BARS Prior to GASB 89 –
Accounting for Interest Cost Incurred before the End of a Construction Period Implementation

This is not the whole BARS manual. It contains excerpts of the BARS manual chosen for the purpose of providing guidance on Delayed Implementation of GASB 89. Please see the full BARS manual at www.sao.wa.gov

For Cities, Counties and Special Purpose Districts

Published 5/7/2020
3. ACCOUNTING

3.3 Capital Assets

3.3.10 Capital Asset Accounting

3.3.10.10 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.

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.

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.

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.

3.3.10.40 Excess Costs

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. 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.

3.3.10.50 Capitalization of Interest

Interest cost incurred in connection with the acquisition, construction, or improvement of capital assets are considered part of the ancillary charges necessary to place the asset into its intended location and condition to use.

Interest should never be capitalized on capital assets accounted and reported in governmental activities including capital assets in internal service funds that are incorporated into governmental activities in the government-wide financial statements. So, interest capitalization is limited to capital assets reported in the enterprise funds. The GASB Statement 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, paragraphs 5-22 provides requirements regarding capitalization of interest cost.

3.3.10.60 Donated 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 (BARS 367, Contribution and Donations from Nongovernmental Sources in governmental funds; BARS 374/379, Capital Contributions in proprietary funds).

Contributed capital assets intended to be used in operations should be reported at the acquisition value. 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 (further described in GASB Statement 72, Fair Value Measurement and Application). Contributed capital assets intended to be sold should be reported at fair value.

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.

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 classified as maintenance or repair expenses or capitalized as improvements. This evaluation will depend on the nature of the cost as well as the assumptions embodied in the government’s policy approach to capitalizing the existing asset in terms of componentization (as discussed in section 3.3.10.150) and useful life. For example, if a new building is capitalized as a single asset and the useful life is set at 80 years, then this would assume regular replacement of different parts of the building that will last less than 80 years (such as the roof, landscaping, sidewalks, HVAC, furnishing, boilers, elevator, etc.) as maintenance or repair expenses. In contrast, if a new building was capitalized as multiple assets – such as the building structure at 80 years but the roof, HVAC, boilers, and other major components each with its own useful life – then replacement of each major component would be capitalized (and the old asset removed).

Repair and maintenance costs that keep or restore an asset at its original condition (as anticipated by the asset’s estimated useful life) should be expensed as they are incurred, regardless of dollar amount. Costs should only be capitalized if they result in betterments/improvements that 1) extend useful life, or 2) increase the service capacity or efficiency.

For example, when a new roof for a building is purchased, classification will depend on the government’s policy embodied in how the building is capitalized and its estimated useful life. If the roof has been componentized as its own asset, the old roof asset would be removed and the new roof added as a new capital asset record. If the roof was not separately capitalized, then costs would normally be expensed since the useful life for the building as a whole would normally already assume replacement of the roof and other parts. However, it is possible that the decision to replace the roof was a result of changing circumstances that were not factored into the original estimate of the building’s useful life. In that case, costs should only be capitalized to the extent that the new roof increases the useful life of the building – that is, beyond the current estimated useful life used to depreciate the building to this point – and that the building asset is adjusted to remove the original cost and accumulated depreciation associated with the old roof.

A difficulty arises in the case of capital outlays that are partly replacements and partly betterments/improvements. For example, consider a building being depreciated as a single asset where a remodel project replaces some parts such as flooring and fixtures (which do not appreciably add to service capacity or extend the useful life of the building as a whole), as well as adds a new addition (more square footage) to the original building. To the extent that the project replaces the old part of a capital asset, the normal approach would be to expense those costs. To the extent that the project is a betterment/improvement, such as with the building addition, the outlays should be capitalized. The distribution of the total cost in such a case is a matter of managerial determination. When the distinction between replacement and betterment/improvement is not easily determinable, or not estimable, the government should expense the entire cost of the project.

