Template of Schedule of Sales and Use Tax for Public Facilities

(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
Public Facilities Project Name	**Plan Containing the Project**	**Lead Agency for Project**	**Project Description**	**Project Category**	**Project Start Year (YYYY)**	**Est. Project Completion Year (YYYY)**	**Amount of Sales & Use Tax Spent on the Project this Fiscal Year**	**County's Cumulative Total of Sales & Use Tax Spent through this Fiscal Year**	**Est. Busi Crea by tl**
							$	$	
							$	$	
							$	$	
							$	$	
							$	$	
							$	$	

Footnotes

[1] *Rural County* means a county with a population density of less than one hundred persons per square mile or a county smaller than two hundred twenty-five square miles as determined by the Office of Financial Management.
Return to Reference 1

[2] *Public Facilities* means bridges, roads, domestic and industrial water facilities, sanitary sewer facilities, earth stabilization, storm sewer facilities, railroads, electricity, natural gas, buildings, structures, telecommunication infrastructure, transportation infrastructure, or commercial infrastructure and port facilities.
Return to Reference 2

[3] The legislative goal for RCW 82.14.370 is to promote the creation, attraction, expansion, and retention of businesses and provide for family wage jobs. *Economic development* means those purposes which facilitate the creation or retention of businesses and jobs in a county.
Return to Reference 3

Risk Management (Schedule 21)

4 **Reporting**

4.8 **SAO Annual Report Schedules**

4.8.9 **Risk Management (Schedule 21)**

Financial reporting guidance

4.8.9.10 Please refer to Risk Management Principles for GAAP financial reporting guidance.

Cash basis governments should also refer to this section for definitions and note disclosure guidance for any potentially material contingencies that are either probable or reasonably possible.

Applicability of schedule

4.8.9.20 Schedule 21 is required for all local governments. The purpose of this schedule is to report information on how the government responds to risks/payments in the following categories: liability, property, health and welfare, unemployment compensation, workers' compensation and Washington Paid Family & Medical leave. Local governments may assume the risk, purchase insurance, become a member of a risk pool, self-insure their own risks only (an individual self-insurance program) or self-insure jointly with other governments pursuant to Chapter 48.62 RCW or another enabling statute.

4.8.9.30 Local governments occasionally maintain or assume risk for one or more risks without setting resources aside as part of a self-insurance program. This activity does not constitute a self-insurance program under RCW 43.09.260(1).

4.8.9.40 **Instructions to preparer**:

***Self-insurance / Risk Management Contact*:** This is generally the person responsible for designing and implementing an overall risk management process for the entity or the appropriate person to contact with questions about the entity's self-insurance programs.

Use the following definitions and information when preparing responses in the schedule for the method used by the entity to address risks related to property, liability, health and welfare, unemployment compensation, workers' compensation and any other insurable risk.

***Self-insurance*:** Risk management approach in which an entity accumulates financial resources and sets them aside to pay or fund future claims and probable losses, instead of transferring the risk by purchasing an insurance policy. Setting resources aside to fund a deductible as part of an insurance policy is not considered self-insurance. Budgeting for claims expenses does not constitute setting aside financial resources for purposes of self-insurance determination.

***Risk assumption*:** Risk management approach in which an entity has an insurable risk of loss but neither purchases an insurance policy nor has a program to set aside funds to cover those obligations should they arise. In other words, the entity will simply pay the claims or losses as they arise without creating a program and setting money aside.

***Public entity risk pool*:** A cooperative group of governmental entities joining together through a written agreement to finance an exposure, liability or risk. A pool may be a stand-alone entity or be included as part of a larger governmental entity that acts as the pool's sponsor.

There are two basic types of public entity risk pools:

1. **Risk is *retained* by members:** Some public entity risk pools do not involve any transfer or pooling of risk among pool participants. Each participant is completely responsible for (and only responsible for) its own claims liabilities. In other cases, members pay a required contribution to a pool based on the *individual member's* claims/loss experience. If the member's actual losses exceed the initial charge, the member will be assessed an additional amount to fully reimburse the pool. If the premium exceeds the losses, the entity will receive a refund. In all the above situations, *risk has been retained* by the *member* and it is considered to be ***self-insurance for the member***. There are two main categories of these types of arrangements:

a) ***Banking:*** an arrangement by which monies are made available for pool members in the event of a loss on a loan basis.

b) ***Claims-servicing:*** an arrangement by which a pool manages separate accounts for each pool member from which the losses of that member are paid. Members contribute their funds to these accounts.

2. **Risk is *transferred* to the pool:** This is often referred to as a risk-sharing pool. In this case, the pool collects premiums that it estimates will cover the costs of all claims for which the pool is obligated. If a member's losses are different than its premiums, there is no regular, supplemental assessment or refund. The insurer (pool) views its activities in the ***aggregate***, rather than on an individual insured member basis, which is the case for pools where risk is retained by members. In this situation, risk is shared by members, with the pool acting as the insurer. Although risk is transferred by members to the pool, it is not the same as purchasing an insurance policy since the pool is organized as a cooperative – the members remain liable for unpaid claims in excess of pool resources. Many risk pools have a "retroactive assessment" provision in their agreements whereby the risk pool will charge members in the event losses exceed available assets. Alternatively, pools may declare supplemental assessments or refunds depending on the loss experience of members or may increase or decrease premiums for future coverage. This type of arrangement is not considered self-insurance.

***Unemployment compensation – taxable*:** The entity is assigned a rate that is applied to applicable wages and makes payments quarterly. Rates are reassessed annually by the Employment Security Department (ESD). The taxable basis is not considered self-insurance.

