

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]

4. Deficit Fund Net Position [11]

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:

Special Assessments - Current	\$ _____
Special Assessments - Delinquent	\$ _____
Cash and Investments - Debt Service	\$ _____
Cash and Investments - Construction	\$ _____
_____	\$ _____

7. Capital Assets See Note X, *Capital Assets*.

Capital assets, which include property, plant, equipment and infrastructure assets [15] (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 [16] over the following estimated useful lives:

Assets	Years

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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).¹ 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 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 major² component units are not presented in the financial statements³, 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.

[13] Disclose any asset valuation allowances for losses (e.g., on receivables) in government-wide and proprietary funds (GASB Statement 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, paragraph 33).

[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.

- [18] 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.

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

- [20] 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.

- [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.

- [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.

- [23] 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.).