The following chart highlights the primary decision points for determining if a project should be expensed as a repair/maintenance cost or capitalized.
When there is a change in the estimated useful life due to an improvement of an asset, depreciation charges for future periods should be revised based on the new book value and the new estimated remaining useful life. No adjustment should be made to prior periods.

### 3.3.10.90 DATE PLACED in SERVICE

Construction in progress reflects the status of construction activities of buildings, other structures, infrastructure, etc. Construction in progress is a non-depreciable capital asset. Constructed assets should be re-classified from construction in progress and begin to be depreciated when they are substantially completed/placed in service.

There is no specific definition of *substantially completed* and the local governments should use professional judgement to determine the timing of the transition from construction in progress to
depreciable capital asset. The constructed asset would be considered substantially completed when it can at least partially perform its intended function (e.g., an empty or partially occupied building for which the government obtained the occupancy permit; the structure is completed except for the landscape; a multilane road with cars using some of the lanes; the asset is being used even if not all “punch list” items are completed or the dispute with a contractor is resolved; equipment [e.g., a fire truck, etc.] is delivered and being used despite some unfinished modifications; etc.).

3.3.10.100 DEPRECIATION

Most capital assets, including infrastructure should be depreciated. There are some exceptions for assets such as land and depreciating art and historical treasures, if they 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 GASB Statement 34; 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.

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. 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, this value can be factored into the depreciation calculation.

3.3.10.120 Estimated Useful Life

Depreciation must be based on a reasonable estimate of expected useful life; that is, the number of years, miles, service hours, etc., that the government expects to use that asset in operations. Ideally, governments should base useful life estimates on its actual experience and plans. 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.

This estimate should be made and updated based on:

- Current condition;
- Expected future use, including anticipated changes in future usage rates or patterns;
- The government’s policy, practice and/or capital planning regarding when assets of this type are disposed or replaced;
- Construction 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.

Governments should maintain support for their useful life estimates.
Useful life is a managerial estimate and should be periodically reviewed and adjusted prospectively when needed to ensure an asset’s cost is allocated over its useful life.

3.3.10.130 Fully-Depreciated Assets

Depreciation is intended to allocate the cost of a capital asset over its entire useful life. As useful lives are estimated, periodically, local governments should consider information available about the existing estimates and make adjustments as needed. It normally is not appropriate to report assets that are still in service as fully depreciated. Instead, the annual amount of depreciation expense should be reduced prospectively as soon as it becomes clear that an asset’s useful life will be longer than originally expected. In practice, however, 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). Such reporting of fully depreciated capital assets is acceptable, but only if such balances do not become material, in which case the estimated useful life for the group would need to be changed. If an asset is not expected to last as long as originally estimated, the useful life should be adjusted to ensure it becomes fully depreciated at the end of its service.

3.3.10.140 Depreciation Method

There are two depreciation methods: straight-line or group life. Whether group-life or individual asset depreciation is used, the amount of depreciation charged must be constant for each time period (called straight-line depreciation) or for each unit of service (such as quantity of output, hours or miles of operation, etc.).

**Straight-line depreciation**

Straight-line depreciation is the typical 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-life depreciation**

Group-life depreciation should only be used in appropriate circumstances, and should be supported by rationale documented in the capital asset policy. There are two entirely different applications of group-life depreciation. The first type is applied to a set of very similar assets, such as a fleet of police cars or a suite of office furniture that are placed in service at about the same time. For this type of group-life depreciation, the group of assets should be treated as a single asset; any gain or loss on disposal is delayed until the entire group has been retired. When some items within the group are retired ahead of schedule, the original cost of the items is removed from both the asset and the accumulated depreciation account. Depreciation continues to be charged only for the remaining assets at the original rate. This defers any gain or loss until the entire group has been retired. When some items in the group require major repair, the book value of the group should be adjusted and the periodic depreciation recalculated for the remaining life of the group.

The second type of group-life depreciation is used primarily in utilities, and it is applied to dissimilar assets, which are related by the mode of operation in which they are used. The rate of depreciation is a weighted average of the rates applicable to the individual assets, which comprise the group. The use of this method is intended to eliminate gains and losses on individual asset retirements, except when an entire operating system or facility is retired from service.