***Unemployment compensation – reimbursable*:** The reimbursable status is considered self-insurance if funds are accumulated in advance and set aside to pay future claims. If no funds are accumulated in advance and set aside to pay future claims, then the entity is simply assuming risk and is not operating a self-insurance program. Entities must be approved for reimbursable status by the ESD. Entities report quarterly wages to the ESD. Unemployment claims are still managed,

approved and paid by the ESD, but the ESD submits a quarterly claim for reimbursement to the entity for all claims paid on the entity's behalf.

***Workers' compensation – premiums*:** The entity is assigned a rate that is applied to applicable wages and makes payments quarterly. Rates are reassessed annually by the Department of Labor and Industries (L&I). The taxable basis is not considered self-insurance.

***Workers' compensation – self-insured employer*:** Entities must submit for formal approval via an application to the L&I to operate as a self-insured employer. As a self-insured employer, the entity sets funds aside to pay for workers' compensation claims, but L&I still reviews and approves all claims, and sends approved claims to the entity to pay.

***Washington Paid Family & Medical Leave (PFML) – State Program*:** The entity pays assigned rates to ESD based on applicable gross wages. Claims are managed, approved and paid by the ESD. This is not considered self-insurance.

***Washington Paid Family & Medical Leave (PFML) – Voluntary Plan*:**

A PFML Voluntary Plan administered internally by an employer may be considered self-insurance. An employer must obtain approval from the ESD to offer a Voluntary Plan for one or both benefits, manage funds set aside from employer resources or withheld from employee pay, and maintain overall financial responsibility for paying claims for eligible events under program guidelines. When employer financial resources or employee withholdings are accumulated and set aside to pay claims, that employer is operating its Voluntary Plan as a self-insurance program. If the Voluntary Plan does not involve accumulating and setting aside funds, then the employer is not self-insuring and is instead engaging in risk assumption.

Use the following definitions and information to help complete the schedule if the entity self-insures for one or more class of risk.

***Individual self-insurance program*:** A program established by an entity to accumulate financial resources and set them aside to pay or fund future claims and probable losses. This is in contrast to risk assumption, which is a decision to absorb the entity's financial exposure to a risk of loss without the creation of a program of advance funding of anticipated losses (i.e. just pay the claims/losses as they arise).

***Joint self-insurance program*:** Any two or more local government entities which have entered into a cooperative risk sharing agreement subject to regulation under Chapter 48.62 RCW.

***Third party administrator*:** An organization that processes claims and performs other administrative services in accordance with a service contract.

***Claims audit*:** An audit conducted by an independent qualified claims auditor not affiliated with the program, its insurers, its broker of record, or its third-party administrator. The services performed generally include an in-depth, written evaluation of the claims handling activities, identifying strengths, areas of improvement, findings, conclusions and recommendations to improve quality of claims management and processing. These reviews are required to be performed every three years by state regulation for joint self-insurance programs covering property and liability risks (WAC 200-100-050) and individual and joint health and welfare programs offering medical coverage (WAC 200-110-120).

***Actuarially determined liabilities*:** Joint property and liability programs are **required** to obtain estimates of unpaid claims measured at eighty percent confidence level by an actuary (WAC 200-100-03001). Joint and individual health and welfare programs are not subject to this requirement.

***Number of claims paid during the period*:** The number of individual claims that were paid (in any amount) during the reporting period. In the case of unemployment compensation, this would be the claims paid by the government to ESD during the period.

***Total amount of claims paid during the period*:** The total dollar amount of claims paid during the reporting period. In the case of unemployment compensation, this would be the claims paid by the government to ESD during the period.

***Total amount of recoveries during the period*:** The total dollar amount of gross recoveries or subrogation received during the reporting period.

4.8.9.50 The schedule should be prepared on the same basis of accounting, for the same period and reporting entity, and using the same underlying accounting records as the Schedule 01 and financial statements.

4.8.9.60 The template for filing system is available on the SAO's website page,BARS Reporting

Templates. When using the filing system, the system will require completion of all questions and based on the answers, indicate the need for completion of the schedule template. If required, this template will need to be attached in the filing system.

Assessment Questionnaire (Schedule 22)

4 **Reporting**

4.8 **SAO Annual Report Schedules**

4.8.14 **Assessment Questionnaire (Schedule 22)**

Applicability

4.8.14.10 This Schedule is required for ***all*** of the following government types:

Government Types
Fire districts
Local/regional EMS and trauma care councils
Conservation districts
Transportation benefit districts
Economic and industrial development corporations
Cemetery districts
Diking/drainage districts
Mosquito/pest/weed districts
TV reception districts
Water conservancy boards
No Activity governments*

Revenue criteria

Additionally, governments with annual resource inflows**usually less than $300,000** and some governments with annual resource inflows between $300,000 and $500,000 who will not receive an onsite audit are **required** to complete this schedule. For purposes of this threshold, annual inflows include tax collections, grants, loans and other receipts. A current year increase in resource inflows above the $300,000 threshold from a grant or bond does not preclude the government for completing the Schedule.

*Governments who file a no activity report will not be required to submit a Schedule 22. However, no activity reports are still required to submit supporting documents to verify no activity, such as meeting minutes, county reports and/or bank statements in the filing system.

4.8.14.20 If you are unsure whether or not your government should complete the Schedule 22, please contact the SAO by submitting your question through the SAO HelpDesk. You can also check a government's requirement to submit a Schedule 22 by accessing the SAO Online Services and logging in using your credentials.