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 capital asset additions to a fund in one year exceed 50 percent of net capital assets before the addition. When such large additions are made in one year, 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.

3.3.10.150 Componentization of Assets

Assets, such as a building, may be recorded as one asset, or be recorded in various components (structure, roof, HVAC, etc.). The decision to componentize assets of different types should be addressed in the government’s policy and be consistently applied. A benefit of componentization is that it is easier to record replacements; however this must be considered with the cost of tracking additional capital asset records.

If a local government chooses to componentize assets by separating the various parts, they should track each individual component and depreciate them over a reasonable useful life. When replacements of components, such as the roof occur, the government should ensure the value of the old roof is removed from the capital asset listing to ensure the asset balances are not inflated. Alternatively, the government could choose not to componentize assets and treat replacements as repairs to the larger asset and expense them as they occur.

3.3.10.160 Depreciation on Donated Assets

Depreciation of assets acquired from contributions is calculated in the same manner as for other assets and is reported in the same way on the operating statement.

3.3.10.170 CAPITAL ASSET IMPAIRMENT

GASB Statement 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries requires 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. 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.

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 the Statement.

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 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.
ASSET IMPAIRMENT DECISION PROCESS

Prominent event or change in circumstance affecting a capital asset

- Evidence of physical damage
- Enactment or approval of laws or regulations or other changes in environmental factors
- Technological development or evidence of obsolescence
- Change in manner or duration of use
- Construction stoppage

- Is the magnitude of the event significant?

  - Yes
    - Is the decline in service utility unexpected?
      - Yes
        - Asset is impaired.
      - No
        - Event is not impairment. Reevaluate remaining estimated useful life and salvage value.
  - No
    - Event is not impairment. Reevaluate remaining estimated useful life and salvage value.

- Is evidence of temporary nature of impairment unavailable?

  - Yes
    - Will the asset continue to be used by the government?
      - Yes
        - Measure and report impairment.
      - No
        - Write down to lower of carrying value or fair value.
  - No
    - Disclose if asset is idle.
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 be calculated every five years and upon maturity.

Financial accounting and reporting for arbitrage

3.4.6.40 As noted earlier, the federal government only requires that arbitrage be calculated and reported every five years and at maturity. Rebatable arbitrage should not be treated as a reduction in investment revenues in governmental funds; it should instead be treated in the same way as any other claim or judgment. That is, there should be no recognition in the governmental fund’s balance sheet or operating statement until rebatable amounts are actually due and payable to the federal government. Of course, a liability and expense must be recognized in the full accrual-based government-wide financial statements as soon as arbitrage is incurred.¹

3.4.6.50 In calculating the amount of the liability, it should be remembered that excess earnings of one year may be offset totally or in part by lesser earnings in a subsequent year. Therefore, the liability recognized for a year should be only that portion of the estimated future payment that is attributable to earnings of the current period.

3.4.6.60 In practice, two different acceptable approaches are taken to accounting and reporting rebatable arbitrage in the financial statements.

¹ The rebatable arbitrage is subject to the accounting and reporting rules governing claims and judgments. See the GASB Statement 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.
### Revenue reduction approach

This approach treats the rebatable arbitrage as a reduction of revenue rather than as a separate expenditure or expense.

Assume, for example, that $5,000 in interest has been earned on reinvested proceeds reported in a capital projects fund, and that $1,000 of that amount needs to be remitted to the federal government.

The journal entries would be as follow:

**Year 1**

<table>
<thead>
<tr>
<th>Construction Fund</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>111.10 Cash</td>
<td>$5,000</td>
</tr>
<tr>
<td>3611000 Arbitrage Interest</td>
<td>$5,000</td>
</tr>
<tr>
<td><em>(To record the receipt of interest from arbitrage transaction.)</em></td>
<td></td>
</tr>
<tr>
<td>288.00 Assigned Fund Balance</td>
<td>$1,000</td>
</tr>
<tr>
<td>282.00 Restricted Fund Balance</td>
<td>$1,000</td>
</tr>
<tr>
<td><em>(To reserve fund balance.)</em></td>
<td></td>
</tr>
</tbody>
</table>

This entry would be reversed at the beginning of the subsequent year.

**Year 5**

<table>
<thead>
<tr>
<th>Construction Fund</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>282.00 Restricted Fund Balance</td>
<td>$1,000</td>
</tr>
<tr>
<td>288.00 Assigned Fund Balance</td>
<td>$1,000</td>
</tr>
<tr>
<td><em>(To reclassify fund balance.)</em></td>
<td></td>
</tr>
<tr>
<td>231.20 Short-Term Arbitrage Rebate</td>
<td>$1,000</td>
</tr>
<tr>
<td>111.10 Cash</td>
<td>$1,000</td>
</tr>
<tr>
<td><em>(To record the payment of the arbitrage rebate.)</em></td>
<td></td>
</tr>
</tbody>
</table>
3.4.6.80  **Tax approach**

In the second approach the rebatable arbitrage is treated essentially as a tax. This approach argues that the earning of revenue and the incurrence of a tax liability are really two separate transactions. Accordingly, the rebatable arbitrage is treated separately from investment income.

Rebatable arbitrage is reported as a long-term liability on the government-wide statement of net position until due and payable to the federal government. When payable, the liability and expenditure would be reported in the appropriate governmental fund.

**Year 5**

**Construction Fund**

| 592PP50 | Expenditures – Arbitrage Rebate Tax | $1,000 |
| 263.70  | Arbitrage Rebate Tax Payable         | $1,000 |

(To report liability for rebatable arbitrage arising from the investment of debt proceeds.)

| 263.70  | Arbitrage Rebate Tax Payable         | $1,000 |
| 111.10  | Cash                                 | $1,000 |

(To record the payment of arbitrage rebate.)

**Special arbitrage implications for proprietary funds**

3.4.6.90  Proprietary funds often are required to capitalize interest in conformity with the GASB Statement 62, **Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements**. Under the GASB Statement 62, the amount of interest to be capitalized is determined by netting interest revenue against interest expense. If interest revenue temporarily exceeds interest expense (i.e., arbitrage), the result can be *negative* interest capitalization (i.e., a reduction in the cost of the capitalized asset).

3.4.6.100 The method of accounting and financial reporting selected for arbitrage (i.e., revenue reduction approach or tax approach) can have an effect on the amount of interest capitalized in proprietary funds that follow the provisions of the GASB Statement 62. Specifically,

- If interest revenue reduces the amount of interest to be capitalized under GASB Statement 62,

- And the revenue reduction approach reduces the amount of interest revenue, then

- The revenue reduction method would increase the capitalized value of the asset (i.e., by reducing what otherwise would have been a reduction in cost).

3.4.6.110 Viewed another way, the practical effect of selecting the revenue reduction approach in a proprietary fund using the GASB Statement 62 is to *capitalize* arbitrage. In other words, under the tax approach, rebatable arbitrage is reported as an expense when it is incurred, whereas under the revenue reduction approach it is effectively included in the cost of the asset and only gradually reported in the operating statement as depreciation expense over the asset’s useful life.
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:

a. Cash receipts from customers
b. Cash receipts from interfund services provided
c. Other operating cash receipts (if any)
d. Cash payments to employees for services
e. Cash payments to other suppliers of goods or services
f. Cash payments for interfund services used, including payments in lieu of taxes that are payments for, and reasonably equivalent in value to, services provided
g. 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.

4.5.100 Interest capitalization is ignored for purposes of the statement of cash flows. Interest payments should be reported as interest payments rather than as capital acquisition, even though the payments may be capitalized in the statement of fund net position and not reported as interest expense in the statement of revenues, expenses, and changes in fund net position.