Frequency of small local government accountability audits

4.8.14.30 Current audit policy requires the Office to conduct certain audits, including assessment audits, every two years. This does not limit our ability to initiate or conduct special investigations and also would not prevent clients from requesting more frequent audits due to need or preference. If you want the SAO to audit your government on an annual basis instead of every two years, please contact us through the SAO HelpDesk.

The government's Annual Report including the Schedule 22 must be submitted on an *annual* basis as required by RCW 43.09.230. The preferred method of submitting the annual report is through the SAO Online Services using the filing system. Most filers find the filing system to be easier and less work than mailing paper copies of the annual filing.

4.8.14.40 **Instructions for preparer**:

All questions must be answered with the most appropriate response for the government's operations and all required attachments must be attached to the annual report, using the filing system or received via mail for the annual report to be considered complete.

Beginning with the fiscal year 2023 annual filing, local governments will have the ability to import their prior year responses for select Schedule 22 questions. Each question in the filing system will

have a blue information icon that local governments can use to read additional guidance on what type of response SAO is looking for. These features are only available if using the filing system to complete the annual report.

4.8.14.50 **Attachments**

Questions that require an attachment will have an option to select the “attached” response and provide a button to attach the required document. If needed, you can attach multiple files individually or attach a compressed zip folder. If a local government chooses to mail copies of the required attachments, the annual report will not be considered complete until those are received at SAO and attached in the filing system.

Required information when applicable:

4.8.14.60 **Minutes – *All governments***

Provide copies of the official minutes, all resolutions and/or ordinances for all regular and special meetings of the governing body held during the reporting year. You can attach your Word files to meet this requirement as we do not require PDFs of signed minutes. If minutes, resolutions, and ordinances are available on the government’s website, no minutes or resolution attachments are needed; just indicate the web address where the minutes can be found. Provide an explanation of any circumstances where minutes were not taken or are otherwise not available.

4.8.14.70 **Detailed Revenue by Source** – ***All governments***

Attach a copy of a year-end County Treasurer’s Report that shows all receipts for the year by revenue source. The report should include all receipts for the year separated by type. Local governments that do not use a county as its treasurer will need to attach comparable accounting records to substantiate revenue activity and/or all bank statements for the year that compromise the government’s financial activity.

4.8.14.75 **Cash Balance Summary – *All governments***

Attach a copy of the year-end County Treasurer (or other fiscal agent) report(s) inclusive of all year-end cash and investment balances. If the government holds funds outside of the County, please upload the first and last months bank statements of the years, inclusive of all cash and investment balances.

4.8.14.80 **Detailed Expenditure List – *All governments***

Attach a detailed list of ***all*** expenditures for the year. The report should include all expenditures made during the fiscal year and include the following minimum information:

- Warrant/check number
- Payee
- Date paid (i.e., warrant/check date)
- Amount paid

If the County Treasurer is used, a warrant register or expenditure listing can usually be obtained from the county showing this information. Governments that do not use the County Treasurer can provide copies of the check register. Governments should also submit copies of imprest checking account activities and petty cash logs.

4.8.14.90 **Cash Receipting policy – *All governments***

Every government that receives cash or checks (other than through the County Treasurer) should have a written policy or procedure that directs staff how to process receipts when received either over the counter, through the mail or in a drop box. The policy should address receipting, securing receipts, depositing, reconciliations and accounting for receipts. If the district does not have a written policy, attach a detailed description of the process used by the government including the names of the positions participating in the process, and any reconciliations or reviews performed.

4.8.14.100 **Board members – *All governments***

In the annual filing system, add the applicable number of rows that correlates with the number of governing body members and complete the table with the required information. It is required to provide the full names of each member, each board member’s spouse (if applicable), any businesses owned or operated by the member or a household member (e.g. spouse, children, etc.) and the board member’s contact information (phone number, email, and mailing address). This information is needed to evaluate conflict of interest statutes.

4.8.14.140 **Preparer information – *All governments***

Auditors often have questions about information and attachments included in the annual report. In order to resolve questions quickly, we require governments to provide contact information for the person completing the Schedule 22. Because of their small size, many government offices are not manned daily and it requires us to contact the preparer or approving governing board member at their home or on their cell phone. If your office is not manned daily, please provide contact information where we can expect to contact the preparer.

4.8.14.150 **Template**

The Schedule 22 is a web-based form and is best completed using the filing system. If a local government wants to complete a paper version of the questionnaire, please email LGCSfeedback@sao.wa.gov to request that.

GFOA Financial Reporting Recognition Programs

4 **Reporting**

4.9 **GFOA Financial Reporting Recognition Programs**

Annual Comprehensive Financial Report (ACFR)

4.9.10 Many state and local governments prepare an Annual Comprehensive Financial Report (ACFR) each year. The ACFR includes the required annual financial statements as well as additional information which is not required in preparation of basic financial statements which are not listed in the reporting part of the BARS Manual. The Government Finance Officers Association (GFOA) provides guidance on what to include in the ACFR in its publication, *Governmental Accounting, Auditing, and Financial Reporting (GAAFR)*. This publication is commonly referred to as the *Blue Book* and can be found on the www.gfoa.org website by selecting *publications.*

4.9.20 One reason for preparing an ACFR is to satisfy the obligations that governments incur to provide on-going information about themselves to holders of their bonded debt. The Securities and Exchange Commission (SEC) has adopted its Rule 15c2-12 which requires issuers of municipal debt to provide current information to the bond markets. Many governments provide this information in the form of their ACFR. For more information on this subject, consult the attorneys who assist you with municipal debt matters.

4.9.30 Another reason may be to participate in the GFOA's*Certificate of Achievement for Excellence in Financial Reporting* program. This optional program recognizes excellence in the format of annual financial reports through a peer review. The peer review results in helpful comments to improve your ACFR. Those who qualify for the award will receive a plaque and a reprintable award to be included in the following year's ACFR and a press release sent by the GFOA.

For more information on this program access www.gfoa.org and select *award programs*.

Alerts & Changes

Reporting Year: 2024

Reporting Year: 2023

Reporting Year: 2022

BARS Alerts

BARS Manual PDF	PDF of the GAAP BARS 2022: Part 1 Part 2
02/07/2023	Opioid Settlement Update
12/17/2022	Annual update, see changes in table below

Overview of Changes – Applicable to the Reporting Year 2022

Topic	Reference	Description of Changes
		Chart of Account
BARS Account Export	512.50 (Municipal Court Expenses)	512.50 (Municipal Court Expense) – **Retired see 512.51 and 512.52**
BARS Account Export	512.51 (Non-Contracted Court)	**512.51 New Code –** This code is to be used for municipal governments that provide their own court services.
BARS Account Export	512.52 (Contracted Courts)	**512.52 New Code –** This code is to be used when a municipal government contracts out their court services and should also be used by governments providing the court services to another municipality.
BARS Account Export	54P (Transportation)	Transportation codes are restricted to governmental funds (Exceptions are codes **542.65, 547.10, 546.00, 547.20**)
BARS Account Export	518.61 (Judgments & Settlements)	518.61 (Judgments & Settlements) Restricted to fund types 100, 200, 300, 500, 700. Only to be used by general purpose governments.
BARS Account Export	333.45.30 (Federal Indirect Award from Institute of Museum and Library Services (IMLS))	**333.45.30 New Code –** This code is to be used for federal indirect awards from the Institute of Museum and Library Services (IMLS).
BARS Account Export	331.45.30 (Federal Direct Award from Institute of Museum and Library Services (IMLS))	**331.45.30 New Code –** This code is to be used for federal direct awards from the Institute of Museum and Library Services (IMLS).
BARS Account Export	Added instructions and a new resource "Codes to Funds"	Added instructions for chart of accounts export. All codes from the Chart of Accounts as of November 30th are included in the resource with the allowable fund types indicated.

Determining Operating/Nonoperating Revenues/Expenses in Proprietary Funds	1.5	Added an updated determination spreadsheet for codes as of November 30th.
		Budgeting
Budget Adoption and Amendments	2.4.3	2.4.3 Removed statement that this guidance applies only to cities and counties since it applies to all government types.
		Accounting
Fund Types & Accounting Principles	3.1.1	3.1.1.40 – Clarified which transactions can be reported in Permanent Funds.
Original Supporting Documentation	3.1.4	Clarified guidance on electronic documentation and digital signatures.
Leases	3.4.1	**3.4.1 Leases – Completely revised the section for the leases standard.**
Pensions	3.4.2	3.4.2 Updates, changes, and clarifications for reporting pensions made throughout (annual updates).
Intergovernmental and Forgivable Loans	3.4.7	**3.4.7 Intergovernmental and Forgivable Loans –** Moved accounting for forgivable loans out of the Schedule 09 instructions and added information on intergovernmental loans.
Financial Guarantees and Conduit Debt	3.4.12	Added information on conduit debt.
Other Postemployment Benefits Plan Schedules	3.4.17	3.4.16 Updates, changes, and clarifications for reporting other postemployment benefits made throughout (annual updates).
Classification of Deferred Outflows/Inflows of Resources	3.5.1	3.5.1.40 – Added a definition and more examples for unearned revenue (Liability). 3.5.1.50 – Added additional examples for unearned revenue (deferred inflow) and deferred inflow unavailable revenues.
Federal Awards – Accounting (Formerly Grants – Accounting)	3.7.1	3.7.1 Updates, changes, and clarifications for reporting federal awards made throughout (annual updates).
Use of Payroll and Claims Funds	3.8.6	3.8.6.30 – Added information on registered warrants issued by counties.
Imprest, Petty Cash and Revolving Funds	3.8.8	3.8.8.20 – Added a new section, bullet 6, for debit and ATM card use.
Interfund Loans	3.9.1	3.9.1.10 – Added when interfund loans could be used and requirements for interfund loans from the General Fund. 3.9.1.31 – Added information on negative fund balances and the accounting for those balances. 3.9.1.32 – Added information on when interfund payments become interfund loans.
Limitation of Indebtedness	3.10.5	3.10.5.60 – Changed capital leases to installment purchases 3.10.5.70 – Added leases to the obligations that do not constitute debt for debt limitation.
Promotional Hosting	3.10.7	Added public facility districts to governments that can participate in promotional hosting.
		Reporting
GAAP Reporting Requirements	4.1.1	4.1.1 Added clarification to footnote 3 of the reporting entity flowchart.
Summary of Reporting Requirements	4.1.4	4.1.4 Removed Schedule 19 from the list of required schedules.
Classification of Revenues and Expenses for the Statement of Activities	4.2.4	4.2.4 Added footnote 2 that the government should have a policy to address the assignment of revenues that could be classified under multiple functions.