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___  Page 1 of 2

<table>
<thead>
<tr>
<th>Business-Type Activities</th>
<th>Governmental Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Major Enterprise Fund</td>
</tr>
<tr>
<td>CASH FLOWS from OPERATING ACTIVITIES</td>
<td></td>
</tr>
<tr>
<td>Receipts from customers</td>
<td></td>
</tr>
<tr>
<td>Payments to suppliers</td>
<td></td>
</tr>
<tr>
<td>Payments to employees</td>
<td></td>
</tr>
<tr>
<td>Internal activity – payments to other funds</td>
<td></td>
</tr>
<tr>
<td>Claims paid to outsiders</td>
<td></td>
</tr>
<tr>
<td>Other receipts (payments)</td>
<td></td>
</tr>
<tr>
<td>Net cash provided (used) by operating activities</td>
<td></td>
</tr>
</tbody>
</table>

| 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 | |
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 by operating activities

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.
Cash Flow Worksheet

This worksheet is **not** mandatory, but it may help the government to prepare the statement of cash flows.

<table>
<thead>
<tr>
<th>Business-Type Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash received from customers:</strong></td>
</tr>
<tr>
<td>Operating Revenues</td>
</tr>
<tr>
<td>Add: Customer Receivables – Beginning</td>
</tr>
<tr>
<td>Less: Customer Receivables – Ending</td>
</tr>
<tr>
<td>Less: Increase in Bad Debt</td>
</tr>
<tr>
<td>Net Cash Received from Customers</td>
</tr>
</tbody>
</table>

| **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 |
REPORTING

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]

E. Assets, Liabilities, Fund Balance, Net Position

1. Cash and Cash Equivalents

It is the (city/county/district’s) policy to invest all temporary cash surpluses. At December 31, 20__, the treasurer was holding $ _____________ in short-term residual investments of surplus cash. This amount is classified on the balance sheet as cash and cash equivalents in various funds. The interest on these investments is prorated to the various funds or (if not prorated, explain the government’s unique circumstances).

The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balances maintained during (year) were approximately $ _______________.

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 See (Note X, Deposits and Investments). [12]

3. Receivables [13]

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 consist 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 and Governments, 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 [14]
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. The reserve for inventory is equal to the average/ending amount of inventory to indicate that a portion of the fund balance is not available for future expenditures. A comparison to market value is not considered necessary.

Inventories in proprietary funds are valued by the FIFO/LIFO/weighted average method (which approximates the market value).

6. Restricted Assets and Liabilities

These accounts contain resources for construction and debt service, including current and delinquent special assessments receivable, in enterprise funds. The current portion of related liabilities is shown as Payables from Current Restricted Assets. Specific debt service reserve requirements are described in Note X, Long-Term Debt.

The restricted assets of the enterprise funds are composed of the following:

<table>
<thead>
<tr>
<th>Asset Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special Assessments - Current</td>
<td>$ ______</td>
</tr>
<tr>
<td>Special Assessments - Delinquent</td>
<td>$ ______</td>
</tr>
<tr>
<td>Cash and Investments - Debt Service</td>
<td>$ ______</td>
</tr>
<tr>
<td>Cash and Investments - Construction</td>
<td>$ ______</td>
</tr>
</tbody>
</table>

7. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (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 ____ years. 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. Interest incurred during the construction phase of the capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The total interest expense incurred by the city/county/district during the current fiscal year is $ ________. Of this amount, $ ________ was included as part of the cost of capital assets under construction in connection with ________ projects.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the _______________ method over the following estimated useful lives:

<table>
<thead>
<tr>
<th>Assets</th>
<th>Years</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
8. **Deferred Outflows/Inflows of Resources** [17]

9. **Compensated Absences** [18]
   
   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, proprietary, and fiduciary fund financial statements.

   Vacation pay, which may be accumulated up to (maximum days or weeks), is payable upon resignation, retirement or death.

10. **Pensions**
    
    For purposes of measuring the net pension liability, 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 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.

11. **Other Accrued Liabilities**
    
    These accounts consist of accrued wages and accrued employee benefits.

12. **Long-Term Debt** See Note X, *Long-Term Debt*.