Determining Fiduciary Activities to be Reported in Custodial Funds	4.3.7	4.3.7 Added determinations for Flexible Savings and Health Savings Accounts, both when a government controls the asset and when the government does not.
Conversion and Reconciliation between Government-Wide and Fund Financial Statements	4.4	4.4 Corrected the reconciliation and replaced unearned revenue with deferred inflows for unavailable revenues.
Required Supplementary Information	4.7	4.7 Created separate pages for each type of RSI.
Management's Discussion and Analysis	4.7.1	4.7.1 Moved section from large RSI page.
Budgetary Comparisons	4.7.2	4.7.2 Moved section from large RSI page. Added information for reporting biennial budgets.
Pension Plan Information	4.7.3	4.7.3 Moved section from large RSI page.
Other Postemployment Benefits Plan Schedules	4.7.4	4.7.4 Moved section from large RSI page.
Revenue and Claims Development Trend Data (for Public Entity Risk Pools)	4.7.5	4.7.5 Moved section from large RSI page.
Infrastructure Condition and Maintenance Data	4.7.6	4.7.6 Moved section from large RSI page.
Liabilities (Schedule 09)	4.8.3	4.8.3 Removed information on forgivable loans. It was moved to the new Intergovernmental and Forgivable Loans section.
Sales and Use Tax for Public Facilities – Rural Counties (Schedule 20)	4.8.8	4.8.8 Added an example of the new online filing template for Schedule 20.
GFOA Financial Reporting Recognition Programs	4.9	4.9 Removed the listing of requirements for the GFOA ACFR certificate. Created a link for accessing the official GFOA website and requirements for the certificate program.
Expenditures of Federal Awards (SEFA/Schedule 16)	4.14.5	4.14.5 Updates, changes, and clarifications for reporting federal awards made throughout (annual updates).
Note 1 – Summary of Significant Accounting Policies	Note 1 – Summary of Significant Accounting Policies	Added lease disclosures. Created an option for non-state sponsored pension plans.
Note X – COVID-19	Note X – COVID-19	Removed the requirements for all governments to report this note.
Note X – Going Concern	Note X – Going Concern	Added instructions for when to use each part of the note.
Note X – Leases (Lessees)	Note X – Leases (Lessees)	New note for disclosing lease liabilities and related items.
Note X – Leases (Lessors)	Note X – Leases (Lessors)	New note for disclosing lease receivable and related items.
Note X – Long Term Debt	Note X – Long Term Debt	Updated conduit debt disclosures.
Note X – OPEB Defined Benefit Plan – No Qualifying Trust	Note X – OPEB (No Qualifying Trust)	Updates, changes, and clarifications for disclosing other postemployment benefits made throughout (annual updates).

Note X – OPEB Defined Benefit Plan - Qualifying Trust	Note X – OPEB (Qualifying Trust)	Updates, changes, and clarifications for disclosing other postemployment benefits made throughout.
Note X – Pension and/or OPEB Plans - Defined Contribution	Note X – Pension/OPEB Defined Contribution	Moved note template from the templates page to the notes section. Updates, changes, and clarifications for disclosing pensions made throughout.
Note X – Pension and/or OPEB Plans - Nongovernmental Plans	Note X – Pension/OPEB Non-Governmental	Moved note template from the templates page to the notes section. Updates, changes, and clarifications for disclosing pensions made throughout.
Note X – Pensions Defined Benefit Plan (No Qualifying Trust)	Note X – Pensions Defined Benefit Plan (No Qualifying Trust)	Moved note template from the templates page to the notes section. Updates, changes, and clarifications for disclosing pensions made throughout.
Note X – Pensions Defined Benefit Plan (Qualifying Trust)	Note X – Pensions Defined Benefit Plan (Qualifying Trust)	Moved note template from the templates page to the notes section. Updates, changes, and clarifications for disclosing pensions made throughout.
Note X – Pensions State Sponsored Plans	Note X – Pensions State Sponsored Plans	Moved note template from the templates page to the notes section. Updates, changes, and clarifications for disclosing pensions made throughout (annual updates).
Note X – Risk Management	Note X – Risk Management	Removed the outdated Housing Authority Risk Retention Pool (HAARP) disclosure. Housing Authorities should receive an updated disclosure from HAARP.
Note X – Telecommunication Services	Note X – Telecommunication Services	Added information for all government types that can provide telecommunications services (Cities/Towns, Counties, Public Utility District, and Port).
		Online Filing
Schedule 01	BARS Reporting Templates	Schedule 01 templates for online filing schedules have been updated.
Pension and OPEB Templates	BARS Reporting Templates	Fiscal year 2021 Pension and OPEB templates are available for download
Schedule 19 – Labor Relations	BARS Reporting Templates	Removed due to change in state law.

Reporting Year: 2021

BARS Alerts

BARS Manual PDF	PDF of the GAAP BARS 2021: Part 1 Part 2
12/17/2021	**Hot Topic - GAAP Proprietary Fund schedule 01 reporting:** Proprietary funds reported in the SAO annual report must include the following: - Actual depreciation amounts reported in each proprietary fund (501XX) - Actual expense amounts for capital expenditures (594XX and 595XX) - Actual expense amounts for principal debt repayments (591XX, 593XX, 599XX)
12/17/2021	Leases accounting is effective for fiscal year 2022 reporting in 2023. See the Leases project page for more information.
12/17/2021	Annual update, see changes in table below