13. **Unearned Revenues** [19]
    
    This account includes amounts recognized as receivables but not revenues in governmental funds because the revenue recognition criteria have not been met.

14. **Fund Balance Classification** [20]

15. **Fund Balance Details** [21]

16. **Minimum Fund Balance** [22]

F. **Other**

1. **Stabilization Arrangements** [23]

2. **Miscellaneous** [24]

3. **(Special Purpose District Specific Disclosures)**
   
   Additional example disclosures for hospital districts and risk pools can be found [here](#).
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.).

[2] Provide a brief description of component units and their relationship with the primary government. Discuss the criteria used to identify the component units and method used to present them (blended, discretely presented, or fiduciary). Provide sufficient detail to clarify the specific criteria under the GASB Statement 61 used to justify the inclusion of each individual component unit including both fiscal dependence and the ongoing relationship of financial benefit or burden. For blended component units, clearly state the blending criteria under the GASB Statement 61.

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 subsidies 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 here. (Non-major component units should be aggregated in one column.)

---

1 See GAAP Reporting Requirements for additional discussion.

2 To determine if component unit is major look at its significant relationship to other component units and the nature and significance of its relationship to the primary government.

3 Governments can present each major component unit in a separate column in the statement of net position and activities or include combining statements of major component units after the fund financial statements.
If the city/county/district chooses to present component units information in the notes, these details should be presented, at a minimum:

Condensed statement of net position:

- Total assets – distinguishing between capital assets and other assets. Amounts receivable from the primary government or from other component units should be reported separately.
- Total deferred outflows of resources.
- Total liabilities – distinguishing between long-term debt outstanding and other liabilities. Amounts payable to the primary government or to other component units should be reported separately.
- Total deferred inflows of resources.
- Total net position – distinguishing between restricted, unrestricted, and amounts of net investment in capital assets.

Condensed statement of activities:

- Expenses (by major functions and for depreciation expense, if separately reported).
- Program revenues (by type).
- Net program (expense) revenue.
- Tax revenues.
- Other nontax general revenues.
- Contributions to endowments and permanent fund principal.
- Special and extraordinary items.
- Change in net position.
- Beginning net position.
- Ending net position.

Also, disclose (for each major component units) the nature and amount of significant transactions with the primary government and other component units.

Include information (addresses) where the complete financial statements of individual component units can be obtained.

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.

[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).

[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.

[6] List and describe all proprietary major funds. The description should be specific to the government rather than generic.

[7] Describe the activities of the internal service and applicable fiduciary fund(s). The description should be specific to the government rather than generic.

[8] Define the operating revenues and expenses. Additional special purpose district examples:

[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.

[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.¹ (See Note X, Violations of Finance-Related Legal or Contractual Provisions.)

[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.)

¹ 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.
[12] Disclose the following:

a. 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.

b. The policy for determining which investments, if any, is reported at amortized cost.

c. For any investments in external investment pools that are not SEC-registered, a brief description of any regulatory oversight for the pool and whether the fair value of the position in the pool is the same as the value of the pool shares.

d. Any involuntary participation in an external investment pool.

e. If local government 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.

f. Any income from investments associated with one fund that is assigned to another fund. See Sweeping Interest and Investment Returns into General Fund for legal requirements related to interest diversion.

For more details, see the GASB Statement 31 as amended by the GASB Statement 40.

For various risks related to the investments see Note X, Deposits and Investments.


[14] 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.

For the various classifications of inventory items, the basis upon which their amounts are stated and, where practicable, indication of the method of determining the cost, for example, average cost, FIFO, and LIFO should be disclosed for the business-type activities and proprietary funds. (See GASB Statement 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, paragraph 210).

[15] 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.

[16] If city/county/district uses modified approach for reporting eligible infrastructure assets, then it should describe the approach (i.e., types of assets, etc.).

[17] 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.

Only sick leave which is a part of retirement or termination benefit should be disclosed in this note (GASB Statement 16).

Describe the policy regarding sick leave. 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.

The city/county/district may disclose the separate component of the liability for unearned revenue reported on the governmental funds balance sheet.

City/county/district should disclose the following about their fund balance classification policies and procedures:

a. For committed fund balance: (1) the government’s highest level of decision-making authority, and (2) the formal action that is required to be taken to establish (and modify or rescind) a fund balance commitment.

b. For assigned fund balance: (1) the body or official authorized to assign amounts to a specific purpose, and (2) the policy established by the governing body pursuant to which that authorization is given.

c. For the classification of fund balances: (1) whether the government considers restricted or unrestricted amounts to have been spent when an expenditures is incurred for purposes for which both restricted and unrestricted fund balance is available, and (2) whether committed, assigned, or unassigned amounts are considered to have been spent when an expenditures is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used. The disclosure is required even if there is no formal flow policy.

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 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.

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.

[24] Include other disclosure which may be necessary (e.g., comparative data column, reclassification of data etc.).
### Note X – Capital Assets

**A. Capital Assets – Governmental Activities [1]**

Capital assets activity for the year ended December 31, 20__ was as follows:

<table>
<thead>
<tr>
<th>Governmental Activities</th>
<th>Beginning Balance 01/01/20</th>
<th>Increases</th>
<th>Decreases</th>
<th>Ending Balance 12/31/20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital assets, not being depreciated:</td>
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<td>Land</td>
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<td>Construction in progress</td>
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<tr>
<td>Intangible assets [2]</td>
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<td>Total capital assets, not being depreciated</td>
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<td>Intangible assets [2]</td>
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<tr>
<td>Improvements other than buildings</td>
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<td>Machinery and equipment</td>
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<td>Infrastructure</td>
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<td>Total capital assets being depreciated</td>
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<tr>
<td>Less accumulated depreciation for:</td>
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<tr>
<td>Total accumulated depreciation</td>
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<tr>
<td>Total capital assets, being depreciated, net</td>
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<tr>
<td>Governmental activities capital assets, net</td>
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</table>
B. Capital Assets – Business-Type Activities

<table>
<thead>
<tr>
<th>Business-Type Activities:</th>
<th>Beginning Balance 01/01/20</th>
<th>Increases</th>
<th>Decreases</th>
<th>Ending Balance 12/31/20</th>
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</thead>
<tbody>
<tr>
<td>Capital assets, not being depreciated:</td>
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<tr>
<td><strong>Business-type activities capital assets, net</strong></td>
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</tbody>
</table>
Depreciation expense was charged to functions/programs [3] of the primary government as follows:

<table>
<thead>
<tr>
<th>Governmental Activities:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>General Government</td>
<td>$</td>
</tr>
<tr>
<td>Judicial</td>
<td></td>
</tr>
<tr>
<td>Physical Environment</td>
<td></td>
</tr>
<tr>
<td>Economic Environment</td>
<td></td>
</tr>
<tr>
<td>Health and Human Services</td>
<td></td>
</tr>
<tr>
<td>Transportation</td>
<td></td>
</tr>
<tr>
<td><strong>Total Depreciation – Governmental Activities</strong></td>
<td>$</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Business-Type Activities:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Utilities</td>
<td>$</td>
</tr>
<tr>
<td><strong>Total Depreciation – Business-Type Activities</strong></td>
<td>$</td>
</tr>
</tbody>
</table>

C. **Collections not Capitalized [4]**

D. **Impaired Capital Assets [5]**

E. **Discretely Presented Component Unit(s) [6]**

F. **Interest Capitalization [7]**

**INSTRUCTIONS FOR 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] Required only for entities with governmental activities. Adjust the functions accordingly.

[4] 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).

[5] 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.

[6] 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.

[7] This disclosure applies only to interest costs reported for business-type activities and enterprise funds. Disclose the following:

- For an accounting period in which no interest cost is capitalized, the amount of interest cost incurred and charged to expense during the period.
- For an accounting period in which some interest cost is capitalized, the total amount of interest cost incurred during the period and the amount thereof that has been capitalized.