Overview of Changes – Applicable to the Reporting Year 2021

Topic	Reference	Description of Changes

		Chart of Accounts
	All BARS Codes	***Remember to download the most current version of the BARS Chart of Accounts***
BARS Account Export	344.70 (Transits, Railroads and Other Transportation Systems Services)	344.70 (Transits, Railroads and Other Transportation Systems Services) - **Retired, please see 344.71 and 344.72**
BARS Account Export	344.71 (Transits, Railroads and Other Transportation Systems Services)	**344.71 New Code -** Include private vanpool charges, streetcar and monorail fares, disabled/aging transportation fees, etc. For cities/counties: this code is not reported on the road/street report to WSDOT.
BARS Account Export	344.72 (Ferry and Water Taxi Services)	**344.72 New Code -** Include the proceeds of ferries and water taxis. Include a vessel replacement surcharge fee (RCW 36.54.200)
BARS Account Export	369.70 (Pension/OPEB Contributions)	369.70 (Pension/OPEB Contributions) Should only be used for contributions made to a pension/OPEB plan administered by the reporting government. Not for use in the fiduciary funds.
BARS Account Export	395.30 (Proceeds from Sales of Capital Assets)	**395.30 New code -** Use for any proceeds received for the sale of capital assets. Examples: real estate (land and buildings), equipment, street vacations, timber sales (timber owned by the municipality). Relatively insignificant proceeds from sales of capital assets should be coded as other revenue. If the money is further distributed to other local governments, such distributions should be coded 337 by these receiving governments. For GAAP enterprise funds, see 372-373 for applicable coding.
BARS Account Export	395.40 (Compensation for Loss/Impairment of Capital Asset)	**395.40 New code -** Include insurance and other recoveries for damaged, destroyed, stolen, or lost governmental capital assets. If the recoveries meet the criteria of extraordinary items, they should be reported as such in the financial statements. Insurance recoveries that are related to storm cleanup and are realized, or are measurable and available, in the same year as the related cleanup expenditures should be netted against those expenditures. Insurance recoveries that are related to cleanup and are recognized in subsequent periods should be reported as other financing sources or extraordinary items, as appropriate. FEMA grants are not insurance recoveries and should be coded as direct/indirect federal grants. For GAAP enterprise funds, see 372-373 for applicable coding.

BARS Account Export	518.61 (Judgments and Settlements)	518.61 (Judgments and Settlement) Updated description to include proprietary funds
BARS Account Export	544.70 (Miscellaneous)	544.70 (Miscellaneous) - **Retired, use appropriate 544XX codes**
BARS Account Export	547.00 (Transits, Railroads and Other Transportation Systems Services)	547.00 (Transits, Railroads and Other Transportation Systems Services) - **Retired, please see 547.10 and 547.20**
BARS Account Export	547.10 (Transits, Railroads and Other Transportation Systems Services)	**547.10 New Code -** This account should be used only if the local government operates its own, or with other governments, transit, railroad or other transportation system. These expenditures are related to public transportation. For cities/counties: this code is not reported on the road/street report to WSDOT.
BARS Account Export	547.20 (Ferry and Water Taxi Services)	**547.20 New Code -**This account should only be used if the local government operates its own, or with other governments, ferries and/or water taxis.
		Accounting
County's External Investment Pool	3.2.2	Updated and clarified this section. Applicable to all counties.
Capital Asset Accounting	3.3.10	Removed references to capitalized interest. No longer supported by GAAP.
Pensions	3.4.2	3.4.2.63 Updated the restricted net position section to include all three GAAP compliant reporting options
Criminal Justice Funding	3.6.4	3.6.4.10 Added how to code the sale of confiscated and forfeited items.
Impact Fees	3.6.7	Clarified accounting for impact fees.
Federal Awards - Accounting (Formerly Grants - Accounting)	3.7.1	3.7.1 Changed title to Federal Awards to include all items that must be reported on the Expenditures of Federal Awards (Schedule 16). Updates, changes, and clarifications for reporting awards made throughout.
Certain Grants and Other Financial Assistance (Formerly Pass-Through Grants)	3.7.2	3.7.2 Changed title to Certain Grants and Other Financial Assistance to match national standard titles.
Purchase Cards	3.8.4	3.8.4.10 Removed references to debit cards Added Additional Reference Section
		Reporting
BARS Reporting Requirements	4.1.2	Updated footnote to include no activity requirements of submitting supporting documents.
Net Position	4.2.8	Removed reference to deferred outflows in restricted net position to comply with GAAP.
Risk Pools – Statement of Net Position – Additional Reporting Instructions	4.3.4.81	Updated the definitions for the account balances.
Internal Service Funds	4.3.6	4.3.6.60 Added guidance on accounting for internal service funds providing services to fiduciary funds

Revenues/Expenditures/Expenses (Schedule 01)	4.8.1	Rewrote the section to provide additional links and instructions.
Schedule 09	4.8.3	4.8.3.81 Added guidance on how to account for a recoverable grant with a promissory note included.
Schedule 17	4.8.6	4.8.6.30 Clarified that the amount reported on the Schedule 17 should include all public works, including county road construction.
Schedule 21	4.8.9	4.8.9.40 Clarified definitions in the instructions to preparer.
Annual Questionnaire for Accountability Audit (Schedule 22)	4.8.14	4.8.14.10 Added clarification that governments who file a no activity report will not be required to submit a formal Schedule 22, but will need to submit supporting documents.
Expenditures of Federal Awards (Schedule 16)	4.14.5	Added Quick Links to specific guidance 4.14.5.70 Added additional information on COVID-19 Expenditures including donated personal protective equipment purchased with COVID-19 federal financial assistance, COVID 19 Vaccines - Immunization Cooperative Agreements CFDA #93.268, Provider Relief Fund (PRF) CFDA #93.498 4.14.5.155 Moved and retitled 4.14.5.230 to Preparing the preformatted SEFA template for upload to Online Filing 4.14.5.180 Added yellow flag caution under column 4 instructions. 4.14.5.230 Changed to example of finalized Schedule of Expenditures of Federal Awards.
Note 1 - Summary of Significant Accounting Policies	Note 1 - Summary of Significant Accounting Policies	Updated pension section. Added the net position classification section.
Note X – AROs	Note X – Asset Retirement Obligations (ARO)	Added disclosure requirements for liabilities that are not reasonably estimable or assets with indefinite life.
Note X – COVID-19	Note X – COVID-19 Pandemic	**All local governments must include this note.** Provided examples for when there has been no substantial impacts.
Note X – Deposits and Investments	Note X – Deposits and Investments	Updated the fair value hierarchy to correctly reflect LGIP and other investment pools.
Note X - External Investment Pools	Note X - External Investment Pools	Updated the fair value hierarchy to correctly reflect LGIP and other investment pools.
		Online Filing
Online Filing Schedules	Online Filing Schedules	Schedule 01 templates for online filing schedules have been updated.
Pension and OPEB Templates	Pension/OPEB Templates	Fiscal Year 2021 Pension and OPEB templates are available for download.
Online Filing Flag Descriptions	Online Filing Flag Descriptions	Updated the Guide to Online Filing Flag Descriptions to include new red flags.

Reporting Year: 2020

BARS Alerts

BARS Manual PDF	PDF of the GAAP BARS 2020: Part 1 Part 2
04/24/2020	COVID-19 BARS Coding
10/01/2020	CARES Act Grant Monies Expenditure Codes
12/18/2020	Annual update, see changes in table below
3/12/2021	COVID-19 Vaccine and Donating PPE Reporting Requirements

Overview of Changes – Applicable to the Reporting Year 2020

Topic	Reference	Description of Changes
		Chart of Accounts
BARS Account Export	All BARS Codes	Remember to download the most current version of the BARS Chart of Accounts
BARS Account Export	386 (Court Remittances)	3860000 – Updated the referenced RCWs for courts. Allowed only in Fiduciary Funds.
BARS Account Export	586 (Court Remittances)	5860000 – Updated the referenced RCWs for courts. Allowed only in Fiduciary Funds.
BARS Account Export	Any use of all functional BARS accounts in fiduciary funds	389/589, 386/586 and 361 are the ONLY codes allowed in fiduciary funds. All other codes will be red flagged.
BARS Account Export	316.40 (Business & Occupation Tax – Utility)	316.40 (Business & Occupation Tax – Utility) – Not allowed in proprietary funds.
BARS Account Export	341/51P (General Government)	341 and 51P (General Government) BARS Codes → Allowed only in governmental funds and internal service funds. Exception - 341.70 Sale of Merchandise - allowed in governmental and proprietary funds. See additional 518 information below.
BARS Account Export	343.60 (Cemetery Sales & Services)	343.60 (Cemetery Sales & Services) – Not allowed in permanent funds.
BARS Account Export	343.80/538.00 (Combined Utilities)	343.80/538.00 (Combined Utilities) – Allowed only for Public Utility Districts.
BARS Account Export	348.00 (Internal Service Funds Sales and Services)	348.00 (Internal Service Funds Sales and Services) – Allowed only in internal service funds. Read more about the use of 348.00 and internal service funds in the audit connection blog, "BARS Code Spotlight".
BARS Account Export	37P (Other Revenue and Capital Contributions)	37P (Other Revenue and Capital Contributions) – Only allowed in proprietary funds.
BARS Account Export	398.50 (Insurance Recoveries)	398.50 (Insurance Recoveries) – Only allowed in governmental funds.

BARS Account Export	518 (Centralized/General Services) Codes	All 518 (Centralized/General Services) – For general purpose governments only. 518.65 Impact Fee Distributions to Local Governments - General Fund and Special Revenue Fund use only. 518.70 Printing Services - General Fund and Internal Service Fund use only. 518.80 Information Technology Services - General Fund and Internal Service Fund use only. All other 518 codes not listed above - Allowed in all governmental funds or internal service funds.
BARS Account Export	519 (Risk Management Services)	For general purpose governments only. Allowed only in general fund and internal service fund. *Exception: Risk Pools may use 519 in enterprise funds.
BARS Account Export	541 (Roads/Streets Construction – Preservation Projects)	541 (Roads/Streets Construction – Preservation Projects) – This code is for modified approach to infrastructure. Allowed in all fund types except fiduciary and permanent.
BARS Account Export	548 (Public Works – Centralized Services)	548 (Public Works – Centralized Services) – Allowed only in general fund and internal service fund.
BARS Account Export	GAAP beginning/ending balance codes	GAAP Fund Balance and Net Position Codes – 308.20/508.20, 308.30/508.30, 308.40/508.40, 308.50/508.50, 308.90/508.90 – allowed only in governmental funds. 308.60/508.60, *308.19/508.19, 308.89/508.89 – allowed only in proprietary funds.* Exception: 308.19/508.19 allowed in GAAP fiduciary funds.
Revenue/Expenditure Accounts Overview	1.3.10	Other Increases and Other Decreases in Fund Resources Removed BARS Codes 3821000, Refundable Deposits, 3822000, Retainage Deposits, and 5821000, Refund of Deposits, 5822000, Refund of Retainage Deposits. These should be reported as liability accounts for GAAP basis.
Determining Operating/Nonoperating Revenues/Expenses in Proprietary Funds	1.5.10	Updated the matrix for guidance on determining operating/nonoperating revenues/expenses
		Budgeting
Budget Adoption and Amendments	2.4.3	Updated the referenced RCWs and updated for any changes to RCWs
		Accounting
Fund Types & Accounting Principles	3.1.1	Fiduciary funds – Added a reference to the new Determining Fiduciary Activities to be Reported in Custodial Funds Fiduciary funds – Added a GASB 34, Paragraph 106 reference for capital assets reported in fiduciary funds

Capital Asset Management System Requirements	3.3.9	3.3.9.30 Clarified requirements for capitalization thresholds
Capital Asset Accounting	3.3.10	3.3.10.90 Clarified "placed in service" for definition
Pensions	3.4.2	Annual update for the DRS PEFI changes
OPEB	3.4.17	3.4.17.80 Updated the years in the Measurement date table
Asset Retirement Obligations	3.4.19	Created a new section for the accounting guidance for asset retirement obligations
Pollution Remediation	3.4.20	Created a new section for the accounting guidance for pollution remediation
Liquor Tax and Profits – Two Percent Substance Abuse Treatment Programs	3.6.8	3.6.8.10 Changed "Programs must be approved by the behavioral health organization and the secretary of the Department of Social and Health Services" to "…secretary of the Department of Health" to match RCW 71.24.555
Grants – Accounting	3.7.1	3.7.1 Updated references to Office of Management and Budget (OMB) Circulars 3.7.1.20 Included other federal financial assistance guidance 3.7.1.30 Removed reference to the American Recovery and Reinvestment Act (ARRA) 3.7.1.30 Added Identification of COVID-19 related awards requirements 3.7.1.41 Removed the Common Rule Administrative Requirements section 3.7.1.51 Removed the OMB Circular A-87 Cost Principals section
Unemployment and Deferred Compensation	3.8.1	3.8.1.100 Added requirements for reporting defined compensation plans.
Paths and Trails	3.8.10	Updated references to RCW 3.8.10.70 Updated references to reserved versus restricted
Overhead Cost Allocation	3.9.5	Updated references to RCW 3.9.5.80 Removed references to OMB Circular A-87 3.9.5.100 Removed references to OMB Circular A-87 Added an "Additional resources" section
Limitation of Indebtedness	3.10.5	Updated references to RCW Created a Footnotes section
Transportation Benefit Districts	3.11.1	3.11.1.120 Changed a reference from a negative 3850000 code to a 5850000 code. Added an Additional Resources section
		Reporting
GAAP Reporting Requirements	4.1.1	4.1.1.210 Clarified the definition of "financially accountable" 4.1.1.220 Clarified the reporting of component units Financial Reporting Entity Flowchart updated for determining fiduciary trust funds and defined compensation plans
Net Position	4.2.8	Clarified requirements for reporting and calculations of the components of net position 4.2.8.10 Created a downloadable worksheet for converting governmental fund balances to net position
Risk Pools – Statement of Net Position – Additional Reporting Instructions	4.3.4	Removed this section from proprietary fund financial statement section and created a new section for the additional reporting requirements for risk pools.

Determining Fiduciary Activities Reported in Custodial Funds	4.3.7	New section for determining fiduciary custodial funds
Schedule 09	4.8.3	Section number updated to 4.14.3 (from 4.8.3). 4.83.100 Updated information on reporting pension (264.30) and OPEB liabilities (264.40) 4.8.3.110 Updated the due date instructions to list I.D. Numbers that do not require a due date to be reported.
Schedule 16	4.14.5	Section number updated to 4.14.5 (from 4.8.5). Annual update for SEFA requirements including updated notes and COVID-19/CARES Act reporting requirements.
Schedule 17	4.8.6	4.8.6.20 Updated reporting requirements for counties due to changes in RCW.
Schedule 21	4.8.9	4.8.9.20 Added information for the Washington Paid Family & Medical Leave self-insurance.
Note X – AROs	Note X – Asset Retirement Obligations (ARO)	Removed the accounting portion from the note. The accounting portion is now located in Accounting, Liabilities, Asset Retirement Obligations (AROs).
Note X – COVID-19	Note X – COVID-19 Pandemic	Created a separate note for COVID-19 reporting requirements.
Note X – Deposits and Investments	Note X – Deposits and Investments	Reorganized and clarified reporting requirements.
Note X – Derivatives	Note X – Derivatives	Removed references to LIBOR.
Note X – Going Concern	Note X – Going Concern	Clarified reporting requirements and included reporting requirements for bankruptcy.
Note X – Pensions	Note X – Pensions	Annual update for the PEFI changes.
Note X – PFML	Note X – PFML	Required disclosure if a government is self-insuring the Washington Paid Family & Medial Leave.
Note X – Pollution Remediation	Note X – Pollution Remediation	Removed the accounting portion from the note. The accounting portion is now located in Accounting, Liabilities, Pollution Remediation.
Note X – OPEB No Qualifying Trust	Note X – OPEB No Qualifying Trust	Annual update to OPEB note disclosure requirements.
Note X – OPEB Qualifying Trust	Note X – OPEB Qualifying Trust	Annual update to OPEB note disclosure requirements.
Note X – Subsequent Events	Note X – Subsequent Events	Removed reference to COVID-19 required note. There is now a separate note for the COVID-19 Pandemic.
		Online Filing
Online Filing Schedules	Online Filing Schedules	The templates for the online filing schedules have been updated for Fiscal Year 2020 reporting. Schedule templates updated are: Schedule 01, Schedule 16, Schedule 16 Notes, Schedule 21
Pension and OPEB Templates	Pension/OPEB Templates	Fiscal Year 2020 Pension and OPEB templates are being refreshed and will be available for download.
Online Filing Flag Descriptions	Online Filing Flag Descriptions	Guide to Online Filing Flag Descriptions has been added to the Forms and Other Resources section of the BARS Reporting Templates page.